The meeting will be preceded by Training on the Accounts starting at **1.00 pm**.

# Agenda

Hertfordshire

**AGENDA for a meeting of the AUDIT COMMITTEE in COMMITTEE ROOM B at County Hall, Hertford on WEDNESDAY, 18 JULY 2018 at 2.00 PM**

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**MEMBERS OF THE COMMITTEE (10)** (Quorum 3)

S N Bloxham, F Button (*Chairman*), B A Gibson, S Gordon, R M Roberts *(substituting for J M Graham)*, N A Hollinghurst, A J S Mitchell, S J Taylor, T J Williams, W J Wyatt-Lowe (*Vice-Chairman*),

Meetings of the Committee are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items are taken at the end of the public part of the meeting and are listed under "Part II ('closed') agenda".

Committee Room B fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

**Members are reminded that all equalities implications and equalities impact assessments undertaken in relation to any matter on this agenda must be rigorously considered prior to any decision being reached on that matter.**

Members are reminded that:

(1) if they consider that they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting they must declare that interest and must not participate in or vote on that matter unless a dispensation has been granted by the Standards Committee;

(2) if they consider that they have a Declarable Interest (as defined in paragraph 5.3 of the Code of Conduct for Members) in any matter to be considered at the meeting they must declare the existence and nature of that interest. If a member has a Declarable Interest they should consider whether they should participate in consideration of the matter and vote on it.

The meeting will be preceded by Training on the Accounts starting at **1.00 pm**.

**PART I (PUBLIC) AGENDA**

**1. MINUTES**

To confirm the minutes of the meeting held on 15 May 2018.

**2. SIAS AUDIT CHARTER 2018/19**

Report of the Director of Resources

**3. CODE OF CORPORATE GOVERNANCE 2018/19**

*Report of the Director of Resources*

**4. 2017/18 ERNST & YOUNG AUDIT UPDATE REPORT; HERTFORDSHIRE COUNTY COUNCIL RESPONSES**

*Report of the Director of Resources*

**5. HERTFORDSHIRE COUNTY COUNCIL PENSION FUND AUDIT RESULTS REPORT**

*Report of Ernst & Young*

**6. RESPONSE TO THE AUDIT RESULTS REPORT 2017/18 – PENSION FUND**

*Report of the Assistant Director Finance*

**7. HERTFORDSHIRE COUNTY COUNCIL – SIAS INTERNAL AUDIT PROGRESS REPORT**

*Report of the Director of Resources*

**8. HERTFORDSHIRE COUNTY COUNCIL ANTI-FRAUD REPORT 2017/18**

*Report of the Director of Resources*

**9. RISK MANAGEMENT QUARTERLY UPDATE**

*Report of Head of Assurance*

**10. CONTRACT MANAGEMENT**

*Report of the Director of Resources*

**11. END-OF-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2017/18**



*Report of the Chief Finance Officer*

The meeting will be preceded by Training on the Accounts starting at **1.00 pm**.

**12. WHISTLEBLOWING ANNUAL REPORT 2017/18**

*Report of the Director of Resources*

**13. FUTURE WORK PROGRAMME**

The Committee is invited to agree its future rolling work programme, suggested as follows:-

**11 September 2018**:
- Audit Results Report 2017/18
- Risk Management Update
- Risk Focus Report
- Internal Audit Progress Report
- Shared Internal Audit Service Annual Report
- Shared Internal Audit Service progress Report on Anti Fraud

**3 December 2018:**
- Annual Audit Letter – HCC 2018/19
- Mid-Year Report on the Treasury Management Service and Prudential Indicators 2018/19
- Risk Management Update
- Risk Focus Report
- Internal Audit Progress Report
- HFRS Statement of Assurance 2018/19

**29 March 2019:**
- External Audit Plan 2018/19 – County Council
- External Audit Plan 2018/19 – Pension Fund
- Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters' Pension Fund) And Hertfordshire Pension Fund Accounts 2016/17
- Risk Management Annual Report 2018/19
- Risk Focus Report
- SIAS Internal Audit Progress Report
- SIAS Internal Audit Plan 2019/20
- SAFS Progress Report on Anti-Fraud Plan & Future Anti Fraud Plan

**8 May 2019: 2.00 pm**
- Annual Governance Statement 2018/19 and Code of Corporate Governance
- Annual Assurance Statement and Internal Audit Annual Report 2018/19
- PREVENT report

**26 July 2019:**
- HCC Audit Results Report 2018/19
- Response To Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements

The meeting will be preceded by Training on the Accounts starting at **1.00 pm**.

- Audit Results Report 2018/19 – HCC Pension Fund
- Response To The Audit Results Report 2018/19 – HCC Pension Fund
- Annual Statement Of Accounts 2018/19– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Internal Audit Progress Report
- Shared Anti Fraud Service Annual Report 2018/19
- Risk Management Update Report
- Risk Focus Report
- End of Year Report on the Treasury Management Service and Prudential Indicators 2018/19
- Whistle Blowing Annual Report 2018/19

## 14. OTHER PART I BUSINESS

Such other part I (public) business which the Chairman agrees is of sufficient urgency to warrant consideration.

## PART II ('CLOSED AGENDA')

## EXCLUSION OF PRESS AND PUBLIC

The Chairman will move:-

*"That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they/it involve/s the likely disclosure of exempt information as defined in paragraph/s……………of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."*

**If you require further information about this agenda please contact Theresa Baker, Democratic Services Officer, on telephone no (01992) 556545 or by e-mail to theresa.baker@hertfordshire.gov.uk**

Agenda documents are also available on the internet at:
https://cmis.hertfordshire.gov.uk/hertfordshire/Calendarofcouncilmeetings.aspx

# Minutes

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|---|---|---|---|
| To: | All Members of the Audit Committee, Chief Executive, Chief Officers, All officers named for 'actions' | From: | Legal, Democratic & Statutory Services |
| | | Ask for: | Theresa Baker |
| | | Ext: | 26545 |

**AUDIT COMMITTEE**
**15 MAY 2018**

**ATTENDANCE**

**MEMBERS OF THE PANEL**

P Bibby, S N Bloxham, F Button (Chairman), J M Graham, A J S Mitchell, T J Williams, W J Wyatt-Lowe (Vice-Chairman), P M Zukowskyj

**OTHER MEMBERS**

T W Hone

Upon consideration of the agenda for the Audit Committee meeting 15 May 2018, as circulated, copy annexed, conclusions were reached and are recorded below:

**Chairman's Announcements:**

(i) In relation to point 8.4 of the minutes of 26 March 2018, the full version of the 'Shared Anti-Fraud Service Action Plan 2017/18' had been circulated by email to the Committee for review and approval and members had confirmed approval by email.

**PART I ('OPEN') BUSINESS**

**ACTION**

**1. MINUTES**

1.1 The PART I and PART II minutes of the Committee meeting held on 26 March 2018 were confirmed as a correct record and signed by the Chairman.

**2. 2017/18 AUDIT PLAN**

[Contact: Ben Jay, Head of Accountancy Services
(Tel: 01992 556257]

2.1 N Harris of Ernst and Young (EY) provided the Committee with EY's Audit Plans for the 2017/18 audits of Hertfordshire County Council (appendix 1) and the Pension Fund (appendix 2) accounts. The Audit Plans summarised EY's assessment of the key risks driving the development of an effective audit for the Council and outlined EY's planned audit strategy to those risks.

2.2 N Harris acknowledged that although the Audit Plans had been prepared in time and all necessary actions had been under way, unavoidable delays to sign off of the plans within EY had prevented them being presented to Audit Committee on 26 March 2018. In view of the delay EY had provided an ‘Audit Progress Report’ for the Council’s account’s (appendix 3) which detailed the good progress already made towards the reporting deadlines.

2.3 N Harris clarified that although all misstatements in primary statements and associated notes greater than £1.78m (County Council accounts) would be reported, it was a matter of external auditor judgement whether misstatements below this figure merited the attention to the Audit Committee; it was however considered good practice for officers to make it clear from where such adjustments came.

2.4 N Harris confirmed that no significant risks to the Value for Money Conclusion had been identified.

2.5 EY had no issue with the Council’s decision to not produce Group Accounts as Hertfordshire Catering Ltd and Hertfordshire for Learning Ltd were not considered significant, qualitatively or quantitatively, in 17/18. They would review this in 18/19 as Herts for Living developed its business.

2.6 To enable more economical hard copy printing of EY reports the Committee requested fewer cover pages in colour; this was noted by N Harris.

2.7 N Harris observed that EY was in a good position as they had completed more audit work than at the same point last year and complimented the County Council officers on their current position on the internal work.

**Conclusions:**

2.8 The Committee RESOLVED to note:
the EY audit plans for the Council and Pension Fund accounts, and the audit progress report.

## 3. HERTFORDSHIRE COUNTY COUNCIL 2017/18 ANNUAL ASSURANCE STATEMENT AND INTERNAL AUDIT ANNUAL REPORT

[Officer Contact: Chris Wood, SIAS Audit Manager, Assurance Services (Tel: 01438 845513)]

3.1 The Committee received a report detailing the Head of Assurance’s overall opinion on the adequacy and effectiveness of Hertfordshire County Council’s control environment; the outcomes of the self-assessment against the Public Sector Internal Audit Standards



**CHAIRMAN’S INITIALS**



…………….

(PSIAS) incorporating the requirements of the Quality Assurance and Improvement Programme (QAIP); the audit work informing the opinion; SIAS's performance on delivering the Council's Audit Plan and the 2018/19 Audit Charter.

3.2 The Director of Resources confirmed that during the year SIAS had not been subject to any inappropriate scope or resource limitations.

3.3 Based on internal audit work at the Council in 2017/18 the Head of Assurance had given an opinion of Substantial Assurance on the adequacy for the Council's control environment in relation to its financial systems.

3.4 For non-financial systems an opinion of Moderate Assurance had been given. This was attributed to the fact that 4 of the 7 moderate assurance opinion reports related to high profile cross cutting areas. Management were focusing on them and, as a consequence of rectifying actions, were confident that many of the issues were now already resolved.

3.5 Observation that Public Sector Standards (PSIAS) allowed for the Charter to be tailored to need was followed by a wide ranging discussion on the role and responsibilities of the Audit Committee

3.6 The Head of Assurance clarified that CIPFA guidance directed that officers were directly responsible for the management of risk. There was a discussion on the role of the Audit Committee in this process. It was noted that increased Member awareness of the work of Internal Audit as a whole was already being achieved as the Executive Member for each portfolio currently received copies of final Internal Audit reports for their area. The March Audit Plan had detailed the SIAS process for informing the Audit Plan.

3.7 In view of the above discussion the Committee requested that the wording of the Audit Charter 2018/19 be amended to clarify the role of Audit Committee and Members. — T Barnett

3.8 To aid navigation the Committee requested that in future the report be laid out in the standard Hertfordshire County Council format. — C P Wood, D Williams

**Conclusions:**

3.9 The Committee:
RESOLVED to note the Annual Assurance Statement and Internal Audit Annual Report;

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

Received management assurance that the scope and resources for



CHAIRMAN'S INITIALS



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internal audit were not subject to inappropriate limitations in 2017/18;

Requested that the wording of the SIAS Audit Charter 2018/19 be reviewed and brought back to the July meeting of Audit Committee.

**4. ANNUAL GOVERNANCE STATEMENT 2017/18 and CODE OF CORPORATE GOVERNANCE 2018/19**

[Officer Contact: Terry Barnett, Head of Assurance Services (Tel: 01438 845508)]

4.1 The Committee received a report which

(i) Detailed the review of the effectiveness of the Council's governance arrangements including its system of internal control and sought approval for the draft Annual Governance Statement (AGS) 2017/18 (Appendix A to the report) prior to sign off by the Leader of the Council and the Chief Executive;

(ii) Detailed the standing arrangements the Council implemented to ensure good governance, and sought approval of the annually reviewed Council's Code of Corporate Governance (Appendix B to the report).

4.2 Members welcomed the change in format of the AGS which was now more explicit with regard to the actions to be taken in respect of significant governance issues and areas for improvement.

4.3 In regard to a potential conflict of interest in the County Council itself as both a developer and the Highway Authority, the Director of Resources clarified that the wording of the 'Environment and Infrastructure' entry' had come from the service, had been considered and agreed by the Senior Management Board and reflected the Council's recognition of the need to be more proactive on growth schemes underway in the county.

4.4 With a view to clarifying the role of Members in Internal Audit matters, the Committee requested that officers review the Code of Corporate Governance and bring it back to the July meeting of Audit Committee. T Barnett

**Conclusions:**

4.5 The Committee:
RESOLVED to approve the Annual Governance Statement for 2017/18 prior to final sign off by the Leader of the Council and the Chief Executive;

Requested that the Code of Corporate Governance be revised and brought back to the July meeting of the Committee.

## 5. RISK FOCUS REPORT – PREVENT – Radicalisation

[Contact: Guy Pratt, Deputy Director Community Protection
(Tel: 01992 507501)]

5.1 The Committee considered a report which provided information on the risk statistics for completed PREVENT training undertaken by County Council staff as at 31 March 2018 for each service area.

5.2 Chief Officers in all Directorates had committed to ensuring that either iLearn PREVENT training or 'Wrap' (Workshop to raise awareness of PREVENT) training was undertaken by all staff as appropriate and, as a consequence, the number of staff trained had continued to rise. All those for whom the training was essential (e.g. school staff) had already been trained, the rise in numbers trained being due to the training for those for whom it was less critical. Adult Care Services had the largest number of staff that still required training and plans were in place for this.

5.3 The most important aspect of the training was that staff were familiar with PREVENT and the referral process, so that where PREVENT issues were identified staff were able to deal with and action appropriately.

5.4 Following discussion of the requirement for biennial PREVENT training which would be driven via the Performance Management and Development Scheme, the need to ensure that all staff at any one point had undergone the training at least once in the previous two years and the issues around data collection of data, the Committee requested that a report be brought back in May 2019 on the PREVENT work and risk during the year, including data on staff training. . G Pratt

**Conclusions:**

5.5 The Committee RESOLVED that the Community Protection Directorate report back in May 2019 on progress in ensuring that PREVENT training was taking place, the report to include data on staff training.

## 6. FUTURE WORK PROGRAMME

6.1 The Committee noted the future work programme below:
(new items added at this meeting in **bold**)

Wednesday, 18 July 2018: 2.00pm

***Meeting to be preceded by training on the accounts***

- **Revised SIAS Audit Charter 2018/19**
- **Revised Code of Corporate Governance**
- Internal Audit Progress Report
- Risk Management Update Report
- Risk Focus Report: Corporate risk R05 '*Insufficient skill in commissioning / contract management and competencies'*
- HCC Audit Results Report 2017/18
- Response To The Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Annual Statement Of Accounts 2017/18– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Audit Results Report 2017/18 – HCC Pension Fund
- Response To The Audit Results Report 2017/18 – HCC Pension Fund
- Annual Report 2017/18
- End of Year Report on the Treasury Management Service and Prudential Indicators 2017/18
- Whistle Blowing Annual Report 2017/18

**7 ANY OTHER BUSINESS**

7.1 There being no further PART I business the Chairman closed the meeting.

**KATHRYN PETTITT**
**CHIEF LEGAL OFFICER** **CHAIRMAN**______________________

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

Agenda Item No:

**2**

**SIAS AUDIT CHARTER 2018/19**

Report of the Director of Resources

Author: Chris Wood, SIAS Audit Manager (Tel: 01438 845513)

## 1. Purpose of Report

1.1 To provide Audit Committee members with the requested changes in wording to the 2018/19 SIAS Audit Charter.

1.2 The Hertfordshire County Council 2017/18 Annual Assurance Statement and Internal Audit Annual Report was presented to the Audit Committee at its meeting on 15 May 2018. This report included the 2018/19 SIAS Audit Charter for acceptance by the Audit Committee.

1.3 Paragraph 3.5 of the Audit Committee minutes for 15 May 2018 included the "Observation that Public Sector Standards (PSIAS) allowed for the Charter to be tailored to need was followed by a wide ranging discussion on the role and responsibilities of the Audit Committee."

1.4 Paragraph 3.6 continued with "The Head of Assurance clarified that CIPFA guidance directed that officers were directly responsible for the management of risk. There was a discussion on the role of the Audit Committee in this process. It was noted that increased Member awareness of the work of Internal Audit as a whole was already being achieved as the Executive Member for each portfolio currently received copies of final Internal Audit reports for their area. The March Audit Plan had detailed the SIAS process for informing the Audit Plan."

1.5 Paragraph 3.7 states that "In view of the above discussion the Committee requested that the wording of the Audit Charter 2018/19 be amended to clarify the role of Audit Committee and Members."

1.6 The conclusions for this agenda item in the minutes state that the Committee "Requested that the wording of the SIAS Audit Charter 2018/19 be reviewed and brought back to the July meeting of Audit Committee."
The revised SIAS Audit Charter 2018-19 is appended at Appendix A.

## 2. Background

2.1 The Public Sector Internal Audit Standards require a local authority to formally adopt an Audit Charter. The Charter provides the organisation with an agreement relating to the work internal audit will undertake and the support it will receive. It may also be seen as a benchmarking tool against which it can measure the effectiveness of the internal audit unit in fulfilling its commitment. The Charter can act as a service level agreement with the board or audit committee so that there is a clear understanding of the role, purpose, authority, responsibility and position of internal audit within the organisation and the scope and nature of its work.

2.2 Every organisation is different with unique objectives, challenges and risks. The Charter is the best way to agree and describe how internal audit will provide value to the organisation, the nature of the services it will provide and the specific focus or emphasis required of internal audit to help the organisation achieve its objectives. Having a Charter also establishes the internal audit activity's position within the organisation, including the Head of Assurance's reporting lines, authorising access to records, personnel, and physical properties relevant to the performance of engagements, and also defining the scope of internal audit activities. It is therefore a reference point for measuring the effectiveness of internal audit.

2.3 The Head of Assurance and SIAS Audit Manager are responsible for drafting the Charter, discussing the detail with stakeholders and confirming that it accurately describes the agreed upon role and expectations and then seeking acceptance of the Charter from the Audit Committee.

2.4 The Charter should be reviewed annually, including engagement with stakeholders, to ensure that it remains relevant to the needs of the organisation. As part of the review process, there should be consideration of any changes in roles and responsibilities that may affect the internal audit activity, particularly those that have the potential to impair the Head of Assurance and SIAS Audit Manager’s independence and objectivity either in fact or appearance.

## 3 Summary

3.1 The primary amendments to the SIAS Audit Charter 2018/19 are as follows:

a) Section 1 Introduction and Purpose – referencing the interests of the public as the ultimate recipients of assurance provision.

b) Section 4 Role – clarifying the oversight role of the Audit Committee.

c) Section 7 Organisation – indicating that the Chairman of the Audit Committee has free and unrestricted direct access to both the Head of Internal Audit and the Council’s External Auditor.

d) Section 8 Stakeholders – inclusion of new paragraphs 8.4 and 8.5 covering Audit Committee communication of internal audit and assurance matters to the wider Member body and circulation of internal audit reports to identified Members. Paragraph 8.7 now references reporting of SIAS Board findings to the Audit Committee in defined areas.

e) Section 13 Internal Audit Plan – clarifying that engagements in the Plan are agreed by Operational Directorate Boards and subsequently the Section 151 Officer and Senior Management Board.

f) Addition of a Glossary of Terms.

## 4. Recommendation

a) That the Audit Committee accepts the SIAS Audit Charter 2018/19 following the review and amendment undertaken.

Shared Internal Audit Service
Hertfordshire in Partnership

# Audit Charter 2018/2019

## 1. Introduction and Purpose

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

## 2. Scope

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

## 3. Statutory Basis of Internal Audit

3.1. Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

3.2. In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 Officer relies, amongst other sources, upon the work of internal audit.

## 4. Role

4.1. SIAS' internal audit activity is overseen by each client council's committee charged with fulfilling audit committee responsibilities herewith referred to as the Audit Committee. As part of its oversight role, the Audit Committee is responsible for defining the responsibilities of SIAS via this Charter.

4.2. SIAS may undertake additional consultancy activity requested by management. The Head of Assurance will determine such activity on a case by case basis assessing the skills and resources available. Significant additional consultancy activity not already included in the Internal Audit Plan will only be accepted and carried out following consultation with the Audit Committee.

## 5. Professionalism

5.1. SIAS governs itself by adherence to the Public Sector Internal Audit Standards (PSIAS). These standards include the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IPPF). They set out the fundamental requirements for the professional practice of internal auditing and the evaluation of the effectiveness of an internal audit function's performance.

5.2. SIAS also recognises the Mission of Internal Audit as identified within the IPPF, 'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight' and the Core Principles for the Professional Practice of Internal Auditing, which demonstrate an effective internal audit function, achieving internal audit's mission.

5.3. SIAS's operations are guided by its operating procedures manual as well as applicable, Chartered Institute of Internal Auditors (CIIA) Position Papers, Practice Advisories and Guides, and relevant council policies and procedures, including compliance with the Bribery Act 2010.

5.4. Should non-conformance with the PSIAS be identified, the Head of Assurance will investigate and disclose, in advance if possible, the exact nature of the non-conformance, the reasons for it and, if applicable, its impact on a specific engagement or engagement outcome.

## 6. Authority and Confidentiality

6.1. Internal auditors are authorised full, free, and unrestricted access to any and all of a client's records, physical properties, and personnel as required to carry out an engagement. All client employees are requested to assist SIAS in fulfilling its roles and responsibilities. Information obtained during the course of an engagement is safeguarded and confidentiality respected.

6.2. Internal auditors will only use information obtained to complete an engagement. It will not be used in a manner that would be contrary to the law, for personal gain, or detrimental to the legitimate and ethical objectives of the client organisation(s). Internal auditors will disclose all material facts known which if not disclosed could distort a report or conceal unlawful practice.

## 7. Organisation

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

Assurance will communicate with any and all of the above parties at both committee meetings and between meetings as appropriate.

7.2. The Chairman of the Audit Committee has free and unrestricted direct access to both, the Head of Internal Audit, and the Council's External Auditor.

7.3. The Head of Assurance is line managed by the Director of Resources who approves all decisions regarding the performance evaluation, appointment, or removal of the Head of Assurance, in consultation with the SIAS Board. Each client's Section 151 Officer is asked to contribute to the annual appraisal of the Head of Assurance.

## 8. Stakeholders

The following groups are defined as stakeholders of SIAS:

8.1. The Head of Assurance and the SIAS Audit Manager, both suitably experienced and qualified (CCAB and / or CMIIA), are responsible for:

- hiring, appraising and developing SIAS staff in accordance with the host authority's HR guidance
- maintaining up-to-date job descriptions which reflect the roles, responsibilities, skills, qualifications, and attributes required of SIAS staff
- ensuring that SIAS staff possess or obtain the skills, knowledge and competencies (including ethical practice) needed to effectively perform SIAS engagements

8.2. The Audit Committee is responsible for overseeing the effectiveness of SIAS and holding the Head of Assurance to account for delivery. This is achieved through the approval of the annual audit plan, approval of performance targets set by the SIAS Board and receipt of regular reports.

8.3. The Audit Committee is also responsible for the effectiveness of the governance, risk and control environment within the Council, holding operational managers to account for its delivery.

8.4. As set out in its Terms of Reference, the Audit Committee provides an annual report to the Executive detailing the Committee's activities through the year. In addition and as required, the Committee ensures that there is appropriate communication of, and involvement in, internal audit matters from the wider publicly elected Member body.

8.5. The SIAS Audit Manager is responsible for ensuring that the final version of all Internal Audit reports is circulated to all members of the Audit Committee and that Executive Members receive copies of all reports that pertain to their portfolio.

8.6. Senior Management, defined as the Head of Paid Service, Chief Officers and their direct reports, are responsible for helping shape the programme of assurance work. This is achieved through analysis and review of key risks to achieving the Council's objectives and priorities.

8.7. The SIAS Board is the governance group charged with monitoring and reviewing the overall operation of SIAS and reporting to the Audit Committee its findings, including:

- resourcing and financial performance
- operational effectiveness through the monitoring performance indicators
- the overall strategic direction of the shared service.

## 9. Independence and Objectivity

9.1. No element in the organisation should interfere with audit selection, scope, procedures, frequency, timing, or report content. This is necessary to ensure that internal audit maintains the necessary level of independence and objectivity.

9.2. As well as being impartial and unbiased, internal auditors will have no direct operational responsibility or authority over any activity audited. They will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that might impair their judgment.

9.3. When asked to undertake any additional roles/responsibilities outside internal auditing, the Head of Assurance will highlight to the Audit Committee any potential or perceived impairment to independence and objectivity having regard to the principles contained within the PSIAS Code of Ethics as well as any relevant requirements set out in other professional bodies to which the CAE may belong. The Audit Committee will approve and periodically review any safeguards put in place to limit any impairments to independence and objectivity.

9.4. The Head of Assurance will confirm to the Audit Committee, at least annually, the organisational independence of SIAS.

## 10. Conflicts of Interest

10.1. Internal auditors will exhibit clear professional objectivity when gathering, evaluating, and communicating engagement information. When forming judgments, they will make a balanced assessment of all relevant circumstances and not be influenced by their own interests or the views and interests of others.

10.2. Each auditor will comply with the ethical requirements of his/her professional body and proactively declare any potential conflict of interest, whether actual or apparent, prior to the start of an engagement.

10.3. All auditors sign an annual declaration of interest to ensure that the allocation of work avoids conflict of interest. Auditors who undertake consultancy work or are new to the team will be prohibited from auditing in those areas where they have worked in the past year. Audits are rotated within the team to avoid over-familiarity and complacency.

10.4. SIAS procures an arrangement with an external partner to provide additional internal audit days on request. The external partner will be used to deliver engagements as directed by the Head of Assurance in particular providing advice and assistance where SIAS staff lack the required skills or knowledge.

10.5. In the event of a real or apparent impairment of independence or objectivity, (acceptance of gifts, hospitality, inducements or other benefits) the Head of Assurance will investigate and report on the matter to appropriate parties.

## 11. Responsibility and Scope

11.1. The scope of SIAS encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes (as they relate to the organisation's priorities and objectives) and the promotion of appropriate ethics and values.

11.2. Internal control and risk management objectives considered by internal audit extend to the organisation's entire control and risk management environment and include:

- consistency of operations or programs with established objectives and goals, and effective performance
- effectiveness and efficiency of governance, operations and employment of resources
- compliance with significant policies, plans, procedures, laws, and regulations
- design, reliability and integrity of management and financial information processes, including the means to identify, measure, classify, and report such information
- safeguarding of assets

11.3. SIAS is well placed to provide advice and support on emerging risks and controls and will, if requested, deliver consulting and advisory services or evaluate specific operations.

11.4. SIAS is responsible for reporting to the Audit Committee and senior management, significant risk exposures (including those to fraud addressed in conjunction with the Shared Anti-Fraud Service), control and governance issues and other matters that emerge from an engagement.

11.5. Engagements are allocated to (an) internal auditor(s) with the appropriate skills, experience and competence. The auditor is then responsible for carrying out the work in accordance with the SIAS Operating Procedures Manual, and must consider the relevant elements of internal control, the needs and expectations of clients, the extent of work required to meet the engagement's objectives, its cost effectiveness, and the probability of significant error or non-compliance.

## 12. Role in Anti-Fraud

12.1. The SIAS work programme, designed in consultation with Senior Management, the Audit Committee and, where applicable, the Shared Anti-Fraud Service, seeks to help deter fraud and corruption.

12.2. In conjunction with the Shared Anti-Fraud Service SIAS shares information with relevant partners to increase the likelihood of detecting fraudulent activity and reducing the risk of fraud to all.

12.3. The Head of Assurance should be notified of all suspected or detected fraud, corruption or impropriety so that the impact upon control arrangements can be evaluated.

## 13. Internal Audit Plan

13.1. Following discussion with appropriate senior management, the Head of Assurance will submit a risk based plan to the Audit Committee for review and approval. This will occur at least annually. The plan sets out the engagements agreed by Operational Directorate Boards and subsequently the Section 151 Officer and Senior Management Board and demonstrates the priorities of both SIAS (the need to produce an annual internal audit opinion) and those of the organisation. Also included will be any relevant declarations of interest.

13.2. The plan will be accompanied by details of the risk assessment approach used and will take into account the organisation's assurance framework. Also shown will be the timing of an engagement, its budget in days, details of any contingency for new or changed risks, time for planning and reporting and a contribution to the development of SIAS.

13.3. The plan will be subject to regular review in year, and may be modified in response to changes in the organisation's business, risks, operations, programmes, systems and controls. All significant changes to the approved internal audit plan will be communicated in the quarterly update reports.

## 14. Reporting and Monitoring

14.1. A draft written Terms of Reference will be prepared and issued to appropriate personnel at the start of an engagement. It will cover the intended objectives, scope and reporting mechanism and will be agreed with the client. Changes to the terms of reference during the course of the engagement may occur and will be agreed following consultation with the client.

14.2. A report will be issued to management on completion of an engagement. It will include a reasoned opinion, details of the time period and scope within which it was prepared, management's responses to specific risk prioritised findings and recommendations made and a timescale within which corrective action will be / has been taken. If recommended action is not to be taken, an explanation for this will also be included.

14.3. SIAS will follow-up the implementation of agreed recommendations in line with the protocol at each client. As appropriate, the outcomes of this work will be reported to the audit committee and may be used to inform the risk-based planning of future audit work. Should follow-up activity identify any significant error or omission, this will be communicated by the Head of Assurance to all relevant parties. A revised internal audit opinion may be issued on the basis of follow-up activity.

14.4. In consultation with senior management, the Head of Assurance will consider, on a risk-basis, any request made by external stakeholders for sight of an internal audit report.

14.5. Quarterly update reports to the Audit Committee will detail the results of each engagement, including significant risk exposures and control issues. In addition, an annual report will be produced giving an opinion on the overall control, governance, and risk management environment (and any other issues judged relevant to the preparation of the Annual Governance Statement) with a summary of the work that supports the opinion. The Head of Assurance will also make a statement of conformance with PSIAS, and detail the nature and reasons for any impairments, qualifications or restrictions in scope for which the Committee should seek reassurances from management.

## 15. Periodic Assessment

15.1. PSIAS require the Head of Assurance and the SIAS Board to make arrangements for an independent review of the effectiveness of internal audit undertaken by a suitably knowledgeable, qualified and competent individual or organisation. This should occur at least every five years.

15.2. The Head of Assurance will ensure that continuous efforts are made to improve the efficiency, effectiveness, and quality of SIAS. These will include the Quality Assurance and Improvement Programme, client feedback, appraisals and shared learning with the external audit partner as well as coaching, supervision, and documented review.

15.3. A single review will be carried out to provide assurance to all SIAS partners with the outcomes included in the partner's Annual Report.

## 16. Review of the Audit Charter

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

16.2. The Head of Assurance reviewed this Audit Charter in April 2018. It will next be reviewed in April 2019.

## Glossary of Terms

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

Note:

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

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

| Agenda Item No: |
|---|
| **3** |

**CODE OF CORPORATE GOVERNANCE 2018/19**

*Report of the Director of Resources*

Author: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508)

**1. Purpose of Report**

1.1 To provide Audit Committee members with the requested changes in wording to the Hertfordshire County Council Code of Corporate Governance 2018/19 that was originally presented to the Committee at its meeting on 15 May 2018.

1.2 Paragraph 4.4 of the Audit Committee minutes for 15 May 2018 included; "With a view to clarifying the role of Members in Internal Audit matters, the Committee requested that officers review the Code of Corporate Governance and bring it back to the July meeting of Audit Committee". The Revised Code of Corporate Governance is appended as Appendix A to this report.

**2. Background**

2.1 The Council's Code of Corporate Governance sets out the standing arrangements that the Council puts in place to ensure good governance and details how the Authority complies with the seven principles of the CIPFA/SOLACE best practice framework *Delivering Good Governance in Local Government 2016*.

2.2 The seven principles from the framework are listed below:

a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

b) Ensuring openness and comprehensive stakeholder engagement

c) Defining outcomes in terms of sustainable economic, social, and environmental benefits

d) Determining the interventions necessary to optimise the achievement of the intended outcomes

e) Developing the entity's capacity, including the capability of its leadership and the individuals within it

f) Managing risks and performance through robust internal control and strong public financial management

g) Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

## 3 Summary

3.1 Following consultations between the Chairman of the Hertfordshire County Council Audit Committee and the Head of Assurance Services, the following primary amendments to the Code of Corporate Governance 2018/19 have been made:

a) Code of Governance Principles F and G – The inclusion of reference to the SIAS Audit Charter as a demonstration of how the Authority: '*Maintains an effective Audit Committee that is independent of Cabinet and scrutiny functions*'.

b) Code of Governance Principle G – The inclusion of reference to the SIAS Audit Charter as a demonstration of how the Authority: '*Has a robust approach to the provision of Internal and External Audit functions*'.

c) The inclusion of an item under Code of Governance Principle F demonstrating how the how the Authority: '*Ensures appropriate Member challenge to all aspects of the County Council's performance via reporting mechanisms that incorporate both; internal performance information, and external comparative data*.

d) The inclusion of a brief glossary of terms

3.2 The insertions referencing the SIAS Audit Charter as set out in a) and b) (above) have been made to clarify the role of Members in Internal Audit matters within the Code.

## 4. Recommendation

The Committee approves the revised Code of Corporate Governance for 2018/19.

# HERTFORDSHIRE COUNTY COUNCIL
# CODE OF CORPORATE GOVERNANCE 2018/19

## INTRODUCTION

Hertfordshire County Council is committed to demonstrating the highest standards of Corporate Governance. Good governance leads to good management, good performance, effective use of resources, good public involvement and ultimately good outcomes.

The Council's Code of Corporate Governance ("the Code") comprises a range of documents, policies, procedures, cultures and values and is the system through which the business of the Council is directed and controlled. The Code underpins the aim of achieving good governance.

## CORPORATE GOVERNANCE FRAMEWORK

The corporate governance framework of Hertfordshire County Council is consistent with the principles of the CIPFA/SOLACE best practice framework *Delivering Good Governance in Local Government 2016*. The following **seven core governance principles** ensure that we have high standards of good governance.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
D. Determining the interventions necessary to optimise the achievement of the intended outcomes
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

This document describes how the Council demonstrates its commitment to these core principles and indicates where more information can be obtained. The Code is reviewed annually to ensure that the Council is complying with the Code and to identify any areas where the governance arrangements can be improved

| CODE OF GOVERNANCE PRINCIPLE A<br>**Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**<br>This core principle is supported by three supporting principles:<br>• Behaving with integrity<br>• Demonstrating strong commitment to ethical values<br>• Respecting the rule of the law | |
|---|---|
| **What The Council Does** | **How it Demonstrates This** |
| Ensures that the Members and senior Officers of the Council reinforce the tone of the organisation by creating a climate of openness, support and respect; | • Protocol for Relationships between Members and Officers – Annex 16 to the Constitution<br>• Member Code of Conduct<br>• Code of Conduct for Officers |
| Defines the professional behaviour expected of elected Members and Officers; | • Member Code of Conduct<br>• Code of Conduct for Officers<br>• Anti-bribery policy |
| Puts in place arrangements to ensure that conflicts of interest are declared and if necessary the Member / Officer does not participate in decision-making; | • Member Code of Conduct<br>• Code of Conduct for Officers<br>• Register of Members' Disclosable Pecuniary Interests and personal interests as set out in the Code of Conduct for Members – Available on each Member's contact page.<br>• Register of Officer Interests in Contracts |
| Develops and Maintains shared professional values for the organisation and communicates these with Members, Officers, the Community and partners; | • Values and Behaviours<br>• Corporate Plan 2017-2021 |
| Maintains an effective Standards Committee; | • Standards Committee Terms of Reference – Annex 3 of the Constitution |
| Has in place effective systems to enable Officers and others to identify any potential wrong doing and to protect Officers should they raise areas of concern; | • Whistleblowing policy<br>• Mechanisms for reporting fraud and corruption |
| Ensure that professional advice on matters that have legal or financial implications is available in advance of decision making; | • Senior lawyers and senior finance Officers review reports going to member decision making meetings<br>• Lead Officers for projects have responsibility to engage with legal services and finance to ensure that legal and finance advice is secured for their projects |

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| Ensure that all Officers are appropriately trained on specific legislative and other requirements for their service areas and also on the key principles of administrative law; | • Performance Management and Development Scheme and the related training and development programme |

| CODE OF GOVERNANCE PRINCIPLE B<br>**Ensuring openness and comprehensive stakeholder engagement**<br>This core principle is supported by three supporting principles:<br>• Openness<br>• Engaging comprehensively with institutional stakeholders<br>• Engaging with individual citizens and service users effectively | |
|---|---|
| **What The Council Does** | **How it Demonstrates This** |
| Encourage all sections of the community and other stakeholders to participate in our work through public consultation; | • Constitution<br>• Herts Horizons<br>• The Council's website<br>• Petitions Scheme<br>• Citizens Panel |
| Produce an annual report on the activities of scrutiny committees; | • Overview and Scrutiny Annual Report |
| Hold meetings in public unless there is to be discussion of matters of a confidential nature; | • Council, Cabinet, Cabinet Panel, Committee and Scrutiny meetings are all held in public unless considering exempt information as certified by the Monitoring Officer. |
| Make all information publicly available unless it is exempt by law; | • Open Public Data<br>• Constitution<br>• The Council's website<br>• Freedom of Information (FOI)<br>• Environmental Information Regulations (EIR) |
| Ensure that clear channels of communication are in place with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure these operate effectively | • Herts Horizons<br>• Forward Plan of Key Decisions<br>• Consultation on major policy developments<br>• Annual Report<br>• Residents' Tracker Survey (Citizens' Panel)<br>• Petitions Scheme<br>• Public questions at Council meetings<br>• Annual Report<br>• Freedom of Information (FOI)<br>• Environmental Information Regulations (EIR)<br>• Whistleblowing policy |
| Ensure that Officers are regularly consulted and invite comments from Officers on a wide range of issues. | • Annual Staff Survey<br>• Consultation with Recognised Trade Unions |

| CODE OF GOVERNANCE PRINCIPLE C<br>**Defining outcomes in terms of sustainable economic, social, and environmental benefits**<br>This core principle is supported by two supporting principles:<br>• Defining outcomes<br>• Sustainable economic, social and environmental benefits | |
|---|---|
| **What The Council Does** | **How it Demonstrates This** |
| Define and promote its purpose and vision; | • Hertfordshire Corporate Plan 2017-2021 |
| Review annually its purpose and vision to reflect its financial position and other major policy changes; | • Integrated Planning Process<br>• Annual review of Corporate Plan |
| Work with its partners on an agreed common vision for all its partners; | • Herts Forward<br>• Local Enterprise Partnership<br>• Health and Well Being Board |
| Communicate on a regular basis the Council's key performance data, achievements and financial position; | • Annual Report<br>• Quarterly Finance and Performance Reports<br>• Resources, Property and the Economy Cabinet Panel and Cabinet<br>• Public Health, Prevention and Performance Cabinet Panel<br>• Annual Audit Letter<br>• Council Tax Information Sheet and on-line Council Tax Leaflet |
| Ensure that each service area reviews on a regular basis its objectives and priorities; | • Departmental Service Plans – link to objectives in the Corporate Plan<br>• Integrated Planning Process |
| Put in place effective arrangements to identify and deal with failure in service delivery | • Complaints procedures<br>• Overview and Scrutiny Committee / Topic Groups<br>• Whistle blowing policy/ Reporting Fraud and Corruption |
| Use national benchmarking of value for money and needs based evidence to regularly review and shape corporate priorities and supporting financial plans effectively; and | • Integrated Planning Process |
| Address the environmental impact of its policies, plans and decisions. | • Energy reduction targets for the authority |

| CODE OF GOVERNANCE PRINCIPLE D<br>**Determining the interventions necessary to optimise the achievement of the intended outcomes**<br><br>This core principle is supported by three supporting principles:<br>• Determining interventions<br>• Planning interventions<br>• Optimising achievements of intended outcomes | |
|---|---|
| **What The Council Does** | **How it Demonstrates This** |
| Define and promote its purpose and vision; | • Hertfordshire Corporate Plan 2017-2021 |
| Review annually its purpose and vision to reflect its financial position and other major policy changes; | • Integrated Planning Process<br>• Annual review of Corporate Plan |
| Communicate on a regular basis the Council's key performance data, achievements and financial position; | • Annual Report<br>• Quarterly Finance and Performance Reports<br>• Resources, Property and the Economy Cabinet Panel and Cabinet<br>• Public Health, Prevention and Performance Cabinet Panel<br>• Annual Audit Letter<br>• Council Tax Information Sheet and on-line Council Tax Leaflet |
| Ensure risk management process is integrated into all levels of the organisation; | • Risk Management Guide<br>• Annual Risk Management report to Audit Committee<br>• Corporate and Departmental risk registers |
| Ensure that each service area reviews on a regular basis its objectives and priorities; | • Departmental Service Plans – link to objectives in the Corporate Plan |
| Put in place effective arrangements to identify and deal with service delivery that falls below expectations; | • Complaints procedures<br>• Overview and Scrutiny Committee / Topic Groups<br>• Whistleblowing Policy<br>• Mechanisms for reporting fraud and corruption<br>• Internal Audit |
| Ensure resilience with regard to continuity of service in the event of unforeseen events. | • Corporate and departmental business continuity and disaster recovery plans and arrangements |

| CODE OF GOVERNANCE PRINCIPLE E<br>**Developing the County Council's capacity, including the capability of its leadership and the individuals within it**<br>This core principle is supported by two supporting principles:<br>• Developing the County Council's capacity<br>• Developing the capability of the County Council's leadership and other individuals | |
|---|---|
| **What The Council Does** | **How it Demonstrates This** |
| Set out in clear terms the respective roles and responsibilities of the Leader, Cabinet, Members and Council Officers; | • The Constitution<br>• Protocol for Relationships between Members and Officers – Annex 16 to the Constitution<br>• Scheme of Delegation to Officers– Part 3 of Annex 3 to the Constitution<br>• Code of Practice for Councillors and Officers Involved in the Planning |
| Set out how decisions are made and which decisions are reserved to the Full Council. Determine a scheme of delegation to Chief Officers, including those decisions which are not included in their delegated powers and are reserved to Council or Cabinet; | • Constitution<br>• Scheme of Delegation to Officers – Part 4 of Annex 3 to the Constitution |
| Make the Chief Executive responsible and accountable for all aspects of operational management; | • Head of Paid Service – Section 9 of the Constitution<br>• Fortnightly meetings of the Chief Executive with the Leader or Deputy Leader |
| Make the -Director of Resources (as Section 151 Officer) responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for Maintaining an effective system of internal financial control; | • Section 151 Officer responsibilities – Section 9 of the Constitution |
| Adopt a protocol for relationships between Members and Officers which ensures proper and effective relationships; | • Protocol for Relationships between Members and Officers – Annex 16 to the Constitution<br>• Staff induction<br>• Member Code of Conduct<br>• Code of Conduct for Officers<br>• Political awareness training programme |
| Make the Chief Legal Officer (as Monitoring Officer) responsible for the Council Constitution and for ensuring that agreed procedures are followed and that all | • Monitoring Officer responsibilities – Section 9 of the Constitution |

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| applicable statutes and regulations are complied with | |
| Set out the terms and conditions for the remuneration of Members and Officers; | • Constitution<br>• Members' allowances scheme<br>• Pay Policy Statement |
| Ensure that service delivery is effectively monitored; | • Regular reports to Resources, Property and the Economy Cabinet Panel, Public Health, Prevention and Performance Cabinet Panel and Service Cabinet Panels |
| Consult widely on its vision, strategic plans and priorities and take into account the views of the local community and key stakeholders; | • Budget consultation<br>• Consultation on major policy developments<br>• Citizens' Panel |
| Ensure that when working in partnership that elected Members are clear about their legal responsibilities and liabilities; | • Advice given to Members |
| Ensure that where the Council enters into a partnership there is a written agreement between the parties clearly setting out the roles and responsibilities, including responsibilities for staffing and funding. | • Chief Officer / Chief Legal Officer support to partnership arrangements |
| Provide induction programmes for Members and Officers; | • Members' Development Programme<br>• Members' Online Learning<br>• Staff induction |
| Ensure statutory Officers have the resources and support to effectively perform their roles; | • Section 151 Officer – Section 9 of the Constitution<br>• Monitoring Officer – Section 9 of the Constitution |
| Assess the learning and development needs of Officers and Members and make a commitment to meet those needs and develop required skills; | • Performance Management and Development Scheme<br>• Members' Development Programme<br>• Members' Online Learning |
| Identify leaders of the future; | • Leadership and Management Development<br>• Deputy Executive Members |
| Provide support for Members and Officers who are Directors of Council companies; | • Training and advice given as required/necessary |

| CODE OF GOVERNANCE PRINCIPLE F<br>**Managing risks and performance through robust internal control and strong public financial management**<br><br>This core principle is supported by five supporting principles:<br>• Managing risk<br>• Managing performance<br>• Robust internal control<br>• Managing data<br>• Strong public financial management | |
|---|---|
| **What The Council Does** | **How it Demonstrates This** |
| Maintains an effective scrutiny function which is aimed at improvement and service delivery; | • Constitution<br>• Overview and Scrutiny Committee, Health Scrutiny Committee and Topic Groups |
| Maintains effective arrangements for recording decisions; | • Forward Plan of Key Decisions<br>• Record of Key Decisions<br>• Minutes of Council, Cabinet, Cabinet Panel and Committee meetings<br>• Scheme of Delegation to Officers – Part 3 & 4 of Annex 3 to the Constitution<br>• Training of Officers |
| Put in place arrangements to ensure that decisions are not affected by conflict of interest; | • Member and Officer Codes of Conduct |
| Maintains an effective Audit Committee that is independent of Cabinet and scrutiny functions | • Audit Committee Terms of Reference – Paragraph 2.5 of Annex 3 to the Constitution<br>• The SIAS Audit Charter |
| Ensures appropriate Member challenge to all aspects of the County Council's performance via reporting mechanisms that incorporate both; internal performance information, and external comparative data. | • The provision of regular performance information to individual service panels<br>• Regular reporting of overall County Council performance to the Resources & Performance Panel<br>• The incorporation of benchmarking information relating to similar authorities in all performance reports to Members. |
| Ensure that an effective and accessible complaints procedure is in place; | • Complaints procedures<br>• Management of Unreasonable Complainant Behaviour Policy<br>• Whistleblowing Policy / Reporting fraud and corruption |

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| Ensure that those involved in making decisions are provided with all relevant advice and implications | • Section 151 Officer advice – Section 9 of the Constitution<br>• Monitoring Officer advice – Section 9 of the Constitution |
| Ensure risk management process into all levels of the organisation; | • Risk Management Guide<br>• Annual Report to Audit Committee<br>• Corporate and Departmental risk registers |
| Ensure that whistle blowing arrangements are in place for all employees and those contracting with the authority; and | • Whistleblowing Policy<br>• Mechanisms for reporting fraud and corruption |
| Maintains an effective process for reviewing the requirements of the law, the legality of transaction, decisions and the impact of new laws. | • Constitution<br>• Monitoring Officer's responsibilities – Section 9 of the Constitution |

| CODE OF GOVERNANCE PRINCIPLE G | |
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| **Implementing good practices in transparency, reporting, and audit to deliver effective accountability**<br><br>This core principle is supported by three supporting principles:<br>• Implementing good practice in transparency<br>• Implementing good practices in reporting<br>• Assurance and effective accountability | |
| **What The Council Does** | **How it Demonstrates This** |
| Maintains an effective scrutiny function which is aimed at improvement and service delivery; | • Constitution<br>• Overview and Scrutiny Committee, Health Scrutiny Committee and Topic Groups |
| Maintains an effective Audit Committee that is independent of Cabinet and scrutiny functions | • Audit Committee Terms of Reference – Paragraph 2.5 of Annex 3 to the Constitution<br>• The SIAS Audit Charter |
| Has a robust approach to the provision of Internal and External Audit; | • Has a dedicated Audit Committee that approves the Authority's Internal and External Audit Plans<br>• Progress on Audit Recommendations are presented to the Audit Committee<br>• The work of the Internal Audit Service is independently assessed as complying with the Public Sector Internal Audit Standards<br>• The SIAS Audit Charter |
| Make all information publicly available unless it is exempt by law; | • Open Public Data<br>• Constitution<br>• The Council's website<br>• Freedom of Information (FOI)<br>• Environmental Information Regulations (EIR) |
| Ensure that Officers are regularly consulted and invite comments from Officers on a wide range of issues; | • Staff Survey<br>• Employee Representatives<br>• Consultation with Recognised Trade Unions |
| Hold meetings in public unless there is to be discussion of matters of a confidential nature; | • Council, Cabinet, Cabinet Panel, Committee and Scrutiny meetings are all held in public unless considering exempt information as certified by the Monitoring Officer. |

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| Ensure that clear channels of communication are in place with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure these operate effectively; | • Herts Horizons<br>• Freedom of Information (FOI)<br>• Environmental Information Regulations (EIR)<br>• Whistleblowing policy<br>• Forward Plan of Key Decisions<br>• Consultation on major policy developments<br>• Annual Report<br>• Residents' Tracker Survey (Citizens' Panel)<br>• Petitions Scheme<br>• Public questions at Council and Panel meetings<br>• Mechanisms for reporting fraud and corruption |
| Communicate on a regular basis the Council's key performance data, achievements and financial position; | • Annual Report<br>• Quarterly Finance and Performance Reports<br>• Resources, Property and the Economy Cabinet Panel and Cabinet<br>• Public Health, Prevention and Performance Cabinet Panel<br>• Annual Audit Letter<br>• Council Tax Information Sheet and on-line Council Tax Leaflet |
| Set out how decisions are made and which decisions are reserved to the Full Council. Determine a scheme of delegation to Chief Officers, including those decisions which are not included in their delegated powers and are reserved to Council or Cabinet; | • Constitution<br>• Scheme of Delegation to Officers – Part 3 of Annex 3 to the Constitution<br>• Forward Plan of Key Decisions |
| Make the Director of Resources (as Section 151 Officer) responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for Maintaining an effective system of internal financial control; | • Section 151 Officer responsibilities – Section 9 of the Constitution |

**Glossary of Terms**

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| Cabinet | The Cabinet is the County Council's executive |
| Officers | The Staff of the County Council |

**HERTFORDSHIRE COUNTY COUNCIL**

Agenda Item No:

**4**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

# 2017/18 ERNST & YOUNG AUDIT UPDATE REPORT; HERTFORDSHIRE COUNTY COUNCIL RESPONSES

*Report of the Director of Resources*

Author: Ben Jay, Head of Accountancy Services (Tel: 01992 556257)

## 1. Purpose of the Report

1.1 The Purpose of this report is:

- to present to the Committee the Ernst and Young LLP (EY) Audit Update Report for the 2017/18 audit of the Council accounts completed to date, and
- the Council's responses to that report.

## 2. Recommendations

2.1 The Committee is asked to approve the recommendations of this report, subject to the remaining audit testing being concluded without further material changes being recommended. In the event that further adjusting items are identified, the Committee is asked to agree to delegate authority for the change to be made to the Section 151 Officer (Director of Resources), in consultation with the Chair (or Vice-Chair) of this Committee. Any such changes will be reported to Audit Committee at the next meeting.

2.2 The Committee is also asked to consider the treatment of the various adjustments to the accounts recommended by Hertfordshire County Council officers, and to clearly accept or reject the recommendation in each case.

2.3 The Audited Accounts included as appendix 2 to this report include the changes that have already been made to the accounts further to the work of the audit team, and as set out in section 5.

## 3. The content of the audit results report

3.1 Ernst Young (EY) have provided the Council with their Audit Update Report (appended as appendix 1) for the audit of the Council accounts for the financial year 2017/18. The deadline for concluding the audit is July 31, and some audit work remains outstanding (this is consistent with previous years).

3.2 The Audit Update Report will be followed by the formal Audit Results Report, which is a standard document reflecting the requirements of the audit standard (ISA260) that is updated for latest information each year. The Audit Results Report will be received by the Council in July, and formally considered by the Committee in September.

3.3 The EY Audit Update Report sets out the progress made against the items previously identified in the Audit Plan for the year and makes recommendations based on the findings of that review. This is predominately where changes to the figures in the accounts are recommended, but can also include process or controls changes. HCC officers then provide advice for the Committee on whether to accept the recommendations (adjust the accounts) or reject the recommendation of the auditor (leave the value unadjusted).

3.4 Recommended changes to the accounts are informed by the application of the guidance set out in the Code of Practice for Local Government Accounts (‘the Code’) and the materiality threshold determined by the auditor.

3.5 Materiality thresholds have been reviewed by the auditor and the Committee will recall that, for the Council’s accounts, all uncorrected misstatements greater than £1.78m will be reported to the Committee and that the overall materiality threshold has been raised to 2% materiality. (2% materiality means that there is a risk of qualification of the accounts if the total level of unadjusted items exceeds 2% of HCC turnover, which equates to £36m - items could be identified and recommended to be restated that are greater, but if that recommendation is accepted there is no further action required).

3.6 Progress towards the achievement of the earlier deadline for this year should also be noted by the Committee. The accounts were provided to the Auditor by the due date (31 May) and since 1 June the audit has proceeded as planned towards the audit sign off. The Committee will note from the report that some areas of testing remain to be concluded at the time of preparing the report (9 July) and are unlikely to be fully concluded by the date of the Committee meeting (18 July). There will then remain some 2 weeks before the deadline for conclusion of the audit (31 July).

3.7 It is therefore anticipated that the list of incomplete areas of testing set out in the report will substantially reduce by the time the Committee meets, but also that there may continue to be some areas of testing still incomplete at that date. Should any further adjusting items be identified it is proposed that relevant decisions are delegated to the Director of Resources (s151) in consultation with the Chair (or Vice-Chair) of the Committee. The final audit results report will be provided to the Council by 31 July and will be part of the Audit Committee agenda in September.

## 4. Context for the 2017/18 audit of the accounts

4.1 It is important to recall the context for this audit, which has been marked by a number of important events.

4.2 2017/18 saw an earlier deadline for closedown than previous years. Early work was undertaken by the Council to prepare for this, as previously reported, including:

- a 'dry run' last year,

- discussion with actuary on the best way to provide estimates on the value of the fund and the current value of the future liabilities of the pension fund, balancing earlier reporting and accuracy of estimates
- Finance staff attendance at the EY/CIPFA briefings on best practice in January and February 2018

4.3 Significant national issues also preceded the audit this year, including the collapse of Carillion and the later report to the Public Accounts Committee on the role of the audit firms involved, and the financial crisis seen at Northamptonshire County Council and the responses to that. These events influenced views on the role of the auditor and the relationship of the Council with the auditor.

**5. 2017/18 audit – overview**

5.1 Overall, good progress has been made; all deadlines have been achieved to plan, the accounts were under review by the Director of Resources (s151) 2 days ahead of plan, and the full accounts pack was ready several days ahead of the 31 May deadline. The subsequent audit review has progressed to time.

5.2 The substance of the Audit Update Report is positive – no fundamental issues have been identified and the auditor is confident that, subject to the conclusion of the outstanding areas of testing, an unqualified opinion is expected for both the accounts and the achievement of value for money in the use of resources.

5.3 However, a number of difficulties were encountered and areas where the audit approach (both from EY and HCC) would benefit from further review have been identified as a result. Pre-audit work in January and February 2018 saw a greater level of detail requested by EY than had been anticipated, including larger sample sizes and detailed substantive testing. Also, less reliance placed on internal audit (SIAS) reports prepared during the year results than in previous years (this appears to be a move away from a 'managed audit' approach and towards a great level of substantive testing).

5.4 A key issue has been the assessment of the value of pension fund assets. This is a complex area, because it involves valuing a range of investments made by third parties on behalf of the pension fund including bonds, equities and other investments, the value of which cannot be known with certainty without selling the asset. There is a necessity to work with estimated values, which are provided by the pension fund actuary. Extensive discussion was held with the actuary to secure a balance of timeliness and accuracy. The assets are often invested in areas where values fluctuate over a short period of time. Finally, the format of the pension fund accounts and of the Council accounts are fundamentally different in presentation and preparation, and governed by different guidance.

5.5 Previous audit reviews have focussed on the estimation methodology used by the actuary (the IAS19 assessment), and the reflection of these estimates correctly within the HCC accounts. The methodology has previously been found by the auditor to be reasonable and no recommendation for improvement has been made. No recommendation on the methodology has been made in the current year; indeed it has been considered to be valid and sufficient. This assessment identifies the values of fund assets to be attributed to different admitted bodies. (It is not used by the fund itself.)

5.6 The HCC share of the Hertfordshire LGPS assets amounts to c£2.3bn. A 1% change in the value of the overall fund would have a £23m impact on the valuation of the HCC share. Analysis of the results in the current and previous years shows that difference between reported asset values (arising from timing differences in estimates of those values) in previous years of +/-1.6%.

5.7 For the current year, EY have recommended that revised estimated values were requested from the actuary and then adjusted in the HCC accounts (see section 6 below). The auditor also contacted Hertfordshire District Councils to advise that it was recommended to make a similar adjustment in their accounts as well. The Committee is asked to note that this amounts to a £34.5m adjustment in the estimated value of pension fund assets attributable to HCC, a change of 1.7%. This is not intended by the Council to set a precedent; the approach to this estimate in future years will need to be discussed with the auditor, as Council officers have some concerns on the implications of this approach.

5.8 The Committee are asked to note that there remains a significant margin for error in the reported values and that these are not ‘actual’ values. The later estimate does provide a slightly higher level of overall accuracy, but some asset classes (especially overseas equity holdings) may not have been given a clear market value until later in July. It is unclear whether marginal changes (1.7%) in such estimates improves the overall quality of the accounts.

## 6. Specific EY Audit Recommendations and HCC Responses

6.1 Specific audit recommendations identified during the review are set out below. It is recommended in each case that the Committee approves accepting them. (There were also a small number of other changes, includes grammatical improvements).

| Audit reference | Value of proposed adjustment | Commentary | Recommendation to the Committee to accept or reject the adjustment |
|---|---|---|---|
| Pensions Liability | £34,456k | Reduction in the Net Pensions Liability | Accept |
| Financial Instruments | £3,664k | Investment classification from Unquoted Equity to Financial Instrument held for Sale | Accept |
| Long Term Debtors | £307k | Reduction in the debtor recognised relating to Legal Charges | Accept |
| Property, Plant & Equipment – change in classification | £260k | Asset reclassified from Land and Buildings to Surplus Assets | Accept |

**7. Conclusions**

- Recent events have put a particular focus on the financial standing of local authorities, the role of the auditor, and the overall statutory accounts process;
- It is intended to engage with local EY team well ahead of 2018/19 close to maximise the efficiency of this process.

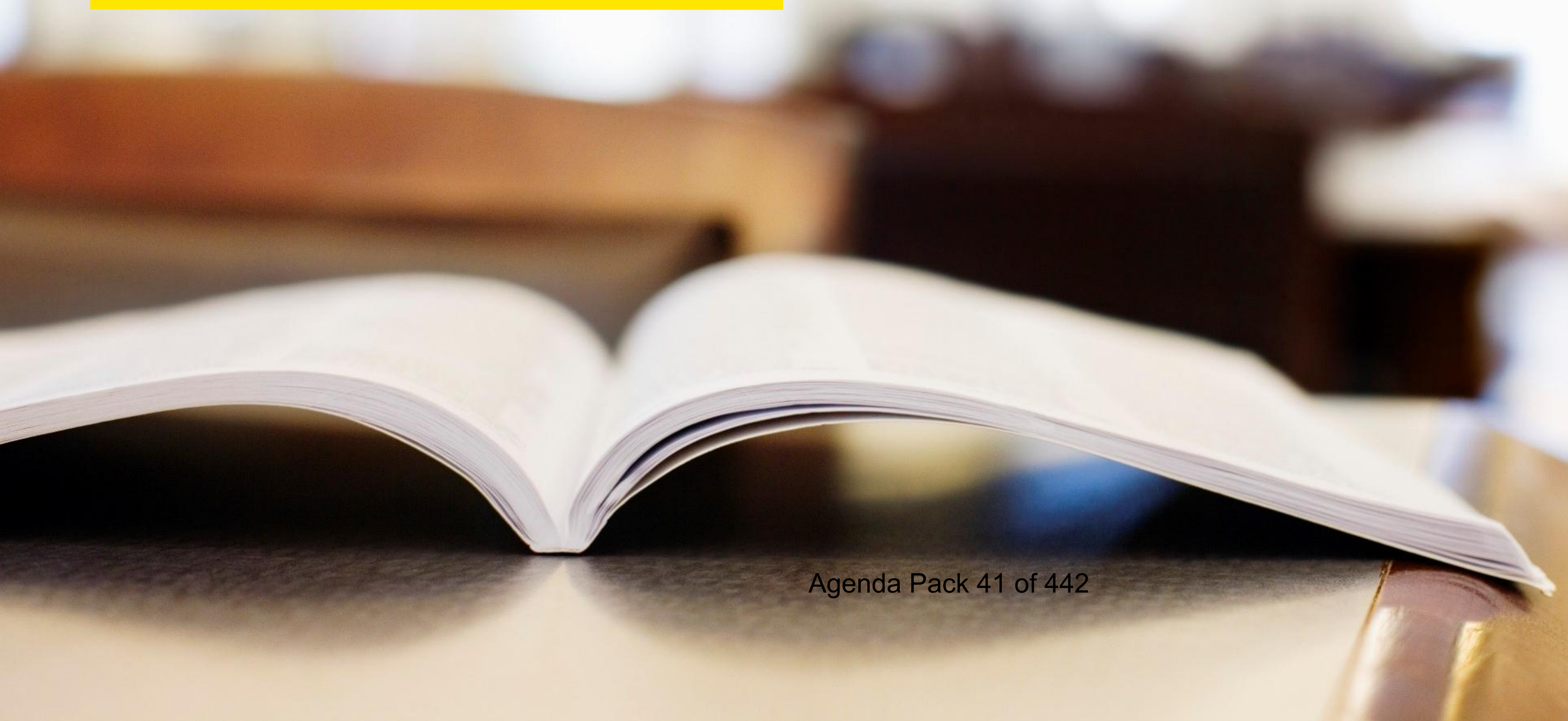
APPENDIX 1

# Hertfordshire County Council

## Audit Update

Year ended 31 March 2018

5th July 2018





Building a better working world

Private and Confidential

5th July 2018

Dear Audit Committee Members

We are pleased to attach our audit update for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hertfordshire County Council for 2017/18. We will issue our final report once we have concluded the audit.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 18 July 2018.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents


01 Executive Summary

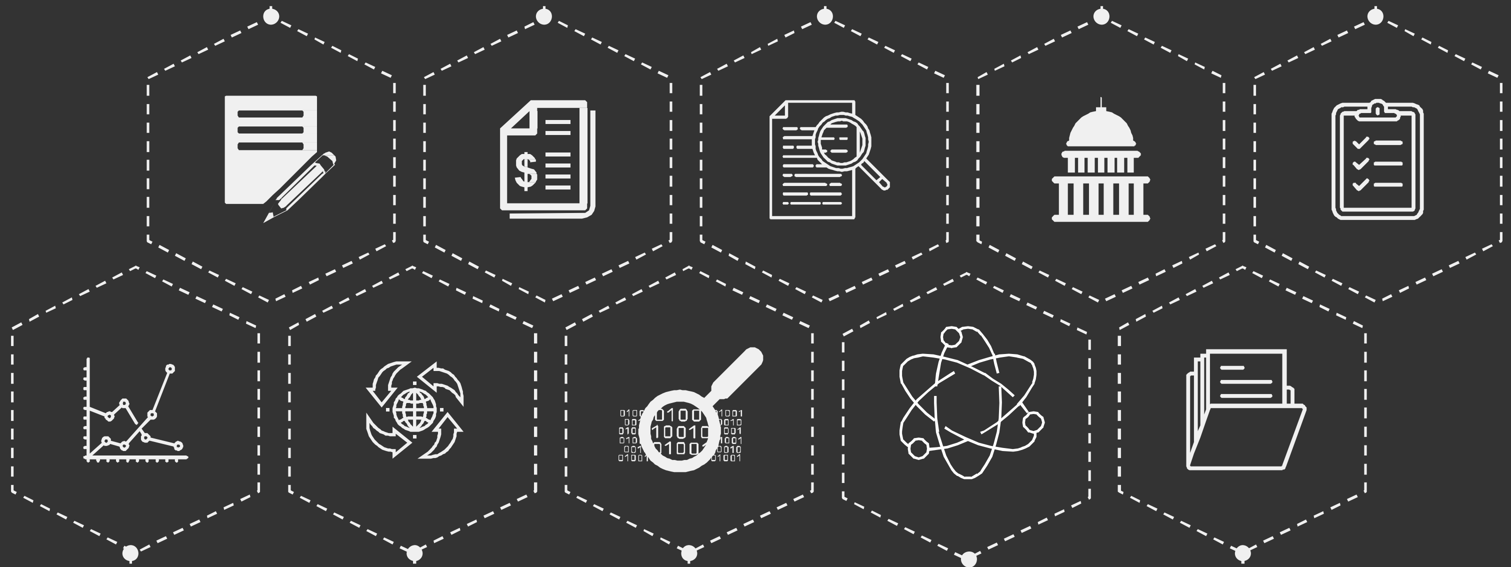
02 Understanding Financial Statements

03 Areas of Audit Focus

04 Audit Report

05 Audit Differences

06 Value for Money


07 Other reporting issues

08 Assessment of Control Environment

09 Data Analytics

10 Independence

11 Appendices


In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hertfordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hertfordshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hertfordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 15 May 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £35.7m, but that we would update this at year end. This level of materiality has reduced slightly to £34.8m for the actual results for the financial year. The basis of our assessment has remained consistent with planning at 2% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement is £1.7m.
- Changes in risks: In our Audit Committee Planning Report, we communicated our significant risks in relation to the accounts and VFM conclusion. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

# Executive Summary

## Status of the audit

We are progressing our audit of Hertfordshire County Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following areas of the audit we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

Completion of work on income and expenditure

Completion of work on Property, plant and equipment

Completion of work on Pensions

Completion of work on PFI schemes

Completion of work in respect of Firefighters Pension Scheme Accounts

Completion of work in respect of Exit Packages and Officers Remuneration

Completion of work in respect of Leases

Completion of work on reserves

Completion of work on the cash flow statement

Completion of work on pooled budgets

Completion of work on Financial Instruments

Review of the final version of the financial statements

Completion of subsequent events review

Receipt of the signed management representation letter

Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

## Audit differences

There are currently no unadjusted audit differences arising from our audit.

Audit differences to be reported are set out in section 4.

# Executive Summary

## Control observations

To date we have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we did not identify a significant risk.

We expect to have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. We have substantially completed a review of the Council's arrangements for its decision up to 31st March 2018 to establish a commercial joint venture and creation of a subsidiary company, Herts for Living Limited. We have asked some final questions and requested additional information from the Council to supports its business case and the consideration of external advice. We expect to conclude this work before the 18th July 2018 and will update the Audit Committee on any matters arising at that point.

## Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We will report to the committee once these work is complete.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence.


# 02 Areas of Audit Focus

# Significant risk

## Management Override: Misstatements due to fraud or error

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error due to management override of internal controls.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

For Hertfordshire County Council, we have assessed that this risk could manifest in:

- The incorrect classification of revenue spend as capital;
- The inappropriate classification of revenue spend as Revenues Expenditure Financed from Capital Under Statute (REFCUS); and
- Failure to make a prudent assessment of the Minimum Revenue Provision (MRP).
- Depreciation, impairment and revaluation losses not being completely and accurately removed from the Council's general fund balance through Movement in Reserves Statement.

### What are we doing?

In response to the risk, we:

- Enquired of management about risks of fraud and the controls in place to address those risks;
- Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Reviewed and tested revenue and expenditure recognition policies;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias;
- Reviewed and tested revenue and expenditure cut-off at the period end date;
- Tested a sample of capital expenditure and Revenue Expenditure Finances from Capital Under Statute (REFCUS) to verify that revenue costs have not been inappropriately capitalised;
- Verified that adjustments between the accounting basis and funding basis have been correctly made in accordance with the Code;
- Verified that the Minimum Revenue Provision and Capital Financing Requirement (CFR) has been calculated in according with the Code; and
- Ensured that depreciation, impairment and revaluation losses were accurately removed from the Council's general fund balance through Movement in Reserves Statement

Significant Risk

# Significant risk

## Risk of Management Override

### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- Cash income, cash expenditure and payables cut-off.
- Revenue and expenditure recognition policies.
- Journal entries.
- Unusual transactions.

### What are our conclusions?

We are concluding our audit work in this area. To date this has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Authority's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.

# Significant risk

## Property, Plant & Equipment Asset Valuation

### What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet.

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

For Hertfordshire County Council, as at 31st March 2017, the fair value of the Council's property, plant and equipment was £2.27billion, of which £2.1billion of this is land and buildings. The Council's assets are revalued on a rolling three-year basis with a valuation date of 1 April 2017. There is a risk that:

- The assumptions used in the valuation of specialised assets such as schools, fire stations and libraries valued using Modern Equivalent Asset are not appropriate.
- That the valuation carried out twelve months before the year end date does not remain reasonable.
- That the assets identified for a revaluation during the financial year are not complete and accurate.

### What did we do?

- We Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- We robustly challenging the assumptions used by the valuers relating to Modern Equivalent Asset, componentisation and build cost. We will sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- We consider the annual cycle of valuations to ensure that assets have been valued within a 3 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- We reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- We considered changes to useful economic lives as a result of the most recent valuation;
- We tested accounting entries have been correctly processed in the financial statements;
- We challenged and assess the completeness of the assets identified for revaluation during the year; and
- We used of our own valuation experts where significant unexplained variations are identified or where assets are difficult to value, such as those using Modern Equivalent Asset and Depreciated Replacement Cost.

# Significant risk

## Property, Plant & Equipment Asset Valuation

### What judgements are we focused on?

We focused on aspects of the land and buildings valuations which could have a material impact on the financial statements, primarily:

- significant changes in the asset base;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

### What are our conclusions?

Our work on the valuation of land and buildings is still in progress.

We are currently engaging with our EY valuations specialists on the valuations of a number of specialised assets and will update the committee at the meeting.

# Significant risk

## Pension Liability Valuation

### What is the risk?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 the net pension liability was £1.066billion.

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

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

### What did we do?

- We put in place a programme of work and instruct the auditors of Hertfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Hertfordshire County Council;
- We assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- We reviewed and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

# Areas of Audit Focus

## Significant risk

### Pension Liability Valuation

**What judgements are we focused on?**

We focused on aspects of the pension liability which could have a material impact on the financial statements, primarily:

- significant changes in assumptions made by the actuary; and
- the assessments of the actuary undertaken by PWC and the EY actuarial team.

**What are our conclusions?**

The accounting entries and disclosures are in line with our expectations and the Code.

We have completed our IAS 19 procedures. A difference has been identified in respect of the Pension Liability of £34m to £1,030,918k from £1,065,374k and associated notes in Note 37: Defined Benefit Pension Schemes. This was identified through the reporting of the Pension Fund Auditors and arose from a material difference in the actuary's projected total fund value as at 31 March 2018 and the reported value of the fund. The estimate has increased the fund value by 1.5% and whilst this is within a reasonable range, the difference in the County Council's share of the 31st March fund value estimate and the projection to the year end is above our performance materiality level. The Council have agreed to update their estimate to reflect assumptions and data supporting the fund as at 31st March 2018.

We are currently auditing the revised notes provided by the Council and will update the Committee at the meeting.

# Areas of Audit Focus

## Other matters

The applicable accounting framework is CIPFA's annual Code of Practice on Local Authority Accounting in the United Kingdom (which is IFRS based as adapted for Local Authorities). The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The 2018/19 Code will determine how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies.

The CIPFA/LASAAC Local Authority Accounting Code Board met on 6th June 2017. This board is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom.

The minutes of this meeting corroborate our view that Local Authority income streams from contracts with customers are immaterial "income streams …. for local authorities [are] very substantially less material than income from taxation." (CIPFA/LASAAC Local Authority Code Board meeting - 6th June 2017 - para 11.5). Income from taxation and grants does not fall within the scope of IFRS 15 as it is not contractually based revenue from customers.

It is our view, that IFRS 15 will not have a material impact on this Council's single entity financial statements. The vast majority of the Council's income streams are taxation or grant based.

The following income streams which are within the scope of IFRS 15 are immaterial to the Council:

- fees and charges for services under statutory requirements – e.g. application fees for taxi licenses or planning fees;
- sale of goods provided by the authority – e.g. retail sales at leisure centres, concessionary sale at local authority theatres; and
- charges for services provided by a local authority – e.g. home care services, maintenance for council dwellings or transport fares.


# 04 Audit Differences

# Audit Differences

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

## Summary of adjusted differences

We highlight the following differences greater than £26m which have been corrected by management that were identified during the course of our audit

- A difference has been identified in respect of the Pension Liability of £34m to £1,030,918k from £1,065,374k and associated notes in Note 37: Defined Benefit Pension Schemes. This was identified through the reporting of the Pension Fund Auditors and arose from a material difference in the actuary’s projected total fund value as at 31 March 2018 and the reported value of the fund. The estimate has increased the fund value by 1.5% and whilst this is within a reasonable range, the difference in the County Council’s share of the 31st March fund value estimate and the projection to the year end is above our performance materiality level. The Council have agreed to update their estimate to reflect assumptions and data supporting the fund as at 31st March 2018.

We have noted some other minor amendment changes to disclosures.

There are no uncorrected misstatements to date.

# 08 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

Debtor/Creditor Testing

In order to select a representative sample of debtor and creditor item to test we require a transactional level breakdown (i.e. individual invoice or equivalent) of all open items. Within some GL accounts there are WBS (Work Breakdown Structure, i.e. Project Code) settlement codes, which include historical general ledger postings to reach a cumulative year-end position. These codes represent only a small total of the debtor (1.3%) and creditor (2.5%) balances. However, as these codes are time consuming for the finance team to clear down, the Council may wish to consider how these balances are managed in the future and whether there is a process that aids the year-end close down process.

Payroll Testing

During our payroll testing we identified some payroll leaver date inconsistencies; where in some cases the incorrect leaving date had been input into SAP. All staff were paid correctly and the matter only affects reporting. This should be reviewed for future years.

# 9 Independence

# Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 30 April 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 18 July 2018.

# Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. / We highlight the following relationships that may be reasonably considered to bear upon our objectivity and independence. However we have adopted the safeguards noted below to mitigate these threats

# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have [not] undertaken non-audit work outside the PSAA Code requirements [detail any non-audit work performed…. Non-audit work is work not carried out under the Code]. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

| | Final Fee 2017/18 | Planned Fee 2017/18 | Scale Fee 2017/18 | Final Fee 2016/17 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Total Audit Fee – Code work | TBC | 142,067 | 142,067 | 142,067 |
| Other non-audit services not covered above (Teacher's Pensions) | TBC | TBC | N/C | 13,475 |

The agreed fee presented is based on the following assumptions:

- ► Officers meeting the agreed timetable of deliverables;
- ► Our accounts opinion and value for money conclusion being unqualified;
- ► Appropriate quality of documentation is provided by the Council; and
- ► The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

We have yet to conclude our 2017/18 audit and are therefore not in a position to conclude on the final fee for 2017/18. We will update the Audit Committee on our final fees at the conclusion of the audit.

# 10 Appendices

# Appendix C

## Required communications with the Audit Committee

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

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit planning report<br>15 May 2018 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report<br>15 May 2018 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit planning report<br>15 May 2018 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Public Interest Entities | For the audits of financial statements of public interest entities our written communications to the audit committee include:<br>• A declaration of independence<br>• The identity of each key audit partner<br>• The use of non-member firms or external specialists and confirmation of their independence<br>• The nature and frequency of communications<br>• A description of the scope and timing of the audit<br>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits<br>• Materiality<br>• Any going concern issues identified<br>• Any significant deficiencies in internal control identified and whether they have been resolved by management<br>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee<br>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof<br>• The valuation methods used and any changes to these including first year audits<br>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework<br><br>• The completeness of documentation and explanations received<br>• Any significant difficulties encountered in the course of the audit<br>• Any significant matters discussed with management<br>• Any other matters considered significant | Audit planning report<br>15 May 2018<br>Audit results report<br>18 July 2018 |

# Appendix C

| Required communications | What is reported? | Our Reporting to you<br>When and where |
|---|---|---|
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The adequacy of related disclosures in the financial statements | Audit results report<br>18 July 2018<br>No conditions or events were identified, either individually or together to raise any doubt about Hertfordshire County Council's ability to continue for the 12 months from the date of our report |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit results report<br>18 July 2018 |
| Subsequent events | • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit Results report<br>18 July 2018 |
| Fraud | • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit results report<br>18 July 2018 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Authority | Audit results report<br>18 July 2018 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:<br>• Relationships between EY, the company and senior management, its affiliates and its connected parties<br>• Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>• Related safeguards<br>• Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | Audit planning report<br>15 May 2018<br>Audit results report<br>18 July 2018 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| | • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy<br>• Details of any contingent fee arrangements for non-audit services<br>• Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>• The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | Audit results report<br>18 July 2018<br>We have received all requested confirmations |
| Consideration of laws and regulations | • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>• Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Audit results report<br>18 July 2018<br>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |
| Significant deficiencies in internal controls identified during the audit | • Significant deficiencies in internal controls identified during the audit. | Audit results report<br>18 July 2018 |

# Appendix C

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Audit results report<br>18 July 2018 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report<br>18 July 2018 |
| Auditors report | • Any circumstances identified that affect the form and content of our auditor's report | Audit results report<br>18 July 2018 |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit planning report<br>15 May 2018<br>Audit results report<br>18 July 2018 |

EY | Assurance | Tax | Transactions | Advisory

APPENDIX 2

# Hertfordshire County Council

## Statement of Accounts 2017/18

# Contents


Narrative Report 1

Statement of Responsibilities 17

Annual Governance Statement 20

Independent Auditor's Report 34

Expenditure and Funding Analysis 40

Presentation of Financial Statements – Hertfordshire County Council 43

1. Comprehensive Income & Expenditure Statement 44
2. Balance Sheet 45
3. Movement in Reserves Statement 46
4. Cash Flow Statement 47

Statement of Accounting Policies 48

Notes to the Accounts 67

- Note 1: Restatement and change in accounting policies 68
- Note 2: Accounting standards that have been issued but have not yet been adopted 68
- Note 3: Critical Judgements in applying Accounting Policies 69
- Note 4: Assumptions made about the future and other major sources on estimation uncertainty 72
- Note 5: Material Items of Income and Expense 73
- Note 6: Events after the Balance Sheet Date 73
- Note 7: Adjustment between accounting basis and funding basis under regulations 74
- Note 8: Transfers to / from earmarked reserves 78
- Note 9: Other Operating Expenditure 83
- Note 10: Financing and Investment Income and Expenditure 83
- Note 11: Taxation and Non Specific Grant Income 83
- Note 12: Property, Plant & Equipment and Investment Properties 84
- Note 13: Heritage Assets 88
- Note 14: Intangible Assets 90
- Note 15: Capital Expenditure and Capital Financing 91
- Note 16: Leases 92
- Note 17: Private Finance Initiatives (PFI) and Similar Contracts 95
- Note 18: Debtors 97
- Note 19: Cash and Cash Equivalents 98
- Note 20: Assets held for Sale 99
- Note 21: Creditors 100
- Note 22: Provisions 100
- Note 23: Usable Reserves 102
- Note 24: Unusable Reserves 103
- Note 25: Cash Flow Statement – Operating Activities 108
- Note 26: Cash Flow Statement – Investing Activities 109
- Note 27: Cash Flow Statements – Financing Activities 109
- Note 28: Notes to the Expenditure and Funding Analysis 110
- Note 29: Expenditure and Income Analysed by Nature 112

# Contents

Note 30: Trading Operations 112
Note 31: Agency Services 113
Note 32: Pooled Budgets 114
Note 33: Members’ Allowances 115
Note 34: Termination Benefits and Exit Packages 115
Note 35: Officers’ Remuneration 116
Note 36: Pensions Schemes Accounted for as Defined Contributions Schemes 119
Note 37: Defined Benefit Pension Schemes 120
Note 38: Grant Income 127
Note 39: Dedicated Schools Grant 129
Note 40: External Audit Costs 130
Note 41: Contingent Assets 130
Note 42: Contingent Liabilities 131
Note 43: Financial Instruments 132
Note 44: Impairment Losses 136
Note 45: Nature and Extent of Risks Arising from Financial Instruments 137
Note 46: Trust Funds 142
Note 47: Related Parties 142
Note 48: Investments in Companies and Group Relationships 144
Note 49: Acquired and Discontinued Operations 145
Local Government Pension Fund Accounts 146
Firefighters’ Pension Fund Accounts 178
Glossary 183

# Narrative Report

# Narrative Report

## Introduction

Welcome to Hertfordshire County Council's Statement of Accounts. This Narrative Report to the accounts provides an overview of the services provided by the Council, its strategic priorities and financial position. It includes:

- explanation of where taxpayers' money has been spent to provide services, both for day to day running costs (Revenue spending) and to invest in infrastructure (Capital);
- the medium term financial outlook, how we plan to meet future challenges and ensure we maximise our opportunities;
- a summary of our key financial liabilities and reserves to meet these;
- how the council has performed against its service objectives and non–financial targets during 2017/18; and
- details of our current staff resources, and priorities for workforce planning.

The Statement of Accounts gives a detailed analysis of the Council's finances in 2017/18. These are prepared in accordance with accounting and reporting standards and other statutory requirements – a brief guide to the core statements is included at the end of this report.

## Overview and External Environment

During 2017/18 Hertfordshire County Council has continued to deliver to its communities and residents despite ongoing financial challenges from reductions in funding and growing demand for services. We are committed to our 'County of Opportunity' priorities, to ensure all residents have the opportunity to thrive, prosper, be healthy and safe, and take part.

### Hertfordshire - County of Opportunity

Where residents have the opportunity to:

**Thrive**
We want every Hertfordshire resident to have the opportunity to maximise their potential and live full lives as confident citizens.

**Prosper**
We want Hertfordshire's economy to be strong, with resilient and successful businesses that offer employment opportunities to residents, helping them to maintain a high standard of living.

**Be healthy and safe**
We want Hertfordshire residents to have the opportunity to live as healthy lives as possible and to live safely in their communities.

**Take part**
We want to enable all Hertfordshire residents to make a more active contribution to their local areas, working with elected representatives and other community activists to tackle local issues and ensure that council services are more responsive to their priorities and ambitions.

Hertfordshire's population is growing – it is projected to increase from 1.177 million to 1.333 million by 2029 (an increase roughly equivalent to the combined population of Stevenage, Hitchin and Letchworth). This requires corresponding growth in infrastructure – schools and community facilities as well as capacity on our transport network.

# Narrative Report

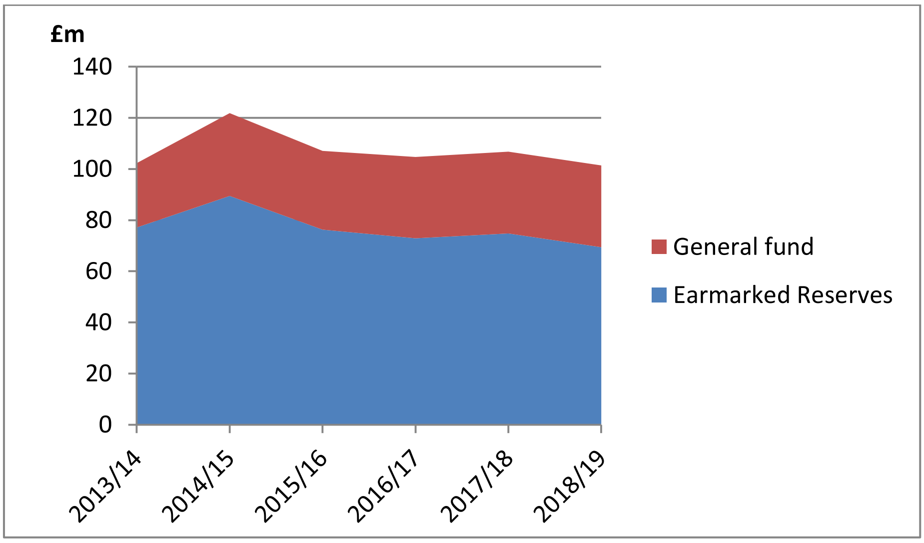
The number of children and young people under the age of 19 is forecast to grow by 17% between 2014 and 2029; and the number of over 65's by 38%. Increasing numbers of the very old means more complex care needs; demand for disability services is rising with longer life expectancy, improved diagnosis, and the responsibilities and expectations arising from the 2014 Care Act.

We continue to work closely with Health partners to deliver integrated health and social care, including projects to prevent hospital admissions and facilitate discharge, met in part from additional Better Care Fund funding provided by the government. We seek to support our social care providers as they face challenges operating in a fragile market and in recruiting staff.

As government grants fall, the council is increasingly reliant on local sources of income – business rates and especially Council Tax, including the Adult Social Care Precept, specifically used to meet demand and cost pressures (including National Living Wage). We are also promoting a commercial approach to identify new opportunities to generate income to supplement these taxes.

We maintain robust forward planning and monitoring processes, and prudent financial management, to address these challenges. We have ensured spending remains within budget during 2017/18, and are actively planning finances to 2021/22, to give time to invest in the changes required to continue to deliver activities within constrained resources whilst minimising the impact on frontline services.

We have held a consistent level of reserves over recent years and review these regularly. The majority are set aside for specific, mostly one off costs. We hold a general fund reserve of 4% of revenue budget. Active budget management has meant that any pressures arising tend to be addressed within the year. Reserves have not been needed to cover unexpected overspending in revenue budgets.




The Council has received positive feedback from our external auditors in recent years on the good practice and sound financial controls in place within the Council, most recently reported in their Value for Money assessment for the 2016/17 audit report as reported to the Audit Committee in September 2017. However, we continue to review and test our approaches to ensure we maintain this position.

Between 2010 and 2017/18, we have delivered savings that now total £285m per year (equivalent to 25% of the total budget), although our priority has been to support and minimise the service delivery impact on front line services as much as possible.

The Council holds substantial assets, including £2,145m land and buildings. Most of these are used in the delivery of our services – schools, fire stations, libraries etc, and we are mindful of the need to get maximum value from all our assets. We have established a new company, Herts Living Ltd, which is working with a private sector partner to help meet the county's housing needs and deliver optimal income streams from some of our surplus sites.

### Use of Resources to provide Services and investment


Spending against budget is managed within Service Directorates: details of this spend and how this is funded are shown in the table and charts below. This spend is reported in the Expenditure and Funding Analysis in the core statements of the accounts.

| 2016/17 Actual Spending £m | | 2017/18 Budget Spending £m | Actual Spending £m | Over/(Under) spend £m |
|---|---|---|---|---|
| 178.1 | Children's Services | 169.4 | 170.0 | 0.6 |
| 321.6 | Adult Care Services | 322.9 | 322.3 | (0.6) |
| 50 | Public Health | 49.4 | 49.4 | 0.0 |
| 105.9 | Environment | 102.4 | 103.4 | 1.0 |
| 35 | Community Protection | 35.6 | 35.8 | 0.2 |
| 73.8 | Resources (Support for Frontline Services), Libraries | 69.0 | 66.1 | (2.9) |
| 31.5 | Capital Financing | 17.6 | 13.7 | (3.9) |
| 2.16 | Other Central Items | 6.4 | 6.8 | 0.4 |
| | Movement to Reserves | 17.1 | 22.7 | 5.6 |
| **797.7** | **Total Spend** | **789.8** | **790.2** | **0.4** |
| | Funded By: | | | |
| 164 | Government Grants | 123.4 | 123.8 | 0.4 |
| 112.5 | Business Rates | 113.7 | 113.7 | 0.0 |
| 518.8 | Council Tax | 552.7 | 552.7 | (0.0) |
| 2.4 | Movement (to)/ from Reserves | (0.4) | (0.4) | 0.0 |
| 797.7 | **Total Funding** | **789.8** | **790.2** | **0.4** |

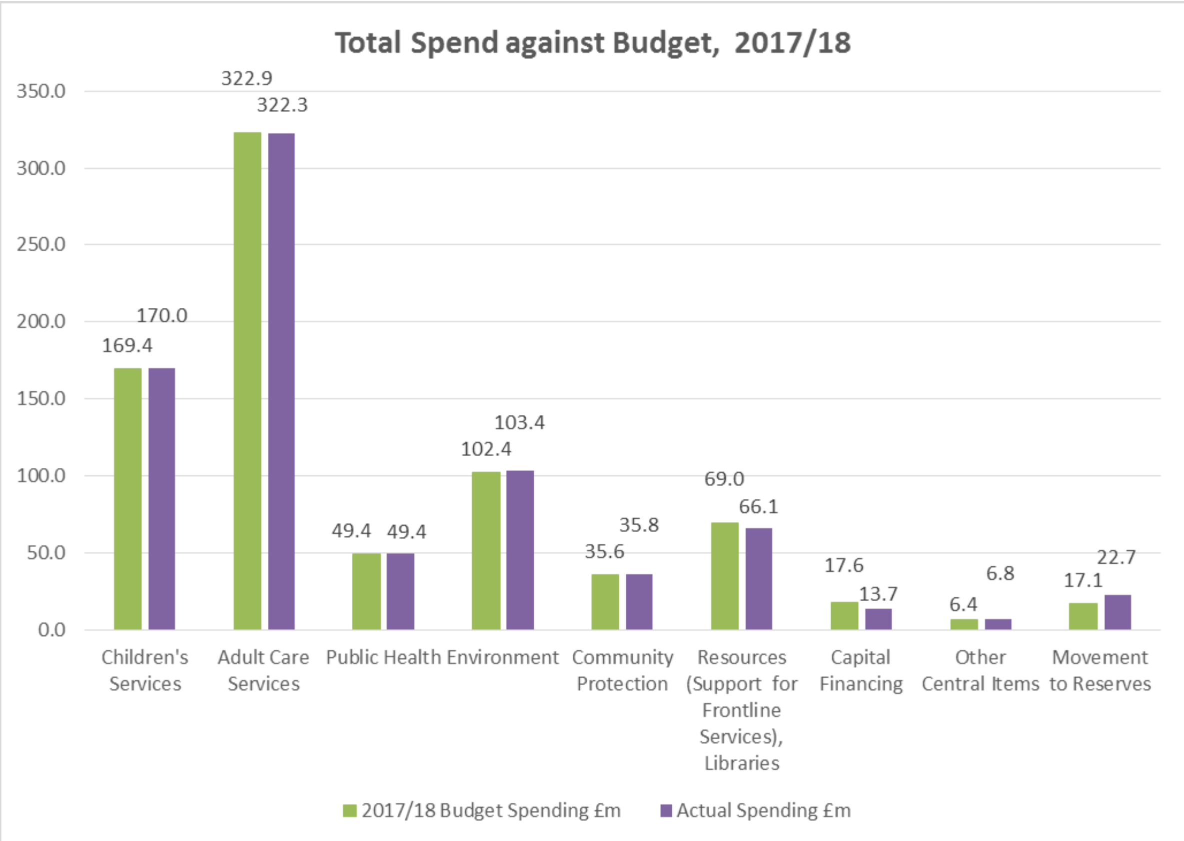
# Narrative Report

The table above shows savings against service spending of (£5.2m) together with (£0.4m) additional grant income, to give a net underspend during the year of (£5.6m) (0.75% of budget). This underspend is after adjusting for specific project and contingency budgets, ringfenced funding and government grants received in 2017/18 but to be spent in 2018/19. These amounts are being carried forward for spending in 2018/19.

£2.6m of the underspend has been set aside to give greater resilience for potential bad debts; and £3m has been transferred to a specific reserve to help meet the budget gap in future years and protect front line services. These amounts appear as the £5.6m above budget in the movement to reserves.

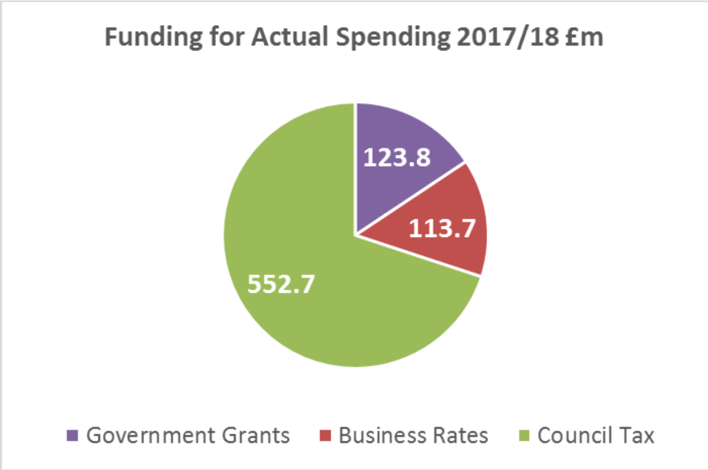
The £17.1m movement to reserves includes £6.4m of ringfenced grants that are being taken forward to be spent in line with government requirements in 2018/19. A further £5.4m relates to amounts to be spent for specific purposes in 2018/19, where the cash funding was provided to the Council by government in 2017/18. These amounts will also be taken forward to be spent for specific purposes in 2018/19.

The underspend is slightly higher than last year (2016/17 net underspend £3.3m), reflecting the early achievement of some savings planned for 2018/19 onwards, along with careful management of emerging pressures. For example, action taken within Children's Services mitigated rising costs in home to school transport with early achievement of efficiencies; savings arising from changes in capital financing policy meant that spend on winter highways gritting and maintenance could exceed budget without creating financial pressures.




Spend is offset by some income from fees and charges. The net position is funded from council tax, business rates and government grant.

# Narrative Report

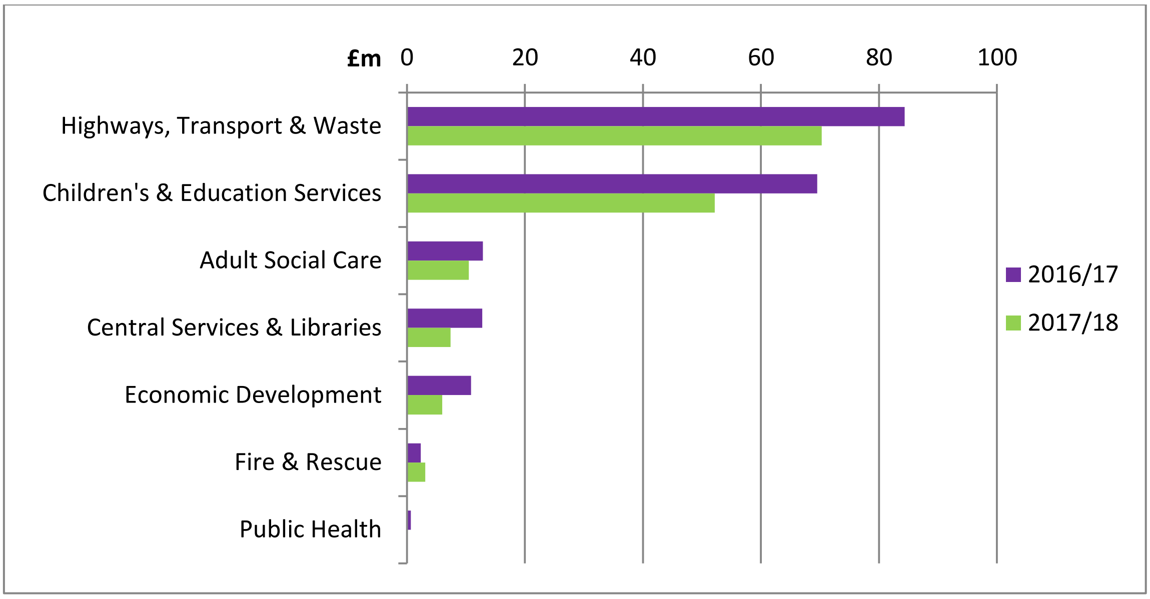



## Capital Spending

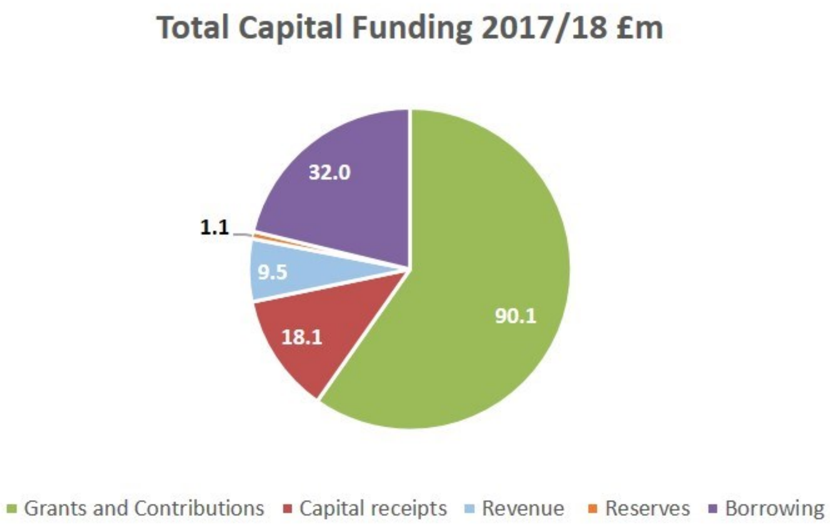
| Capital Investment and Funding | | |
|---|---|---|
| | 2016/17 £'m | 2017/18 £'m |
| Adult Social Care | 12.9 | 10.5 |
| Central Services incl Libraries | 12.8 | 8.7 |
| Children's & Education Services | 69.5 | 52.2 |
| Fire & Rescue | 2.4 | 3.1 |
| Highways, Transport & Waste | 84.4 | 70.3 |
| Economic Development | 10.9 | 6.0 |
| Public Health | 0.7 | 0.0 |
| **Total Capital Spend** | **193.4** | **150.8** |
| | | |
| **Funded by** | | |
| Grants and Contributions | (127.0) | (90.1) |
| Capital receipts | (9.7) | (18.1) |
| Revenue Expenditure | (11.8) | (9.5) |
| Reserves | (9.5) | (1.1) |
| Borrowing | (35.5) | (32.0) |
| | **(193.4)** | **(150.8)** |

We have invested in the infrastructure needed to deliver services and meet the needs of residents and local businesses. Schemes are planned within a medium term Capital Programme, and are all supported by a robust business case which is reviewed annually. The 2017/18 – 2019/20 Programme provided for total investment of £616m, and includes schemes to provide additional school places needed at primary and secondary level; maintenance of the road network and major improvement schemes; and continued investment in maintenance of our buildings and ICT.

**Total Capital Investment, 2016/17 and 2017/18**




As shown below, a substantial proportion of the Council's Capital Programme is funded from government grant, including much of the schools expansion and maintenance programmes, and roads maintenance and improvement. Capital receipts from selling surplus assets have been used to fund new capital spend; and some reserves and revenue budget are also used in order to minimise borrowing with its associated costs. £32m spend in 2017/18 needs to be funded from borrowing, although this is being met from internal cashflow. There has been no new external borrowing since 2011, and the Council's total borrowing is £261m.

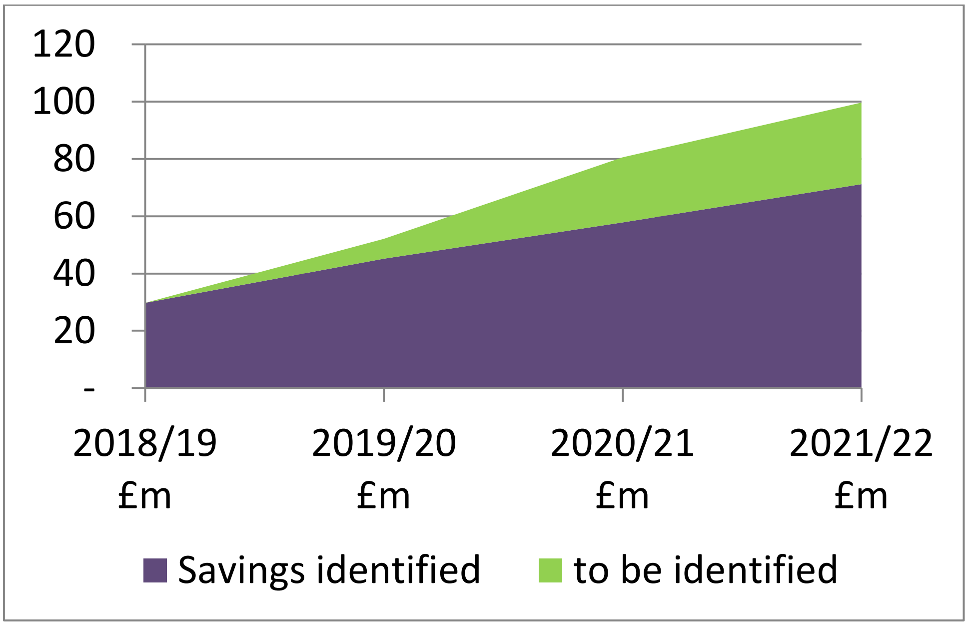



## Strategy & Resources - Medium term financial strategy

The Council prepares an Integrated Plan (IP) for the medium term, which links the Council's resources to its corporate and service plans. Details can be found on our website at www.hertfordshire.gov.uk/integratedplan.

During 2017/18 we extended the Integrated Plan to 2021/22, to enable forward planning to deliver the service change necessary to set future budgets within available resources. However, while funding to 2019/20 (the previous IP end date) falls within the Government's four year settlement agreement, subsequent years will depend on future changes to local Council financing and assessment of needs, along with any changes in the Government's wider economic strategy. Future decisions on funding for social care will be crucial: the IP assumes that funding additional Improved Better Care Fund announced in the March 2017 Budget will continue at the same level in 2020/21 and 2021/22: as yet there is no information on these years, and this funding is by no means guaranteed.

On current estimates, the IP projects a savings gap of £6.6m for 2019/20, rising to over £28m by 2021/22. This assumes that a number of challenging efficiency savings are achieved: delivery of these is being closely monitored, while further savings options are being explored. The chart below shows savings that have been identified and need to be achieved from 2018/19, and the remaining budget gap where savings need to be identified.




Despite these challenges, we want Hertfordshire to continue to be a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. The Integrated Plan supports this by delivering:

- Support for vulnerable people: additional funding to address growing demand and changing needs, including for disability services; support for the paid and unpaid care workforce to attract and retain people into vital caring roles;
- Investment to help meet the challenges of a growing county: additional investment in Hertfordshire's road network, with additional investment of £26m over the next 4 years into our core road network to ensure they are maintained to the high standards residents expect, plus a one-off programme of funding for our local roads to improve standards across this element of the network at a cost of £29m over the first four years;
- The establishment of a dedicated Growth and Infrastructure team to provide the capacity and expertise to respond to the planned economic and population growth across the county, and resource for this team to develop proposals and ensure Hertfordshire is well placed to bid for major infrastructure funding;
- Continued investment in service transformation: for example in Adult Social Care – funding for a proposed transformation programme to design and implement new approaches to commissioning care for older people and adults with disabilities; and
- A continued focus on prevention, for example through our innovative approach to the way social care is provided to Hertfordshire's most vulnerable families, intervening early to support families

by preventing problems before they arise and so cutting the need for services rather than the services themselves; and in adult social care, for example by exploring opportunities to use digital technology to foster independent living.

### Getting the most from our assets

- Through our Property Development Programme and the establishment of a joint venture with the private sector, we are taking a new approach to the disposal and development of our assets, exploring ways in which the council can benefit from profits, rather than only seeking upfront receipts from asset sales, to generate a better capital return and for some schemes, a future income stream. Both these will help support Council services as financial challenges continue.

## Resources and Liabilities

Like all major organisations, the Council holds reserves to meet likely future costs and to provide resilience to meet unexpected events. Each year we review these reserves to ensure they are sufficient and are still required for their original purpose. Any that are no longer needed are released for general use. By reviewing and replenishing these resources, our reserves have remained stable over recent years.

The reserves held at the end of 2017/18 are set out in the Movement in Reserves Statement and also in the notes to the accounts. These set out that the majority of the reserves held are technical reserves held for the purpose of proper accounting ('unusable' reserves).

The 'usable reserves' are shown on the face of the Movement in Reserves Statement to the value of £188.105m. However, this figure includes several amounts that are not controlled directly by the Council.

A summary of the reserves held is therefore shown in the table below, showing where these are controlled by the Council and where they are not. This highlights that the Council holds a significant amount on behalf of third parties (chiefly local schools), with smaller amounts set aside to manage volatility in future costs, and investment and development of Council services. A limited amount relates to decisions of the Council where funds could be redirected to other purposes.

| **Area** | **Examples** | **Total Value (usable reserves)** | **% of HCC turnover** |
|---|---|---|---|
| Held on behalf of or related to third parties (not directly controlled) | Balances accumulated by schools; balances carried forward and held on behalf of the Local Enterprise Partnership (LEP), or accumulated surpluses held by local authority shared services (such as the Shared Internal Audit Service or the Shared Anti-Fraud Service) | £103.160m | 6% |
| Ringfenced to specific purposes (not fully controlled) | Includes funds allocated for specific purposes by government such as Public Health Grant, Better Care Fund, SEND reform grant; also funds to address old, doubtful or bad debts owed to the Council; also funds allocated to help manage future volatility (for example for waste PFI, self-insurance, or the impact of schools converting to academy status). | £47.242m | 3% |

| Area | Examples | Total Value (usable reserves) | % of HCC turnover |
|---|---|---|---|
| Future Investment plans (directly controlled) | Funds held to support future investment and development of HCC services to ensure that they continue to adopt best practice and maximise efficiency (e.g. new computer systems, transition to significantly different business models for different Council services). | £27.183m | 2% |
| Discretionary funds (directly controlled) | These are funds set aside by agreement with Councillors to meet future liabilities or plans. They could be redirected, but this would require a new decision. | £10.521m | 1% |
| | | **£188.105m** | |

In addition, a fund is held specifically against unanticipated costs. This is intended to be held at c4% of HCC service budgets, and is shown in the Movement in Reserves Statement as the ‘General Fund Balance’, which is £31.497m. This is intended for unanticipated costs or events, in order that the operations of the Council can continue under all circumstances without significant interruption of services (other usable reserves all have specific purposes attached to them).

### Providing for the future

With prudent financial management in previous years, we have created a dedicated reserve, the Invest to Transform Fund, to provide upfront investment to help deliver the future revenue savings required. This has supported schemes such as the rollout of energy efficient LED street lighting; the set-up of Herts Living Ltd and our property development partnership; and improved online payments that enable self-service access and more streamlined processes for Hertfordshire residents and service users.

The 2018/19 budget provides for a further £5.2m to be added to this fund. £4.9m of this has been allocated to invest in service transformation to deliver a range of savings in Adult Social Care. Other services are developing similar transformation plans, to be met from this resource.

We have also created a Transition Reserve to provide some protection to services as we bridge future budget gaps - £3m has been added at end 2017/18, with a further £6.3m to be set aside in 2018/19

The Pensions Liability recognised on the Balance Sheet at year end has a significant impact on the net worth of the Council. Whilst pension benefits do not become payable until employees retire, the Council is required to account for these as employees earn these benefits, even though the cash payments may be many years in the future. During 2017/18, the liabilities decreased by £34.456m to £1,030.9m. There have been positive asset returns and the net discount rate has increased by 0.1% p.a. at 31 March 2018, compared to 31 March 2017, which serves to decrease the value placed on the obligations in the balance sheet.

# Narrative Report

## Performance

Hertfordshire County Council (HCC)'s corporate plan sets out the Council's key priorities for the county and how it intends to deliver its vision for Hertfordshire as a County of Opportunity

During 2017/18, HCC has delivered significant achievements within these priorities, which are set out in the Annual Report at www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/what-our-priorities-are-and-how-were-doing/annual-report-2017.aspx. We monitor a range of performance indicators during the year, with the results reported quarterly and published on the Performance Dashboard at https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/.

Headline performance indicators for 2017/18 include:

- During 2017-18 Hertfordshire supported almost 13,000 discharges from hospitals for more than 9,000 people. Hertfordshire residents go to 11 different hospitals inside and outside the county boundaries. In 2017-18 Hertfordshire were set challenging targets to reduce Delayed Transfers of Care from Hospital. Since April 2017 Hertfordshire have reduced social care delays by 134% and are currently the 19th (out of 152) most improved Council during this time.

- We launched the "Post Hospital Review Team" which supports people who have transferred from hospital and ensure they are able to access voluntary and statutory community based services. The success of this programme can be seen in the improved flow of patients from Watford Hospital and the other hospital bases. Over the course of the last year Watford Hospital has seen at least a 10% increase in discharge activity.

- The Money Advice Unit (MAU) dealt with almost 4,000 cases and raised £16m in additional benefits for vulnerable Hertfordshire residents – carers, mental health service-users, ADS clients, parents of disabled children and people in crisis. This is the highest ever-total raised by the MAU in a single year.

- 90.5% of schools rated as good or outstanding in their most recent Ofsted inspection and GCSE results in summer 2017 being in the top 15% nationally. However the challenge remains to reduce the attainment gap for disadvantaged pupils in the county

- There has been a reduction in the number of referrals to children's social care, from 238.2 to 224 per year, as more families are supported through early help from Families First.. This is one of the lowest rates in the country and continues to reflect appropriate use of early intervention through Families First preventing cases escalating to statutory services. Repeat referrals into social care have also reduced from 14.3% to 13.8%

- The number of children subject to a Child protection plan at end 2017/18 is 19.6 per 10,000 under 18 population. The best comparable neighbour, West Sussex, has a rate of 31.9.

- The 'reducing the number of children looked after' strategy has seen the number of children in care reduce from 1,009 in March 2016 to 815 in March 2018.

- 90% of two year olds eligible for free early education had either taken up their entitlement or accessed a children's centre, up from 85.6% last year.

- Children's Services were the winners of the overall Guardian Public service awards for Family Safeguarding's new approach to child protection. The project outcomes have shown a significant reduction in expenditure for the child protection service, reduced police domestic abuse call outs by 66%, A&E visits by 53% and reduced the number of children on child protection plans by 50%. The total number of care cases in court has also reduced by 37%.

- The #JustTalk campaign to encourage teenage boys to talk about their mental health launched in January 2018. 250,500 people were reached via Facebook, Snapchat and Instagram, 90% of whom were teenage boys.

- The Household Waste Recycling Centre network continues to be a very well used county-wide service and achieved recycling rates in excess of 65%.

- Our roads are some of the busiest in the country and a long hard winter meant not only did we have nearly double the average salting runs but damage to road surfaces increased, leading to more interventions and repairs.

- Response to publicly reported street lighting faults on non-A, B and C roads still remains above target since the beginning of 17/18, scoring 100% since September 2017.

Spending plans are aligned with these corporate priorities. During 2017/18 the council has invested in buildings and other assets to support these objectives, including:

- School places – £23.2m has been spent on school expansion schemes to accommodate the growing school population. Over 19,000 additional primary and secondary school places have been created since 2010.

- Investing in our roads network – we have spent £55.6m on long term capital maintenance works to ensure our roads remain at agreed standards.

We have also invested through day to day spending in schemes that will generate benefits in future years: both spend that will help us to operate more efficiently, such as technology to support our staff adopt more mobile and flexible working patterns and reduce the time and money spent travelling; and intervening early to prevent complex needs developing. These interventions include:

- The Family Safeguarding programme, which uses a multi-disciplinary approach to focus on helping families to change the behaviours that place children at risk, so fewer children are taken into care and can live safely in their families. The Council is leading the way nationally in terms of how the child protection system is transformed, and is working with four other authorities to help them implement family safeguarding in their areas.

- The new county wide Community Navigators scheme, which helps safely discharge people from hospital, funded from Improved Better Care Fund grant. It also provides training schemes to skill up care staff to assist in prevention of admission to hospital;, additional social work and OT staff in hospitals to ensure discharge on a seven day basis; and intensive work to reduce Delayed Transfers of Care hospitals.

- Adult Care Services also work as part of the NHS Vanguard Care Home programme with Care Homes which aimed to

  - Develop skilled staff that can look after residents with complex needs with more confidence, improving wellbeing and quality of life
  - Create multi-disciplinary teams to enable the delivery of enhanced care to residents including medicines management, Frailty services and enhanced primary care
  - Have a more responsive approach in order to get the right professionals to assist patients to prevent unnecessary admissions and A&E presentations

- Improve the use of technology so that clinicians can securely access records in the residents care home and monitor interventions across the health and social care system.

The learning from this is now being reflected in the NHS Sustainability and Transformation Plan process.

## Staffing

At March 2018, Hertfordshire County Council employed 8,003 staff (6,193 whole time equivalent (WTE), compared with 8,074 at March 2017 (6,190 WTE). A further 21,438 (11,661 WTE) were employed in schools in March 2018, compared to 23,114 (12,449 WTE) in March 2017. Average voluntary turnover (resignations, early retirement, voluntary redundancy) for 2017/18 was 12.5% (2016/17 13.1%). Employment levels nationally remain high at 75%, and in Hertfordshire this figure is higher at 79% making the employment market more competitive. The increased competition for workers is affecting attraction and retention and to respond to this the Council has targeted recruitment and retention strategies in place for shortage skills and hard to fill posts to help us deliver services to our citizens now and in the future.

The Council is committed to supporting apprentices of all ages through the Apprenticeship Levy, with this in mind the Hertfordshire Apprenticeship Alliance was formed in order to bring the public bodies, services and training providers of Hertfordshire together to enable our vision of the ‘County of Opportunity’ and offer wider experience and movement between public sector organisations to maximise the levy for the county. Since 2012, 279 apprentices have been recruited to a wide variety of areas including Business Admin, IT, Engineering, Social Care, Finance and Project Management. Since the introduction of the levy in April 2017, 27 apprentices have been recruited to Adult Care Work, Business Administration, Finance and Project Management with a further 74 existing employees enrolled onto an apprenticeship qualification as part of their on-going professional development which also contributes to the higher retention rate of staff.

The Council is committed to achieving diversity and equality of opportunity both as a large employer and as a provider of services. It demonstrates its commitment to tackling inequality and promoting diversity in all its activities and in line with the Public Sector Equality Duty publishes evidence of the impact of policies and practices on people with protected characteristics, as well as the objectives that the Council has set to support this work.

## Governance and Risk

The Council’s elected members (‘Full Council’) set its strategic direction and policies, and the allocation of resources to deliver these. Decisions within this are taken by Cabinet (elected members representing each of the Council’s service portfolios) following consideration by Cabinet Panels. Oversight is provided by the Overview and Scrutiny Committee and the Audit Committee). Council staff are then responsible for implementing these decisions, within agreed delegations.

The Council’s Constitution, including its Financial Regulations, are reviewed regularly to ensure they remain effective. There have been no significant changes to governance arrangements during 2017/18.

The Annual Governance Statement (included in the accounts) sets out these arrangements and reviews their effectiveness, highlighting specific areas of risk and how these are being addressed. They include:

- Ongoing financial risks in relation to demand for services, particularly in the area of adult social care; significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement; proposed changes to business rates retention; and τhe impact of the Fair Funding review on the distribution of resources. Finance will continue to work with services and members to support the development of savings options to close the gap in resources in future years, which is estimated to be £28m by 2021/22. They will also monitor the delivery of current savings proposals, to support decision making for future years' Integrated Plans. In addition, Finance continues to monitor specific developments and make representations on behalf of the council.

- Recruitment of staff in key operational areas; in particular: Legal Services; Property; Environment (in particular engineers and planning staff); Children's Services and Adult Social Care continue to be a priority. For the latter, workforce and associated cost pressures including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc. The Council continues to look at ways to address vacancies in these harder to fill areas and is using the Apprentice Levy to address key skills shortages. Work has already begun around a recruitment campaign for social workers and occupational therapists and proposals around market forces payments.

- The Highways service needs to contribute to the Council's new approach to growth. The Service will develop relationships with District Councils so as to establish a new approach with regard to developing and implementing their Local Plans; and will review current internal processes to ensure the Service plays a key role in the governance and development of the Council's major development sites.

- In August 2017 the Hertfordshire Police and Crime Commissioner (PCC) submitted a 'local business case' to the Home Office proposing to take over the governance of the Hertfordshire Fire & Rescue Service (HFRS) from the County Council. The decision making timescale and the outcome of this proposal remains unclear. The Council will need to consider the timing of work needed to refresh HFRS's Integrated Risk Management Plan in the light of this ongoing uncertainty.

- The County Council is one of the partners in the Croxley Rail Link (now called Metropolitan Line Extension) scheme. During 2017/18, the Mayor of London reversed Transport for London's (TfL) previous position accepting cost risk beyond the agreed funding package. Despite the Government agreeing to provide the extra £70m, TfL would not agree to cover any ongoing cost risk. As a result there is an impasse. Should this lead to the scheme not progressing, funding partners may seek all funding to be returned. Furthermore, investigations into alternative uses of the corridor are being explored. The accounts have been prepared in line with the guidance reflecting the latest information on the scheme. Further details are included within Note 42.

- The requirement to ensure transparency of decision making processes relating to the development of Herts Living Limited and the associated joint property development arrangements. The Council is developing a protocol to ensure that related disposals and transactions are, and can be seen to be, dealt with appropriately. Where required there will be a continuation of training on how to approach potential conflicts of interest issues for those County Council officers who act as directors of companies.

- The potential creation of new delivery models, for example for Library Services to be transferred to a Mutual: for these, a full business plan and transition plan, including governance model, financial modelling; and risk and control implications will be developed.

The Council maintains a Corporate Risk Register, reported regularly to the Resources and Performance Cabinet Panel as part of the Quarterly Performance monitor. Mitigating actions are in place for all identified risks. The Register can be found at https://www.hertfordshire.gov.uk/about-the-council/freedom-of-information-and-council-data/open-data-statistics-about-hertfordshire/

In addition, the Audit Committee is responsible for ensuring the effectiveness of risk management arrangements, receiving regular reports concerning the operation and effectiveness of the Corporate Risk Process and updates on other risk management activity, along with focussed review of specific areas of risk from the Risk Register.

# Narrative Report

## Guide to the Statement of Accounts

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. The format and content of the financial statements is prescribed by the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards. Accounting policies are applied in accordance with these standards; there have been no material changes during 2017/18.

The Core Statements are:

The **Comprehensive Income and Expenditure Statement (CIES)** records all of the Council's income and expenditure for the year, including that for Hertfordshire's maintained schools. The top half of the statement provides an analysis by service area, on the same basis that these services are organised and managed by the Council during the year. The bottom half of the statement deals with county wide transactions and funding; the section 'Other Comprehensive Income and Expenditure' records accounting gains and losses that have yet to be realised (for example, the change in value of an asset which is only realised when the asset is sold).

The statement shows the true cost of providing services in accordance with required accounting practices (including depreciation costs, the impact of changes in asset values, and the value of future years' pension benefits earned during the year). As such, the net cost of services shown in the accounts can vary significantly from the actual costs shown in the revenue monitor, chargeable to taxpayers.

The **Expenditure & Funding Analysis Statement** also shows spend as managed by each of the Council's directorates, and provides a reconciliation between the way services are budgeted and funded from resources (government grants, council tax and business rates), and their presentation in the CIES in accordance with accounting standards and statutory requirements.

The **Movement in Reserves Statement** is a summary of the changes to the Council's reserves over the course of the year. Reserves are divided into "usable", which are cash backed can be invested in capital projects or service improvements; and "unusable" , the majority of which are not cash backed (for example, valuation reserves that represent the change in book value of assets and liabilities) and which are set aside for specific purposes.

The **Balance Sheet** is a "snapshot" of the Council's financial position at the year end. The top half of the balance sheet sets out the council's assets and liabilities, including provision for known liabilities from past events that can be reliably estimated. The lower half of the balance sheet shows the Council's reserves: Usable reserves (£343.3m) are those available to fund future spend; unusable reserves (£1,386.7m) result from accounting adjustments required by statute or accounting standards and cannot be spent.

The **Cash Flow Statement** shows the reason for changes in the Council's cash balances during the year, and whether that change is due to operating activities, new investment (including capital spend and disposals), or financing activities (such as repayment of borrowing and other long term liabilities).

These Core Statements are supplemented by disclosure notes that give further explanation of the figures in the Core Statements.

The Statement of Accounts also includes:

- Statements setting out the respective responsibilities of the Council and its Chief Financial Officer, and of the Audit Committee;
- the Annual Governance Statement, which sets out the governance structures of the Council and its key internal controls;

- the Local Government Pension Fund Accounts for Hertfordshire, and the Firefighters' Pension Fund accounts.

A Glossary of key terms can be found at the end of this publication.

**Investments in Other Companies**

The Council also has an interest in wholly owned subsidiary companies (Herts Catering Ltd, Surecare and Herts Living Ltd) and is a 19% shareholder in Herts for Learning Ltd, These companies have been set up to provide services on behalf of the Council, where an arm's length structure gives the opportunity to deliver these in a commercial and cost effective way. Further details of these investments can be found in note 48 to the accounts. While the companies provide significant services in Hertfordshire, their financial performance has minimal impact on the Council's overall finances and so they are not included in these accounts.

*NOTE: values throughout these accounts are presented rounded to the nearest thousand. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.*

# Statement of Responsibilities

# Statement of Responsibilities

This statement sets out the respective responsibilities of the Council and the Chief Finance Officer for the accounts.

## The County Council's responsibilities

The Council is required:

- To make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Resources;

- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- to approve the Statement of Accounts before 31 July 2018.

I confirm that the final accounts were approved by the Audit Committee.

Signed on behalf of Hertfordshire County Council

**Councillor Frances Button**
**Chairman**
**Audit Committee**

# Statement of Responsibilities

## The Chief Finance Officer’s responsibilities

The Chief Finance Officer is responsible for the preparation of the Council’s Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

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

- Selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The Chief Finance Officer has also:

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

## Chief Finance Officer's Certificate

I certify that the Statement of Accounts give a true and fair view of the financial position of the Council, the Hertfordshire County Council Pension Fund and the Firefighters’ Pension Fund as at 31 March 2018 and the income and expenditure for the year then ended.

**Owen Mapley**
**Director of Resources**

# Annual Governance Statement

# Annual Governance Statement

## 1. Background

1.1. The Accounts and Audit Regulations (2015) require that Hertfordshire County Council prepare an annual governance statement to accompany its Annual Financial Report.

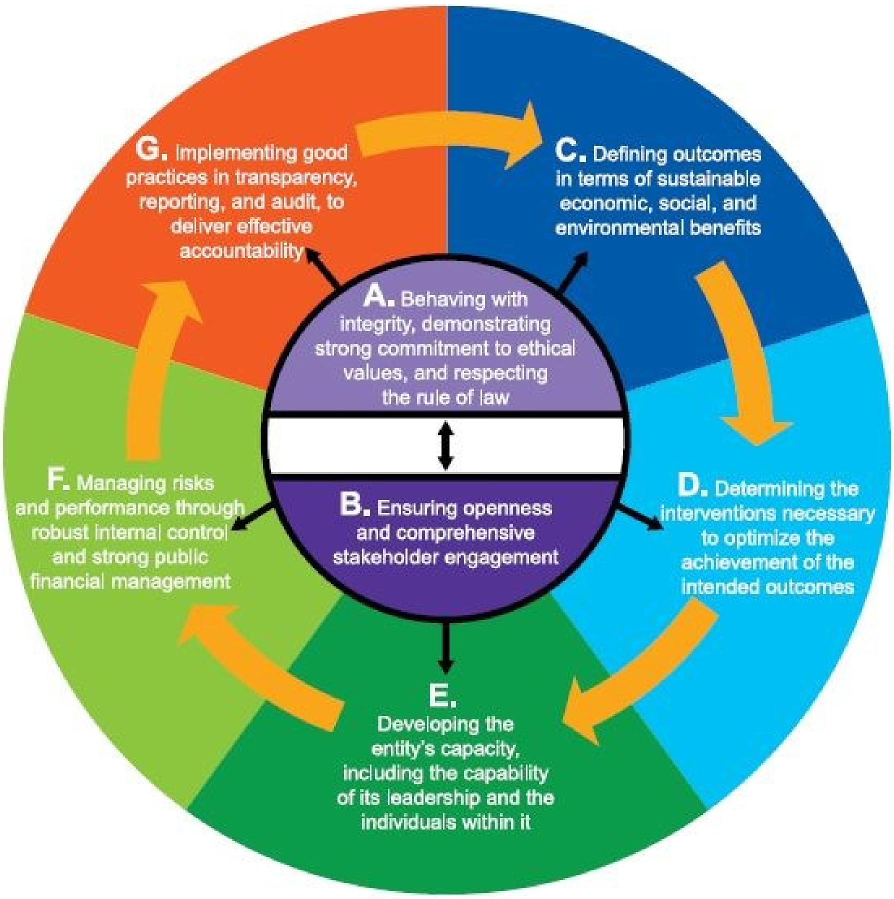
1.2. The term ‘governance’ generally refers to the arrangements put in place to ensure that intended outcomes are defined and achieved.

## 2. The Code of Corporate Governance

2.1. Hertfordshire County Council’s Code of Corporate Governance is available on the Council’s website (www.Hertfordshire.gov.uk).

2.2. The code sets out how the Council complies with the governance principles set out in ‘Delivering Good Governance in Local Government (2016)’ a document compiled as part of a joint initiative between the Chartered Institute of Public Finance and Accounting (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).

2.3. The principles and the way they integrate are set out in the international framework infographic below:




## 3. The Governance Framework

3.1. Hertfordshire County Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3.2. In doing this, the Council is responsible for putting in place proper arrangements for the governance of its affairs as well as ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for; and used economically, efficiently and effectively.

3.3. The Hertfordshire County Council Governance Framework comprises both: the systems and processes; and the culture and values through which it directs and controls its operations as well as the mechanisms through which it engages with and leads the community.

3.4. This framework is designed to enable the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

## 4. Key Elements of The Governance Framework

4.1. The Governance Framework summarised in this Statement has been in place at the council for the year ended 31 March 2018 and up to the date of approval of the Statement of Accounts. Some of the key elements of the Council's governance framework are described below.

4.2. The Council's **Constitution** sets out the rules under which the organisation conducts its business. The Constitution aims to enable the Council to provide clear leadership to the community, in partnership with the public, businesses and other organisations; support the active involvement of members of the public in decision-making; help Councillors represent their constituents; enable decisions to be taken efficiently and effectively; enable decision-makers to be held to account; and ensure that decision-makers are identifiable and that reasons are given for decisions. All the annexes to the Constitution were reviewed and where necessary updated during the year.

4.3. The Council's most recent **Corporate Plan** covers the period 2017-2021 and sets out a vision for Hertfordshire to remain a county where people have the opportunity to live healthy, fulfilling lives in thriving, prosperous communities. It outlines four cross-cutting themes that include key priorities for the County.

The four themes are:

- Opportunity to Thrive
- Opportunity to Prosper
- Opportunity to be Healthy and Safe
- Opportunity to Take Part.

4.4. The **Integrated Plan for 2017/18 – 2019/20** sets out the key outcomes toward which the Council is working. The Integrated Plan provides the associated financial and human resource plans together with information on how the Council achieves value for money in the provision of services, and the treasury management strategy. The Integrated Plan is developed through a robust review and challenge process involving both Cabinet Panel and Scrutiny.

4.5. The Council utilises a system of all-party **Cabinet Panels** to consider policy development for each service area.

4.6. The Council publishes an **Annual Report** which summarises significant developments and achievements for the period. The report sets out how the Council's finances have been applied to meet its priorities and also outlines some of the potential challenges and opportunities it will face in the coming year. The document also reinforces Hertfordshire County Council's commitment to working with communities and providing services through methods of delivery that demonstrate its values and behaviours.

4.7. The Council has well-established **Scrutiny Arrangements** which act to hold the Executive to account by scrutinising decisions made by, or on behalf of the Council or Cabinet and any operational or policy aspect of the Council's business. Additionally, the Council's Health Scrutiny Committee considers strategic countywide health matters. Councillors are also able to scrutinise any issue which affects the County and its residents which may be outside the Council's control. Full details of the topics under scrutiny can be accessed on the Council's website. Progress on the implementation of agreed scrutiny recommendations is monitored regularly.

4.8. Hertfordshire County Council works with partners through **Hertfordshire Forward**, the countywide strategic partnership. **The Hertfordshire Forward Strategy Group** draws the County's key partners and partnerships together to ensure that everyone is moving collectively in the same direction in the best interests of Hertfordshire. Membership of the Group comprises: the Leader of Hertfordshire County Council; the Hertfordshire Police and Crime Commissioner; the Chairs of the County's Health and Wellbeing Board and Local Enterprise Partnership; and the Chairman of the Hertfordshire Leaders Group (the grouping of all local authority leaders in the County).

4.9. An **'Ambition for Hertfordshire'** has been developed by the Hertfordshire Forward Strategy Group and the Hertfordshire Assembly, which draws together a wider range of partners to debate, shape and develop county-wide plans and strategies, is convened twice a year. An annual conference is also held each year to bring together Hertfordshire partners from across all sectors to discuss key issues facing the county. The theme of this conference in 2017 was prevention and working together to influence behaviour and help reduce demands on public services.

4.10. The Council has **Integrated Strategic and Service Level Performance Reporting** processes, which facilitate continuous improvement and identify and support early identification and rectification of any service delivery issues.

4.11. These arrangements are supported by the council's **Performance Management and Development Scheme** through which objectives for individual employees are set and monitored, and plans for individual development are agreed. This is underpinned by the **Staff Development Charter** which provides a framework for assessing and meeting the learning and development needs of officers. The Council has adopted a set of **Values and Behaviours** to reinforce what is expected of employees and managers.

4.12. There is an on-going **Councillor Development Programme** to support them in all their roles, with dedicated learning and development support and a system of deputy Cabinet members that facilitates succession planning. Work to support Councillors in their local work is part of the Council's approach to localism; this has included development of an IT portal to provide Councillors with ready access to a wide range of information about their local communities and Hertfordshire more widely.

4.13. The Council's systems of **Internal Control** are a significant part of the Governance Framework and are designed to manage risk to a reasonable level however they cannot eliminate all risk of failure to achieve policies, aims and objectives. The system of internal control is based around an on-going process designed to:

- Identify and prioritise the risks to the achievement of the Council's policies, aims and objectives;
- Evaluate the likelihood of those risks being realised and the impact should they be realised; and
- Manage them efficiently, effectively and economically.

4.14. The Council has a well-developed **Risk Management Strategy** and **Embedded Risk Monitoring Processes**, which operate at the highest levels of the organisation, and are overseen by the Council's Audit Committee. The risks associated with meeting budget targets are also considered as part of the integrated planning process, and then monitored in quarterly reports to Cabinet.

4.15. The Council has designated the Director of Resources as **Senior Information Risk Owner** and the Information Governance Unit and the IT Security Team provide advice and guidance on this area.

4.16. The Council has an **Anti-Fraud and Corruption Strategy** setting out its commitment to prevent and detect fraud and corruption.

4.17. The Council has a **Whistleblowing Policy** which clearly sets out arrangements in place for reporting and investigating any concern relating to a deficiency or breach in the provision of services; the guidance reassures that this may be done without fear of recrimination.

4.18. The Council has continued to maintain **Equality and Diversity** at the forefront of its service delivery and employment practices. The Council annually publishes evidence of its progress against the objectives contained in its **Equality Strategy** to demonstrate to the public of Hertfordshire how it intends to continue to meet the needs of all of Hertfordshire's communities. Equality impact assessments assess the impact of policies and proposals upon council employees and service users, and a cumulative impact assessment is carried out as part of the integrated planning process.

4.19. The Council's **Website** includes: facilities that allow members of the public to submit complaints relating to the various directorates; mechanisms for reporting suspected fraud and corruption (anonymously if required); and, access to information on current consultations, petitions etc.

## 5. Review of Effectiveness

5.1. Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of local governance arrangements including the system of internal control. The review of effectiveness is informed by: the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment; the Head of Assurance's Annual Report; and also by comments made by External Audit and other review agencies and inspectorates.

5.2. The preparation and publication of the **Annual Governance Statement** in accordance with 'Delivering Good Governance in Local Government Framework (2016)' fulfils the statutory requirement for the annual review of the effectiveness of systems of internal control and also meets the requirement for 'preparation in accordance with proper practice'.

5.3. The Executive, on behalf of the Council, charges the **Audit Committee** with keeping the effectiveness of the Council's systems for internal control under review. At its quarterly meetings the Audit Committee receives and considers reports on the Council's overall risk management arrangements and also receives reports on specific risk issues that are considered worthy of individual reporting by Internal Audit or the officers of the Council. The Audit Committee approves the **Internal Audit Plan** of work and receives regular updates on progress against the plan with summaries of both assurance opinions and key matters raised in individual reviews. The Audit Committee considers the overall annual opinion on internal control provided by the Shared Internal Audit Service along with the opinions on the Council's accounts provided by **External Audit**.

5.4. The **Head of Assurance's Annual Report** on the internal control environment, prepared in accordance with the Public Sector Internal Audit Standards, provides an independent opinion on the adequacy and effectiveness of the Council's system of internal control to inform the Annual Governance Statement.

5.5. The **Head of Assurance Opinion** in respect of 2017/18 is one of Substantial Assurance (defined as *'whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk'*) for financial systems; and Moderate Assurance (defined as *'whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk'*) for non-financial systems, giving confidence in the effectiveness of internal control arrangements of the Council. The report also consolidates assurance opinions and actions taken by management to address issues raised during internal audit reviews undertaken throughout 2017/18, and is informed by the comments of External Audit and other inspectors where appropriate.

5.6. The Council ensures corporate ownership of the Annual Governance Statement through requiring members of the Joint Leadership Team to provide a **Service Assurance Statement** covering the controls in place in their service areas. The statement provides assurance that they have reviewed arrangements for meeting their responsibilities in relation to having:

- Plans that set out how corporate objectives and other legal and regulatory requirements are to be achieved;
- Adequate arrangements for monitoring performance;
- Adequate resource in both number and skills to deliver service objectives;
- Appropriate risk management arrangements in place;
- Arrangements for ensuring that agreed recommendations resulting from internal audit, external audit or other inspectorate work are implemented;
- Procedures that ensure timely responses to all types of query and complaint;
- Processes that ensure compliance with relevant legislation;
- Partnership arrangements that are well founded, clearly defined and adequate;
- Mechanisms for ensuring staff are aware of the HCC's Values and Behaviours; its Code of Conduct and related policies e.g. whistleblowing, equalities etc.; and
- Business continuity plans that are communicated to staff as necessary.

5.7. A draft version of the Annual Governance Statement is considered at Strategic Management Board and scrutinised by the Audit Committee at its meeting in May prior to signing by the Chief Executive and Leader of the Council.

## 6. Activities Involving Group Governance

6.1. The Council has varying stakes in a variety of trading entities and it is important that the Council be transparent with regard to its influence on decision making. Where required there is Internal Audit activity to ensure that the associated control environments are operating appropriately. In respect of financial reporting; the Council has the option to prepare group accounts where it is felt that this is required.

6.2. Some of these trading entities and the Council's stakes are listed below:

- Herts Living Limited - this company is wholly owned by the Council with HCC officer representation on the company's board of directors. The County Council has appointed a private sector partner to enter a joint venture partnership, with Herts Living Limited, under the name Chalkdene Developments LLP which aims to build new homes as well as community and ancillary buildings in the County over the next 15 years. Governance arrangements are supported by a delegations matrix that sets out if any decisions need to be referred back to HCC Members or the shareholder representatives.
- Herts for Learning Limited - is a schools company of which the Council has a 20% stake and HCC officer representation on its board of directors; it operates to provide support services to education providers.
- Hertfordshire Catering Limited - this company is wholly owned by the Council with HCC officer representation on its board of directors; the Company provides catering services to Colleges, Academies and Schools.
- Surecare Supplies Limited - this company is wholly owned by the Council and has both HCC officer and Member representation on its board of directors. It provides care supplies to non-profit making groups such as charities, the NHS, local authorities, childminder groups and care homes.

6.3. In respect of the trading entities listed above; the Council considered that none of the related activities were significant enough, either qualitatively or quantitatively to warrant the preparation of group accounts. This approach may change in subsequent years especially giving the development of Herts Living Limited; however for 17/18 its activities were concentrated on its initial formation with all material transactions and activity to date having occurred after the balance sheet date in 18-19.

6.4. The Hertfordshire Local Enterprise Partnership (LEP) brings together representatives from local government, education and the business community. In Hertfordshire, the LEP operates as a voluntary partnership. The Council has a dual role, as the 'Accountable Body' in regards to oversight of public money and also as a key partner directly involved in decision-making.

6.5. To ensure the effective management of funding from central government budgets the LEP is required to adhere to the Government's National Assurance Framework which covers:

- Governance and Decision Making
- Transparent decision making; including a Conflict of Interests policy
- Accountable decision making
- Ensuring value for money and effective delivery

The LEP's adherence to this framework has been the subject of Internal Audit coverage in 2017/18.

## 7. Update on Significant Governance Issues identified in the 2016/17 Annual Governance Statement

The following table provides an update on the significant governance issues reported in the 2016/17 Statement; as some of the issues remain current this table should be considered alongside the items set out in Section 8 (below)

| Item | Directorate | 2016/17 Issue | 2017/18 Update |
|---|---|---|---|
| 7.1 | **Environment** | The County Council is one of the partners in the Croxley Rail Link (now called Metropolitan Line Extension) scheme which is potentially subject to increased funding requirements. The Council will continue to review its financial position in respect of the scheme as it progresses. | The Mayor of London subsequently issued a new Mayoral Direction. This had two key impacts. Firstly it required others to find a further £70 m to add to the agreed funding package of £284.4 m. Secondly, it reversed Transport for London's (TfL) previous position about accepting cost risk beyond the agreed funding package. Despite the Government agreeing to provide the extra £70 m, TfL would not agree to cover any ongoing cost risk. As a result there is an impasse. Should this lead to the scheme not progressing, funding partners will seek all funding to be returned. Furthermore, investigations in to alternative uses of the corridor are being investigated. |
| 7.2 | **Adult Care Services** | Governance arrangements between the County Council and the NHS Clinical Commissioning Groups (CCGs) particularly in relation to the Section 75 agreement and the Better Care Fund are under review. The Council will continue with its commitment to these arrangements and ensure clarity and transparency around how these resources are used and their impact upon local performance and delivery. | A renewed Section 75 Agreement was agreed between the County Council and CCG partners, a two-year Better Care Fund Plan received national assurance from NHS England (covering 2017-19) and strengthened reporting arrangements on Better Care Fund were put in place during this year. In addition, Herts Valleys CCG took a report to their Governing Body agreeing 'Care Act Monies' due to HCC from 2019/20 onwards in line with national guidance. |
| 7.3 | **Community Protection** | At the time of writing, the Council is aware that the Hertfordshire Police and Crime Commissioner intends to commence a consultation relating to governance changes in respect of responsibility for the County's Fire and Rescue Service. Were such a move agreed, it would require a strategy for the calculation and disaggregation of the related County assets and liabilities. | The Police and Crime Commissioner for Hertfordshire (PCC) has submitted a business case proposing that he take over governance of the Herts Fire and Rescue Service (HFRS). HCC officers have shared all necessary information and sought to ensure that the business case accurately reflects the situation for HFRS and HCC. At the time of writing this business case has undergone independent assessment by CIPFA and the PCC has been requested to provide further information to support their business case by 31 May 2018. HCC officers continue to engage with the PCC and are undertaking planning for all potential outcomes. |

| Item | Directorate | 2016/17 Issue | 2017/18 Update |
|---|---|---|---|
| 7.4 | **Children's Services** | Changes in education funding and potential legislative and regulatory reform means that the Council will face increasing complexities in meeting its statutory duties unless and until these are changed. This includes ensuring the provision of adequate school places in forthcoming years, together with existing responsibilities for maintained schools where provision of funding depends on partners support expressed through decisions of the Schools Forum. | The underlying challenges identified in 2016/17 remain the same. However, we have secured agreement from Maintained Schools to de-delegate funding to the Council to enable it to discharge school improvement and other duties towards maintained schools. This approval is for 2018/19, with an in-principle commitment also to 2019/20. Expansion plans for the years to 2020 have now been agreed. |
| 7.5 | **Resources - Finance** | Service departments continue to work with Members and corporate finance to support the development of savings options to close the gap in resources, estimated to be £40m by 2019/20, in future years. This will include work to identify the impact of future funding changes which will, for 2017/18 and beyond, include the proposals to devolve business rates to local authorities. Finance will also monitor the success or otherwise of current proposals to support senior management and Member decision making | The Council has placed particular emphasis on medium term financial sustainability during this years Integrated Planning Process. This has included:<br>• Extending the plan from 3 to 4 years<br>• Working with departments and Members to develop savings plans that help tackle the medium term, not just the following year.<br>The success of this approach can be seen in the following:<br>• A balanced budget for 2018/19<br>• The gap for 2019/20 reduced from £40m to £7m<br>• A budget gap in 4 years of £28m.<br>The financial position does however remain extremely challenging for Councils, as indicated by the recent National Audit Office report and issues at Northamptonshire County Council. So despite the progress, it is essential this remains an area of focus of the Council. |
| 7.6 | **Resources - HR** | Recruitment of staff in key operational areas; in particular, Legal Services, Property, Children's Services and the Fire and Rescue Service, remains a concern. In addition, shortages in the local care workforce in Hertfordshire is impacting the Council's ability to meet some statutory adult social care needs e.g. deprivation of liberty safeguards. The Council continues to look at ways to address vacancies in these harder to fill areas. | Recruitment of staff in key operational areas; in particular: Legal Services; Property; Environment (in particular engineers and planning staff); Children's Services and Adult Social Care continue to be a priority. The Council continues to look at ways to address vacancies in these harder to fill areas and is using the Apprentice Levy to address key skills shortages. |

## 8. Significant Governance Issues 2017/18

In addition to the updates on the matters referred to in Section 7 (above) the following issues have been raised as part of the 2017/18 review.

| Item | Directorate | Issue | Action |
|---|---|---|---|
| 8.1 | **Environment and Infrastructure** | The Highways service needs to contribute to the Council's new approach to growth. | The Service will develop relationships with District Councils so as to establish a new approach with regard to developing and implementing their Local Plans.<br><br>Review current internal processes to ensure the Service plays a key role in the governance and development of the Council's major development sites. |
| 8.2 | **Community Protection** | In August 2017 the Hertfordshire Police and Crime Commissioner (PCC) submitted a 'local business case' to the Home Office proposing to take over the governance of the Hertfordshire Fire & Rescue Service (HFRS) from the County Council. | The decision making timescale and the outcome of this proposal remains unclear. The Council will need to consider the timing of work needed to refresh HFRS's Integrated Risk Management Plan in the light of this ongoing uncertainty. |
| 8.3 | **Adult Care Services** | Workforce and associated cost pressures, including the unavailability of care workers in some high employment areas of the County remains an area of significant challenge, impacting activities such as delayed transfers of care etc. | Work has already begun around a recruitment campaign for social workers and occupational therapists and proposals around market forces payments. |
| 8.4 | **Resources - Libraries** | Uncertainty around the future delivery model for Library Services with potential for it to be spun out into a Mutual. | A full business plan and transition plan, including: governance model; financial modelling; and risk and control implications are in development. |
| 8.5 | **Resources - Finance** | Ongoing financial risks in relation to:<br>• Demand for services, particularly in the area of adult social care;<br>• Significant uncertainty on funding beyond 2019/20, with the end of the current four year settlement;<br>• Proposed changes to business rates retention; and<br>• The impact of the Fair Funding review on the distribution of | Finance will continue to work with services and members to support the development of savings options to close the gap in resources in future years, which is estimated to be £28m by 2021/22. They will also monitor the delivery of current savings proposals, to support decision making for future years' Integrated Plans.<br><br>In addition, Finance continues to monitor specific developments and make representations on behalf of the |

| Item | Directorate | Issue | Action |
|---|---|---|---|
| | | resources. | council. |
| 8.6 | **Resources - Legal** | Requirement to ensure transparency of decision making processes relating to the development of Herts Living Limited and the associated joint property development arrangements. | Development of a protocol to ensure that related disposals and transactions are, and can be seen to be, dealt with appropriately. Where required there will be a continuation of training on how to approach potential conflicts of interest issues for those County Council officers who act as directors of companies. |

## 9. Specific Areas for Improvement and Development 2017/18

The review of effectiveness has identified a number of governance and internal control improvement and development activities planned for the year ahead. These are in addition to the on-going commitment that the Council makes to ensuring actions agreed in response to recommendations made by external and internal assurance providers are implemented. Actions will be progressed by managers as necessary. The more significant of the proposed activities are:

| Item | Directorate | Area for Improvement & Development | Proposed Action |
|---|---|---|---|
| 9.1 | **Adult Care Services** | Mitigating the risks to the County Council should income be insufficient to cover the costs of the Hertfordshire Home Improvement Agency Shared Service. | A review of the business case and partnership agreement upon which the County Council agreed to host the service. |
| 9.2 | **Adult Care Services** | Implementation of medium and long-term budget, service and capital plans to take into account the challenging financial position and the need to manage a care market on the outskirts of London. | Use of Investment to Transform monies to build capacity to respond quickly to these challenges and commission new models of care; change the way ACS works and use the latest technology to support people to be independent. |
| 9.3 | **Adult Care Services** | Statutory responsibilities to safeguard people from abuse are a primary function of the local authority. Safeguarding concerns reported will exceed 8,000 for 2017/18. | Steps have been taken to adjust the staffing establishment in the Adults with Disabilities Teams (within overall budget) and change procedures within Older People's Teams to manage this huge demand for professional intervention. |
| 9.4 | **Adult Care Services** | The current funding arrangements for the NHS CCGs ends in 2020 and will impact the way health and social care monies flow in the system in future years. Whilst a one-off government grant will offset this, the high level medium term financial position remains fluid. | HCC is working well with colleagues from the CCGs to deliver a range of transformative integrated programmes within the realms of the Better Care Fund. |

| Item | Directorate | Area for Improvement & Development | Proposed Action |
|---|---|---|---|
| 9.5 | **Public Health** | Actions in response to continuing reduction in public health funding and heightened scrutiny of public health expenditure by Public Health England. | Re-prioritisation of Public Health spend to make sure it continues to achieve its value for money obligations, provide key services and ensure it maintains, as it has done to date, high standards of probity and accountability for the ring-fenced grant. |
| 9.6 | **Resources - Finance** | Addressing the financial impact on the Council of schools experiencing financial difficulty due to national funding pressures exacerbated by rising cost prices. | Plans are in place to identify these schools early, with mitigating actions introduced and regular updates provided to senior officers and Members. |
| 9.7 | **Resources - Finance** | Actions to meet the growing regulatory demands around Pensions as well as increasing numbers of members and employers and demands from the national asset pool that Hertfordshire belongs to. | Increased resourcing with appropriate technical skills. |
| 9.8 | **Community Protection** | To address the impact on the Service's training regime of the successful prevention strategies in place within the Directorate that mean that less experience is gained in operational scenarios. | Changes in the related training programmes supported by a significant capital investment project which now forms part of the current IPP for 18/19 and proposes replacement of the current Service HQ along with significant redevelopment of the Longfield Training and Development Centre |
| 9.9 | **Community Protection** | The recruitment and retention of Retained Duty System Firefighters. | This is the subject of a specific project which is making good progress |
| 9.10 | **Children's Services** | Addressing the demographic pressures impacting budgets for the following activities:<br>• Children Looked After Placements<br>• Unaccompanied Asylum Seeking Children<br>• SEN transport<br>• No Recourse to Public Funds. | There are monitoring and projection systems in place to manage these pressures. |

| Item | Directorate | Area for Improvement & Development | Proposed Action |
| --- | --- | --- | --- |
| 9.11 | **Children's Services** | Addressing the Council's extended statutory duties in relation to amendments to:<br>• The Children & Families Act relating to Special Education Needs and Disabilities; and<br>• The Children & Social Work Act 2017 that extend both: the services for care leavers up to 25 years of age; and the Virtual School remit to adopted children and those under Special Guardianship Orders and accreditation for social workers. | Programmes are being developed to ensure the Council addresses extended duties however additional time limited funding from central government is unlikely to fund extra resources required for SEND and care leavers' duties. |
| 9.12 | **Environment and Infrastructure** | To address the corporate implications of the new Growth and Infrastructure Team being established within the Environment and Infrastructure Department. | A review to establish appropriate internal controls / decision making processes during the summer 2018. |

## 10. Statement of the Leader of the Council and the Chief Executive

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by senior management and the Audit Committee. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined above.

We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Hertfordshire County Council:

**David Williams – Leader of the Council**

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**May 2018**

**John Wood – Chief Executive**

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**May 2018**

# Independent Auditor's Report

# Independent Auditor's Report to the Members of HCC

**TO BE PROVIDED FOLLOWING THE COMPLETION OF THE AUDIT**

# Independent Auditor's Report to the Members of HCC

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# Expenditure and Funding Analysis

# Expenditure and Funding Analysis

## Introduction

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax and rate payers how the funding available to the Council (i.e. government grants, 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 generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| | 2016/17 | | |
|---|---|---|---|
| | Net Expenditure Chargeable to the General Fund £000s | Adjustments between Funding and Adjustments for Capital Purposes £000s | Net Expenditure in the Comprehensive Income and Expenditure Statement £000s |
| Adult Care Services | 320,501 | 5,613 | 326,114 |
| Central Items | 114 | 801 | 915 |
| Children's Services | 166,139 | 57,752 | 223,891 |
| Community Protection | 32,113 | 9,175 | 41,288 |
| Environment | 106,835 | 28,482 | 135,316 |
| Public Health | (756) | 752 | (4) |
| Resources | 79,480 | 8,642 | 88,122 |
| **Net Cost of Services** | 704,427 | 111,215 | 815,642 |
| Other Income and Expenditure | (691,391) | 84,409 | (606,983) |
| **Surplus or Deficit** | 13,035 | 195,624 | 208,659 |
| **Opening General Fund** | (32,112) | | |
| **Add (surplus)/deficit on General Fund** | 13,035 | | |
| **Transfers to/(from) Earmarked Reserves** | (12,731) | | |
| **Closing General Fund at 31st March** | **(31,809)** | | |

# Expenditure and Funding Analysis

| | 2017/18 | | |
|---|---|---|---|
| | Net Expenditure Chargeable to the General Fund £000s | Adjustments between Funding and Accounting Basis £000s | Net Expenditure in the Comprehensive Income and Expenditure Statement £000s |
| Adult Care Services | 316,358 | 9,038 | 325,396 |
| Central Items | 1,642 | 720 | 2,362 |
| Children's Services | 154,313 | 33,815 | 188,128 |
| Community Protection | 35,780 | 10,011 | 45,791 |
| Environment | 103,276 | 28,790 | 132,066 |
| Public Health | (691) | 227 | (464) |
| Resources | 71,514 | 14,325 | 85,839 |
| **Net Cost of Services** | **682,193** | **96,925** | **779,118** |
| Other Income and Expenditure | (720,200) | 97,093 | (623,107) |
| **Surplus or Deficit** | **(38,007)** | **194,018** | **156,011** |
| | | | |
| **Opening General Fund** | (31,809) | | |
| **Add (surplus)/deficit on General Fund** | (38,007) | | |
| **Transfers to/(from) Earmarked Reserves** | 38,319 | | |
| **Closing General Fund at 31st March** | **(31,497)** | | |

A number of adjustments are required to the amounts chargeable to the General Fund, in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The major adjustments are explained in Note 28.

# Presentation of Financial Statements – Hertfordshire County Council

# Presentation of Financial Statements

## 1. Comprehensive Income & Expenditure Statement

This statement shows the accounting cost of providing services in the year in accordance with accepted accounting practices, rather than the amount to be funded from taxation. The position against actual income is shown in the Movement in Reserves Statement.

| 2016/17 | | | | | 2017/18 | | |
|---|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure | | | Gross Expenditure | Gross Income | Net Expenditure |
| £000s | £000s | £000s | | Note | £000s | £000s | £000s |
| 410,058 | (83,945) | 326,114 | Adult Care Services | | 415,066 | (89,670) | 325,396 |
| 850 | 65 | 915 | Central Items | | 2,298 | 64 | 2,362 |
| 937,398 | (713,506) | 223,891 | Children's Services | | 918,003 | (729,875) | 188,128 |
| 46,633 | (5,346) | 41,288 | Community Protection | | 48,938 | (3,146) | 45,791 |
| 184,696 | (49,380) | 135,316 | Environment | | 155,010 | (22,944) | 132,066 |
| 50,324 | (50,328) | (4) | Public Health | | 48,500 | (48,964) | (464) |
| 103,024 | (14,902) | 88,122 | Resources | | 105,111 | (19,272) | 85,839 |
| **1,732,984** | **(917,342)** | **815,642** | **Cost of Services - Total Continuing Operations** | | **1,692,925** | **(913,807)** | **779,118** |
| | | 207,917 | Other Operating expenditure | 9 | | | 195,197 |
| | | 44,785 | Financing and Investment Income & Expenditure | 10 | | | 40,798 |
| | | (859,685) | Taxation and Non-Specific Grant Income | 11 | | | (859,101) |
| | | **208,659** | **(Surplus) or Deficit on Provision of Services (A)** | | | | **156,011** |
| | | (87,447) | (Surplus) or Deficit on revaluation of Property, Plant and Equipment | 24 | | | (65,618) |
| | | 128,176 | Remeasurements on the Net Defined Pensions Liability | 24 | | | (103,752) |
| | | (998) | (Surplus) or Deficit on revaluation of available for sale financial assets* | 24 | | | (3,784) |
| | | **39,731** | **Other Comprehensive Income & Expenditure (B)** | | | | **(173,154)** |
| | | **248,390** | **Total Comprehensive Income & Expenditure (A+B)** | | | | **(17,143)** |

* May affect the Surplus or Deficit on Provision of Services in future years

## 2. Balance Sheet

The Balance Sheet shows the value of the assets and liabilities recognised by the Council as at the Balance Sheet date. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories; usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use; and unusable reserves resulting from accounting adjustments and which the Council is not able to use to provide services.

| 31 March 2017 | | | | 31 March 2018 | |
|---|---|---|---|---|---|
| £000s | £000s | | Note | £000s | £000s |
| 2,967,460 | | Property, Plant & Equipment | 12 | 2,914,842 | |
| 33,038 | | Heritage Assets | 13 | 32,555 | |
| 3,550 | | Intangible Assets | 14 | 3,721 | |
| 31,836 | | Long Term Investments | 43 | 34,974 | |
| 34,828 | | Long Term Debtors | 18 | 25,831 | |
| | **3,070,711** | **Long Term Assets** | | | **3,011,923** |
| 36,022 | | Short Term Investments | 43 | 40,809 | |
| 33,897 | | Assets Held for Sale | 20 | 11,606 | |
| 3,917 | | Inventories | | 4,187 | |
| 124,069 | | Short Term Debtors | 18 | 123,733 | |
| 100,281 | | Cash and Cash Equivalents | 19 | 123,964 | |
| | **298,187** | **Current Assets** | | | **304,299** |
| (32,909) | | Short Term Borrowing | 43 | (2,848) | |
| (1,496) | | Short Term Liabilities | 43 | (1,707) | |
| (153,192) | | Short Term Creditors | 21 | (156,354) | |
| (16,419) | | Provisions for Accumulated Absences | 24 | (13,787) | |
| (14,886) | | Short Term Provisions | 22 | (15,177) | |
| | **(218,902)** | **Current Liabilities** | | | **(189,872)** |
| (1,021) | | Long Term Creditors | 21 | (1,244) | |
| (5,605) | | Long Term Provisions | 22 | (3,566) | |
| (260,768) | | Long Term Borrowing | 43 | (260,760) | |
| (1,066,299) | | Liability relating to the defined benefit pension scheme | 37 | (1,030,918) | |
| (54,554) | | Other Long Term Liabilities | 43 | (52,806) | |
| (48,901) | | Capital Grants Receipts in Advance | 38 | (47,064) | |
| | **(1,437,147)** | **Long Term Liabilities** | | | **(1,396,359)** |
| | **1,712,848** | **Net Assets** | | | **1,729,991** |
| (254,268) | | **Usable Reserves** | 23 | (343,299) | |
| (1,458,580) | | **Unusable Reserves** | 24 | (1,386,692) | |
| | **(1,712,848)** | **Total Reserves** | | | **(1,729,991)** |

These financial statements replace the unaudited financial statements certified by the Chief Finance Officer on **31 May 2018.**

**Owen Mapley**
**Director of Resources**

# Presentation of Financial Statements

## 3. 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 local taxation) and other reserves. 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 Balances before any discretionary transfers to or from earmarked reserves undertaken by the Council.

| | Note | General Fund Balance £000s | Earmarked General Fund Reserves £000s | Total General Fund £000s | Capital Receipts Reserve £000s | Capital Grants Unapplied £000s | Total Usable Reserves £000s | Unusable Reserves £000s | Total Council Reserves £000s |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2016 carried forward** | | **(32,112)** | **(162,517)** | **(194,628)** | **(3,641)** | **(62,364)** | **(260,634)** | **(1,700,604)** | **(1,961,239)** |
| Movement in reserves during 2016/17 | | | | | | | | | |
| Total Comprehensive Income and Expenditure | | 208,659 | - | **208,659** | - | - | **208,659** | 39,731 | **248,390** |
| Adjustments between accounting basis & funding basis under regulations | 7 | (195,624) | - | **(195,624)** | 3,141 | (9,811) | **(202,293)** | 202,293 | **-** |
| **Net Increase / Decrease before Transfers to Earmarked Reserves** | | **13,035** | **-** | **13,035** | **3,141** | **(9,811)** | **6,366** | **242,024** | **248,390** |
| Transfer to / from Earmarked Reserves | 8 | (12,732) | 12,732 | **-** | - | - | **-** | - | **-** |
| **(Increase) / Decrease in 2016/17** | | **303** | **12,732** | **13,035** | **3,141** | **(9,811)** | **6,366** | **242,024** | **248,390** |
| **Balance at 31 March 2017 carried forward** | | **(31,809)** | **(149,785)** | **(181,593)** | **(500)** | **(72,174)** | **(254,269)** | **(1,458,580)** | **(1,712,849)** |
| Movement in reserves during 2017/18 | | | | **-** | | | | | |
| Total Comprehensive Income and Expenditure | | 156,011 | - | **156,011** | - | - | **156,011** | (173,154) | **(17,143)** |
| Adjustments between accounting basis & funding basis under regulations | 7 | (194,018) | - | **(194,018)** | (11,755) | (39,269) | **(245,042)** | 245,042 | |
| **Net Increase / Decrease before Transfers to Earmarked Reserves** | | **(38,007)** | **-** | **(38,007)** | **(11,755)** | **(39,269)** | **(89,031)** | **71,888** | **(17,142)** |
| Transfer to / from Earmarked Reserves | 8 | 38,319 | (38,319) | **-** | - | - | **-** | - | **-** |
| **(Increase) / Decrease in 2017/18** | | **312** | **(38,319)** | **(38,007)** | **(11,755)** | **(39,269)** | **(89,031)** | **71,888** | **(17,142)** |
| **Balance at 31 March 2018 carried forward** | | **(31,497)** | **(188,104)** | **(219,600)** | **(12,255)** | **(111,443)** | **(343,299)** | **(1,386,692)** | **(1,729,991)** |

# Presentation of Financial Statements

## 4. Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses the cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2016/17 £000s | | Note | 2017/18 £000s |
|---|---|---|---|
| **(208,659)** | **Net surplus or (deficit) on the provision of services** | | **(156,011)** |
| 320,626 | Adjustment to surplus or deficit on the provision of services for noncash movements | 25 | 343,603 |
| (149,526) | Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 25 | (150,639) |
| **(37,559)** | **Net Cash flows from operating activities** | | **36,953** |
| 16,886 | Net Cash flow s from Investing Activities | 26 | 21,425 |
| 24,947 | Net Cash flow s from Financing Activities | 27 | (34,694) |
| **4,275** | **Net increase or (decrease) in cash and cash equivalents** | | **23,683** |
| 96,006 | Cash and cash equivalents at the beginning of the reporting period | | 100,281 |
| **100,281** | **Cash and cash equivalents at the end of the reporting period** | | **123,964** |

# Statement of Accounting Policies

# Statement of Accounting Policies

This section explains the accounting policies that the Council has applied in preparing these accounts. The Statement of Accounts summarises the Council's transactions for the financial year 2017/18 and its position at the year-end 31st March 2018. The statement has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 'Code'). The Council has adopted the historical cost accounting convention modified by the revaluation of certain types of Property, Plant and Equipment.

## Accruals of Income and Expenditure

An activity is accounted for in the year that it takes place and not simply when cash payments are made or received.

In particular:

- The accounts are maintained on an accruals basis in accordance with the Code. The accounts are prepared on the basis of income being due and expenditure becoming payable in the financial year. This means that sums due to or from the Council during the year are included in the accounts whether or not the cash has actually been received or paid in that year. Any differences between the actual and accrued amounts will be reflected in the accounts of the following year.
- Income and expenditure are credited and debited respectively to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.
- Income is recognised when and to the extent that performance occurs, and is measured at the fair value of the consideration received or receivable
- A debtor or creditor for the relevant amount is recorded in the Balance Sheet where income and expenditure have been recognised but cash has not been received or paid at the balance sheet date.
- Where it is doubtful that debts will be settled, provisions are made for bad and doubtful debts.
- Supplies and services are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods and services.
- Interest receivable on cash deposits and interest payable on borrowings are accounted for on the basis of the effective rate of interest for the relevant financial instrument rather than the cash flow fixed or determined by the contract. The amounts due or receivable at the year-end are included in the balance sheet in current assets and liabilities respectively.

## Acquired and Discontinued Operations

Acquired and Discontinued Operations are accounted for in accordance with the Code and separately disclosed where material. Where functions have transferred as a result of the reorganisation of public sector services, the acquisition is accounted for as a combination of business under common control, with any assets or liabilities transferring at their carrying amounts.

## Capital Accounting Accounts

These comprise:-

- The Revaluation Reserve, which represents the balance of any net surplus arising on the periodic revaluation of fixed assets analysed on an individual asset basis.
- The Capital Adjustment Account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on non-current assets, provision for the repayment of external loans and

the reversal of amounts included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining the movement on the General Fund Balance for the year.

The above accounts are not available to fund future expenditure.

## Capital Receipts

When an asset is disposed of the value of the asset in the balance sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve applicable to the asset disposed of are transferred to the Capital Adjustment Account. Receipts from disposals are credited to the Comprehensive Income and Expenditure Statement. The gain or loss on the disposal of an asset is the amount by which the disposal proceeds are more (gain) or less (loss) than the carrying amount of the asset.

Capital receipts are required to be credited to the Usable Capital Receipts reserve and can then only be used to finance capital expenditure or to repay debt. Receipts are appropriated to the reserve from the Movement on Reserves Statement.

The written-off value of assets disposed of is not a charge to the General Fund Balance as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement on Reserves Statement.

Such income that is not reserved for the repayment of external loans and has not been applied in financing capital expenditure is held on the balance sheet as usable capital receipts.

## Carbon Reduction Commitment Scheme (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is now in phase 2 of its operation, which runs until 31 March 2019. The Council is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. The cost of the scheme is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Council is accrued in the costs of the Council's services and is apportioned to services on the basis of energy consumption.

## Cash and Cash Equivalents

Cash is defined as cash in hand and deposits with any financial institution, repayable without penalty and on notice of not more than 24 hours. They include deposits in constant Net Asset Value money market funds that are available for withdrawal within 24 hours' notice. Cash equivalents comprise investments that are held to meet short term cash flow requirements rather than for investment or other purposes. Bank overdrafts, repayable on demand and which form an integral part of the Council's treasury management, are also included as a component of cash and cash equivalents.

## Charges to Revenue for Non-current Assets

Service revenue accounts, support services and trading accounts are charged with the following amounts to record the real cost of holding Property, Plant & Equipment during the year:

- Depreciation attributable to Property, Plant & Equipment used in service delivery
- Amortisation of intangible assets used in service delivery
- Impairment losses due to consumption of economic benefits on intangible assets and Property, Plant & Equipment used in service delivery and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.

Depreciation provided on surplus assets is charged to the Resources directorate.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisations. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement, calculated in accordance with statutory guidance. Depreciation, impairment losses and amortisation charges are therefore reversed and replaced by a revenue provision (the Minimum Revenue Provision) for debt repayment in the Movement on Reserves Statement. These adjusting entries are reflected in the Capital Adjustment Account.

## Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not provided for within the statement of accounts whilst uncertainty remains over the final outcome or if it is not practicable to estimate the amounts involved. These items are disclosed by way of notes to the accounts.

## Council Tax and National Non Domestic Rates

Council Tax and a share of National Non Domestic Rates (NNDR, or business rates) are collected by billing authorities acting as agent on behalf of precepting authorities. They are included in the Comprehensive Income and Expenditure Statement as the accrued income for the year, together with the Council's share of any surplus or deficit at year end on each billing authority's Council Tax and NNDR Collection Funds, plus the Council's share of any surplus/deficit from the preceding year that has not been distributed or recovered.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund in the year is taken to the Collection Fund Adjustment Account.

The Council recognises debtors in the Balance Sheet for its share of net cash collected by billing authorities but not paid over to it at the Balance Sheet date, as well as its share of amounts owed by Council Tax and NNDR payers to the billing authority (net of an allowance for doubtful debts).

The Council recognises creditors for cash received from billing authorities in advance of the billing authority receiving the cash from payees along with its share of any prepayments or overpayments made. It also includes its share of any provision for the impact of Non- Domestic Rating Appeals.

## Employee Benefits

### Benefits payable during employment

Short term Employee Benefits are those that fall due within 12 months of the reporting year end, and include wages, salaries and social security contributions, compensated absences and non-monetary benefits, such as flexi-time.

Compensated absences are periods of paid leave, and may be accumulating or non-accumulating. Accumulating absences are those that are carried forward and can be used in future periods if the current period entitlement is not used in full. They include annual leave, flexi-time and time in lieu. They may be vesting or non-vesting: where vesting, employees who leave are entitled to a cash payment in respect of any unused entitlement; where non-vesting, benefits lapse if an employee leaves before the vesting date.

The Government has issued regulations that mean the Council is only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. The value of these benefits, for example the value of leave that an employee carries forward at year end, is accrued and transferred to the Accumulated Absences Account until used. The accrual is based on the salary applicable in the following accounting year, being the period in which the employee takes the benefit. 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.

Non-accumulating absences are those that cannot be carried forward for use in future periods if the current period entitlement is not used in full. Sick leave, maternity leave, paternity leave and jury service will usually be non-accumulating. The cost of non-accumulating compensated absences is recognised when the absences occur.

### Termination benefits

Termination benefits are dealt with separately from other employee benefits because the event which gives rise to an obligation is the termination rather than employee service. Termination benefits are payable as a result of either:

a) an employer's decision to terminate an employee's employment before the normal retirement date, or
b) an employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are often lump-sum payments, but also include:

a) enhancement of retirement benefits, and
b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity.

Voluntary early retirement benefits under scheme rules are not termination benefits since such benefits are a right of all scheme members. They are accounted for as post-employment benefits rather than termination benefits.

As termination benefits do not provide the Council with any future economic benefits or service potential they are always immediately posted as an expense in the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement when they are recognised i.e. when the Council has made a firm commitment to the offer.

Where the termination benefits are granted under the provisions of a pension scheme, they will be covered by the adjustment rules applicable to post-employment benefits. Adjustments will then be permissible in the Movement in Reserves Statement to ensure the impact on the bottom line of the General Fund is limited to the amounts actually payable in the financial year.

## Estimation Techniques

The accounting policy specifies the basis on which an item is measured. However where there is uncertainty over the monetary amounts corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves, the amount is arrived at using an estimation technique that most closely reflects the economic reality of the transaction. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

## Events after the Balance Sheet Date

Where material, events that occur after the balance sheet date that provide additional evidence relating to conditions existing at that date are reflected within the accounting statements. Post balance sheet events that relate to conditions that did not exist at the balance sheet date are disclosed by way of a note to the accounts, if the impact on the accounts would be material.

## Exceptional Items, Extraordinary Items and Prior Period Adjustments

Exceptional items are included in the cost of the service to which they relate when to do so would not distort the service expenditure. Otherwise they are to be disclosed separately in the Comprehensive Income and Expenditure Statement (CIES). The Code prohibits the treatment of any items of income or expense as 'extraordinary', therefore the Council accommodates all items within one of the specified lines of the Surplus or Deficit on the Provision of Services or the Other Comprehensive Income and Expenditure.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Prior period adjustments, if material, would be accounted for by restating comparative figures for the preceding accounting period.

# Statement of Accounting Policies

## Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The measurement assumes that the transaction takes place in an orderly fashion between willing participants in the instrument's main market, who act in their own financial best interests, under the market conditions prevailing on the measurement date.

The fair value of a financial liability is the price that would be paid to transfer it to another participant of equal credit standing, not the price that would be paid to cancel it with the lender. If there is no quoted price in an active market, and the liability is a financial asset of the counterparty, then it should be measured from the counterparty's perspective – i.e. the price they would receive to sell it to another lender.

*IFRS 13* introduces a three level hierarchy for the inputs into a fair value calculation:

- Level 1 – quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – unobservable inputs for the asset or liability, e.g. non-market data such as cash flow forecasts

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## Financial Instruments – Assets

### Loans and Receivables

Loans and receivables have fixed or determinable payments and are not quoted in an active market. The Comprehensive Income and Expenditure Statement includes annual credits for interest receivable, based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The value of loans and receivables shown in the Balance Sheet equals outstanding principal plus any outstanding interest receivable at year end.

No loans and receivable assets are long-term investments and therefore the fair value is assumed to equate to carrying value, or the billed amount.

### Available for Sale Financial Instruments

Available for Sale Financial Instruments are quoted in an active market. Income in the form of dividends or interest due for the year is credited to the CIES.

Available for Sale Financial Instruments are carried in the balance sheet at Fair Value in line with the requirements of IFRS 13. Fair Value is calculated as the market 'bid' price per unit multiplied by the number of units held, plus any outstanding interest owed at year end.

The increase or decrease in market value is presented in the balance sheet in Available for Sale reserve, which is an Unusable Reserve given that any change in market value will only be realised when sold.

### Unquoted Equities

The Council holds a small number of unquoted equities which are held in the balance sheet at cost. Any dividends are included in the CIES as Financing and Investment Income.

As these investments are in both subsidiaries and joint ventures which are not classified as 'held for sale', they have been accounted for at cost, as it is not practical to derive a fair market value for these assets.

### Impairment

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the CIES.

### Soft Loans

The Council has made a number of loans to third parties at less than market rates (soft loans). Where a soft loan is made, a cost is recorded in the CIES for the present value of the interest that will be foregone over the life of the instrument, resulting in the balance showing a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the third party, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year, with the difference absorbed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The fair value of these assets is assumed to be the carrying value as it is not possible to derive a fair market value for these types of instruments.

## Financial Instruments – Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. As required by IFRS13, the fair value of liabilities is disclosed in note 43. This is calculated as the value of future cash flows related to the liability, discounted at current market rates.

Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal and interest repayable, and interest on borrowing charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council, through the Local Authority Mortgage Scheme (LAMS), acts as a guarantor for mortgage loans made by third party banks or building societies. These guarantees are recognised at fair value. This recognition at fair value is initially charged against the Council's general fund balances, but the impact is offset by a transfer from a specific reserve set up to fund the costs of this service. The Council has placed deposits with the lending institutions which, following legal opinion on the nature of these advances, have been capitalised.

The Fair Value of the guarantee is measured by the amount of mortgages issued and payable under the guarantee, and the estimated likelihood of default, in line with IFRS13.

# Statement of Accounting Policies

## Foreign Currency transactions

The Council had no investment holdings in foreign currencies during the year. Where transactions have taken place in a foreign currency, these are recorded in the accounts at the exchange rate applicable at the time of the transaction.

## Grants and Contributions

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition (as distinct from a restriction) that the Council has not satisfied.

Conditions are stipulations that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Restrictions are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential are required to be returned to the transferor if not deployed as specified. The key difference between a condition and a restriction is that a condition requires the grant funder or donor to have a right to the return of their monies or the donated asset (or similar equivalent compensation).

In the cases where the conditions of a grant has not been satisfied and there is an explicit requirement to repay the grant if the conditions are not met, any balances unspent are treated as creditors (for revenue grants) or Capital Grants Received in Advance (capital).

When the conditions of a grant have been met and it has been reflected as income in the Consolidated Income & Expenditure Statement, the Council still has discretion to carry the grant income forward through an earmarked reserve if it deems this appropriate. This could arise in cases where there is no condition on the timescale in which a grant can be spent, but it has not been spent at the year-end.

In relation to capital grants or contributions which have been used to fund capital expenditure, when these are recognised as income in the Consolidated Income & Expenditure Statement, then the effect of this is reversed through the Movement in Reserves Statement and added to the Capital Adjustment Account.

In relation to capital grants or contributions recognised as income in the Comprehensive Income and Expenditure Statement, where the expenditure has not yet been incurred at the Balance Sheet date, the recognised income is transferred to Usable Reserves (Capital Grants Unapplied Account), representing capital resources not yet utilised.

The transfer from the General Fund for both these adjustments is recorded in the Movement in Reserves Statement. When expenditure is subsequently incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account. This transaction represents the application of capital resources to finance the expenditure incurred and is reported in the Movement in Reserves Statement for these Reserves or in the notes to the accounts.

## Group Accounts

The boundary for Group Accounts is determined by the extent of the Council's control or influence over an entity, and the materiality of the relationship to users of the Council's accounts. Group Accounts are prepared in accordance with IFRS3, IFRS10, IFRS11 and IFRS12, and with IAS27, IAS28 and the Code, where required and material.

A Subsidiary is an entity which the Council controls through the power to govern its financial and operational activities; where it has exposure or rights to variable returns from its involvement in the entity, and where it has the ability to use its power to influence the level of those returns. Control will normally, but not necessarily, be presumed to exist where the Council is the majority shareholder.

An Associate is an entity where the Council has significant influence to participate in the financial and operational decision making of the entity, but stopping short of control. It is normally, but not necessarily, presumed that significant influence exists where the Council owns 20% or more of the entity.

A Joint Venture exists where the Council is party to the contractually and binding agreed shared control of an organisation, where strategic financial and operating decisions that significantly affect returns require the unanimous consent of the parties sharing control; and where the Council has rights to the net assets of the arrangement, but not the rights or obligations to particular assets or liabilities.

Joint Operations are activities undertaken by the Council in conjunction with other venturers that involve the use of the assets and resources of the venturers rather than the establishment of a separate entity. To meet the definition of Joint Operation, the parties must have rights to particular assets or obligations for particular liabilities; and there must be joint control, that is decisions on relevant activities require the unanimous agreement of all parties. Joint Operations are accounted for in the Council's single entity accounts rather than group accounts, and the Council recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs; and includes in the Comprehensive Income and Expenditure Statement the expenditure it incurs and the share of income it earns from the operations.

A Subsidiary is consolidated into Group Accounts by adding like items of income, expense, assets and liabilities, and eliminating transactions and balances between the entities.

Associates and Joint Ventures are consolidated into Group Accounts by the equity method, adjusting the original investment for any post acquisition change in the Council's share of the assets of the entity; and including in the Group Comprehensive Income and Expenditure Statement the Council's share of the entity's profit or loss for the year.

In previous years, group accounts have been prepared for Hertfordshire Catering Ltd (100% owned subsidiary) and for Herts for Learning (20% owned associate in 2016/17), to consolidate with the Council's single entity accounts. An annual assessment is taken however, to review the Council's investments in companies and determining if a group boundary exists. This review uses the standard determination of group status provided in the national Code of Practice for local government accounts.

The latest review has resulted in a decision not to produce group accounts for 2017/18, on the basis that the adjustment to produce group accounts is neither material in nature, nor enhances the overall value and clarity of the accounts for Stakeholders. This decision will be reviewed each year in line with recommended good practice.

Investments in Herts for Learning, Hertfordshire Catering Limited, Herts Living Limited and Surecare Supplies Ltd are recognised on the Council's Balance Sheet as unquoted equity investments at cost. Investments in the PFI companies are not recognised as they are not material.

The extent of these investments is shown in Note 48 Investment in Companies.

## Heritage Assets

A Heritage Asset is an asset that is intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities; and may be tangible or intangible. Currently the Council holds no intangible heritage assets. The Council classifies its heritage assets under the following headings:

- Paintings
- Artefacts
- Sculptures

Heritage assets are normally measured at fair value. Valuations may be made by any method that is appropriate and relevant. The Council uses insurance valuations as an appropriate and relevant valuation and these valuations are carried out and verified by external valuers Townley Valuation Services (TVS). In exceptional circumstances where a cost or valuation of a heritage asset cannot be determined and is not reported in the balance sheet, the Council will disclose any information available which is helpful in assessing the value of those assets, including why it has not been possible to obtain a value along with the significance and nature of those assets.

The Council has not been able to determine a cost or valuation for its Record Office documents known as Hertfordshire Archives and Local Studies (HALS). HALS is treated as part of the Council's library assets. Whilst these may be of interest to a historian, it has not been possible to obtain an insurance valuation and there are no recorded costs for the collection of documents, accordingly HALS is not reported in the balance sheet.

The Council's heritage asset collection is relatively static and acquisitions and donations are rare. If they do occur acquisitions will be capitalised and initially recognised at cost and donations or bequeaths at nil consideration are recognised at valuation as provided by our external valuers.

It is considered that the Council's heritage assets have an indefinite life and are not depreciated but tested for impairment annually. Impairment to a heritage asset will be considered in circumstances of any physical deterioration, breakage or where doubts have been identified regarding its authenticity.

Disposals of heritage assets are not anticipated but would require member approval. On disposal the carrying amount of the heritage asset is derecognised. The gain or loss arising from de-recognition is the difference between the net disposal proceeds (if any) and the heritage asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

## Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It is controlled by the Council as a result of past events and future economic or service benefits are expected to flow from the intangible asset to the Council. The Council distinguishes between two classes of intangible assets: software & licences and portal & web design.

An intangible asset is measured initially at cost. After initial recognition, an intangible asset may be carried at a revalued amount where its fair value can be determined by reference to an active market. Otherwise, an intangible asset will be carried at cost less any accumulated amortisation and any accumulated impairment loss.

The depreciable amount of an intangible asset with a finite useful life is amortised on a systematic basis over its useful life, beginning when the intangible asset is available for use and reflecting the expected pattern of use of the economic or service benefits. If the pattern cannot be determined reliably, the straight-line method is used. The amortisation period and method is reviewed annually.

An intangible asset with an indefinite life is not amortised, but is tested annually at year end for impairment and to confirm the indefinite life.

## Investment Property

An investment property is one that is used solely to earn rentals or for capital appreciation or for both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property and is accounted for as property, plant and equipment.

An investment property is measured initially at cost. After initial recognition, an investment property is measured at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in the Surplus or Deficit on the Provision of Services for the period in which it arises. The fair value of investment property reflects market conditions at the balance sheet date. This means that a periodic revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. An investment property held at fair value is not depreciated.

The Council currently has no Investment Properties, however an annual assessment is undertaken to ensure that no such properties need recognition at each balance sheet date.

## Inventories

Inventories comprise such items as vehicle spares, uniforms, stationery, equipment and other materials. All consumable and non-durable items are charged to the Comprehensive Income and Expenditure Statement in the year of purchase. Inventories are measured at the lower of cost and net realisable value.

# Statement of Accounting Policies

## Leases

Leases are classified as either finance leases or operating leases based on the extent to which the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

### The Council as *lessee*

**Finance leases**

The Council, as lessee, initially recognises finance leases as assets and liabilities at amounts equal to the fair value of the asset or, if lower, the present value of the minimum lease payments. Future valuations are in line with the Council's general PPE revaluation policy. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciation policy for assets held under finance leases is consistent with the depreciation policy for owned assets.

**Operating leases**

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

### The Council as *lessor*

**Finance leases**

The Council, as lessor, recognises assets held under finance leases as a receivable at an amount equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and finance income, with the interest element shown in Financing and Investment Income and Expenditure on the Comprehensive Income and Expenditure Statement and the principal element reducing a long term debtor on the Balance Sheet. The finance income is calculated so as to produce a constant periodic rate of return on the net investment. The asset itself is derecognised from Property, Plant and Equipment.

The depreciation policy for depreciable leased assets is consistent with the depreciation policy for other similar assets.

**Operating leases**

Items of property, plant and equipment let out under operating leases are presented according to the nature of the asset. Income from operating leases is recognised on a straight-line basis over the lease term.

**Arrangements that may contain a lease**

An arrangement (other than PFI arrangements), comprising a transaction that does not take the legal form of a lease but nevertheless conveys a right to use an item of property, plant and equipment, in return for a payment or series of payments, may be accounted for as though the arrangement is, or contains, a lease.

If an arrangement is, or contains, a lease, the lease is classified either as a finance lease or an operating lease as appropriate.

## Long Term Contracts

Long term contracts are accounted for on the basis of the Comprehensive Income and Expenditure Statement being charged in the year during which the cost of goods or services were received or provided.

# Statement of Accounting Policies

## Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if the asset's carrying amount will be recovered principally through a sale transaction rather than through continued use and it meets the following criteria:

- The asset must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale must be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated;
- Management must be committed to a plan to sell the asset, and it must be actively marketed for a sale at a price that is reasonable in relation to its current fair value;
- The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

A non-current asset classified as held for sale is measured at the lower of its carrying value and fair value less costs to sell at initial reclassification and at the end of each reporting period.

No depreciation is charged on tangible assets and no amortisation is made in relation to intangible assets whilst they are classified as Assets Held for Sale.

The Code requires that an asset held for sale should be declassified as such, as soon as any of the qualifying criteria detailed above are no longer met. However an asset that is taking more than a year to sell will not automatically mean that it fails to meet the 'available for immediate sale' criterion if the delay is caused by events or circumstances beyond the Council's control and there is sufficient evidence that the Council remains committed to its plan to sell the asset; however, it will be presented as a non-current asset. Where an asset is declassified as held for sale, the asset is valued at the lower of its carrying amount before the asset was classified as held for sale, adjusted for depreciation, amortisations or revaluations that would have taken place if the asset had not been put into Assets Held for Sale, or its recoverable amount at the date of the decision not to sell.

For assets previously held at historical cost, any adjustments in the carrying amount of the asset on declassification is posted to the Surplus or Deficit on the Provision of Services as gains and losses in Other Operating Expenditure. The impact on the General Fund Balance is offset by a compensating transfer to the Capital Adjustment Account in the Movement in Reserves Statement. For assets previously carried at a valuation, any adjustments in the carrying amount is treated as revaluation gains or losses and posted to the Revaluation Reserve. If there are insufficient revaluation gains in the reserve to absorb a loss, the excess is debited to the Surplus or Deficit on the Provision of Services as Other Operating Expenditure, and the impact on the General Fund Balance is offset by a compensating transfer to the Capital Adjustment Account.

## Private Finance Initiative schemes (PFI)

### The Code of Practice

The Code of Practice requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions". To be within the scope of IFRIC 12, the PFI scheme must contractually oblige the private sector operator to deliver, on behalf of the Council, public services related to infrastructure. In addition, IFRIC 12 requires the Council to:

- Control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and to
- Control any significant residual interest, through beneficial entitlement or otherwise, in the infrastructure at the end of the term of the scheme.

### Services received

The fair value of services received in the year is recorded under the relevant expenditure within the Comprehensive Income and Expenditure Statement.

### PFI asset

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IFRIC 12. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Council's approach for each relevant class of asset.

### PFI liability

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets (less any capital contributions) and is subsequently measured as a finance lease liability.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to 'Interest Payable' in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. This amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expressed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a contingent 'Interest Payable' in the Financing and Investment Income and Expenditure within the Comprehensive Income and Expenditure Statement.

### Lifecycle replacement

Components of the asset replaced by the operator during the contract (lifecycle replacement) are capitalised where they meet the Council's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term finance lease liability or pre-payment is recognised respectively.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to the operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

### Assets contributed by the Council to the operator for use in the scheme

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the Council's Balance Sheet.

## Property, Plant and Equipment

Property, plant and equipment are tangible assets with physical substance that are held for use in the provision of services, for rental to others or for administrative purposes and are expected to be used during more than one period.

### Recognition

The cost of an item of property, plant and equipment is recognised when it is probable that future economic benefits or service potential associated with the asset will flow to the Council and that the cost can be measured reliably.

Subsequent costs arising from day-to-day servicing of an asset (that is, labour costs and consumables), commonly referred to as 'repairs and maintenance', are not recognised as property, plant and equipment because the expenditure does not add to the future economic benefits or service potential of the asset. Rather, the expenditure maintains the asset's potential to deliver future economic benefits or service potential that it was expected to provide when originally acquired.

Where a component of an item of property, plant and equipment is replaced or restored, the carrying amount of the old component is derecognised and the cost of the new component reflected in the carrying amount, subject to the above recognition principle being met.

The Council applies the following de-minimis levels for the recognition of expenditure on the acquisition, creation or enhancement of property, plant and equipment:

| Category of Expenditure | De-Minimis Level |
|---|---|
| **Property (Non-Schools)** | **£10,000** |
| **Property (Schools)** | **£2,000** |
| **Infrastructure** | **£10,000** |
| **Vehicles, Plant and Equipment (Non-Schools)** | **£5,000** |
| **Vehicles, Plant and Equipment (Schools)** | **£2,000** |

### Measurement

An item of property, plant and equipment is initially measured at cost, comprising the purchase price and all expenditure that is directly attributable to bringing the asset to the location and condition necessary for its intended use.

Subsequently, an item of property, plant and equipment is carried in the balance sheet using the following measurement bases:

| Type of Asset | Basis of Valuation |
|---|---|
| **Infrastructure**<br>**Community Assets**<br>**Assets Under Construction** | **Depreciated historical cost** |
| **Other Land & Buildings** | **Current value based on existing use value (EUV).**<br>**Depreciated replacement cost (DRC)**<br>**if EUV cannot be determined** |
| **Vehicles, Plant, Equipment and Furniture** | **Depreciated historical cost as a proxy for fair value, where assets have short useful lives** |
| **Surplus Assets** | **Fair value based on highest and best use value** |
| **Investment Property**<br>**Assets Held For Sale** | **Market value** |

Land and buildings are revalued by professionally qualified valuers at intervals of no more than five years. The revaluation process includes a rolling programme, with assets within a class completed within a short period of time; a material change review at year end, with revaluation if required; and revaluations when there has been a significant change to the asset (e.g. major building works).

Where the carrying amount of an item of property, plant and equipment is increased as a result of a revaluation, the increase is recognised in the Comprehensive Income and Expenditure Statement and reversed into the Revaluation Reserve through the Movement In Reserves Statement, unless the increase is reversing a previous impairment loss charged to Cost of Services on the same asset or reversing a previous revaluation decrease charged to Cost of Services on the same asset.

# Statement of Accounting Policies

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation (that is, a significant decline in an asset's carrying amount during the period that is not specific to the asset) as opposed to an impairment, the decrease is recognised in the Comprehensive Income and Expenditure Statement and reversed into the Revaluation Reserve through the Movement in Reserves Statement up to the credit balance existing in respect of the asset and thereafter in Cost of Services.

### Impairment

At the end of each reporting period, an assessment is made of whether there is any indication that an item of property, plant and equipment may be impaired. If there is indication of impairment, the recoverable amount of the asset is estimated to determine any impairment loss.

Where impairment losses are identified, the asset is written down to its recoverable amount and:

- Where there is no balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement
- Where there is a balance 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). Any excess 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. Any excess is credited to the Revaluation Reserve.

### Depreciation

Depreciation applies to all items of property, plant and equipment whether held at historical cost or revalued amount, with the exception of land where it can be demonstrated that the asset has an unlimited useful life.

The depreciation charge is based on the asset's value, allocated over its useful life. The following methods are used, reflecting the pattern in which the future economic benefits or service potential of different assets are expected to be consumed:

- **Buildings:** Straight-line allocation over the life of the property, generally between 10 and 100 years;
- **Vehicles, plant and equipment:** Straight line allocation over the life of the asset generally between 3 and 10 years;
- **Infrastructure:** Straight-line allocation over the life of the asset generally between 8 and 60 years.

Items of property, plant and equipment are not depreciated until they become available for use (that is, when the asset is in the location and condition necessary for its intended use). Depreciation ceases at the earlier of the date that items of property, plant and equipment are classified as held for sale and the date they are derecognised.

The residual value of an item of property, plant and equipment, its useful life and depreciation method are reviewed at least at each financial year end and, if expectations differ from previous reviews or there has been a significant change in the pattern of consumption of the future economic benefits or service potential, the change is accounted for as a change in accounting estimate. Plant and equipment with a gross book value of less than £0.1m are written out of the accounts when they are fully depreciated.

### De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition is the difference between the net disposal proceeds (if any) and the asset's carrying amount and is included in the Surplus or Deficit on the Provision of Services.

### Componentisation:

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts are to be grouped in determining the depreciation charge.

The Council has determined that only individual buildings over £2m are subject to componentisation and these are assessed against 3 components determined by the valuers, namely:

| Component | Useful Life |
|---|---|
| Flat Roof | **20 years** |
| Services (heat source, electrical installations, lifts, alarms, etc.) | **20 years** |
| Window Walling/Concrete Cladding | **50 years** |

In addition, a component is only separately identified if it represents 20% or greater of the total asset value. The balance of the cost of the total asset not assigned to components is held against the Main Structure and subject to depreciation over 20 to 100 years.

The Council has decided to apply the componentisation policy to an asset from 1st April 2010 when triggered by the following events: -

- When acquired as a new asset;
- where an asset is enhanced, with components being recognised for existing components as well as to the enhancement work; and
- where an asset is revalued

As at 31st March 2018 all assets have been assessed for componentisation purposes.

## Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, where a reasonable estimate of the amount can be made but where the timing of the transfer is uncertain or there is uncertainty of the amount.

Provisions are charged to the appropriate service revenue account in the year that they are recognised and are detailed in the notes to the accounts. Expenditure incurred on items for which the provision was originally set up is charged directly to the provision. The level of each provision is reviewed at the balance sheet date. Provisions that are no longer required will be credited back to the original service revenue account from where the provision was created.

## Post-Employment Benefits

The Council participates in four different pension schemes that meet the needs of employees in particular services. All the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

- **Teachers** - this is an unfunded scheme administered by the Teachers' Pension Agency (TPA). The pension cost charged to the accounts is the contribution rate set by the TPA on the basis of a notional fund. However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as a defined contribution scheme, that is, no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to the TPA for the year.
- **NHS Pension Scheme** - for Public Health employees transferred from the National Health Service. It is accounted for as a defined contribution scheme, as it is a multi-employer scheme where it would be extremely difficult to identify the underlying scheme assets and liabilities to the Council. Employer contributions paid into the scheme are charged to the Public Health service revenue account in year.

- **Uniformed Firefighters** - this scheme is unfunded. With effect from 1 April 2006 the Council pay an employer's pension contribution based on a percentage of pay into the Firefighter's Pension Fund. The Pension Fund will be balanced to nil at the end of the year through a cash settlement with central government.
- **Other employees**, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. The Council pay an employer contribution rate of a percentage of pensionable pay.

The Uniformed Firefighters and Local Government Pension Schemes are both accounted for, under IAS 19 Employee Benefits, as defined benefit schemes.

- The liabilities of these pension schemes attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method, that is, 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 based on the yield of a basket of AA-rated bonds (Iboxx Sterling Corporate Bond Index, AA over 15 Years).

The assets of the Local Government 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
- **Unitised securities** – current bid price
- **Property** – market value

The change in the net pensions liability is analysed into the following 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 revenue accounts of services for which the employees worked
- **Employer Contributions** paid to the pension funds
- **Past Service Cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Central Items
- **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 to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Central Items
- **Net Interest on the Net Defined Liability** – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. The net interest on the net defined liability (asset) comprises the interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling – debited to Financing and Investment income in the Comprehensive Income & Expenditure Statement.
- **Re-measurements of the net defined benefit liability** – comprising Actuarial Gains and Losses, i.e. changes in the present value of the defined benefit obligation resulting from a) experience adjustments and b) the effects of changes in actuarial assumptions. These are debited to Other Comprehensive Income & Expenditure. Re-measurements also include Return on Plan Assets, excluding the amount included in the net interest on the net defined liability, which is credited to Other Comprehensive Income & Expenditure.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the pension fund in the year. In the Movement in Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

# Statement of Accounting Policies

## Revenue Expenditure Funded from Capital under Statute

Expenditure that may be capitalised under statutory provisions, but does not result in the creation of non-current assets, has been charged as expenditure to the relevant service revenue account in the year. Where the Council has decided to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account via the Movement in Reserves Statement then reverses out the amounts charged in the Comprehensive Income and Expenditure Statement, thereby ensuring there is no impact on the level of General Fund Balances.

## Schools Accounting Treatment

The Council as Local Education Authority has responsibility for the provision of education within Hertfordshire, and allocates funding to Hertfordshire maintained schools, which may be Community, Voluntary Aided, Voluntary Controlled or Foundation Schools. Where schools are deemed under IFRS 10 to be entities under the Council's control, and hence fall within the group boundary, the Code provides a specific adaptation of IFRS10 and consequently IAS27 Separate Financial Statements, such that they are consolidated and reported within the Council's single entity financial statements.

Whilst this applies to the income and expenditure, liabilities, current assets and reserves of all maintained schools, the determination of control of assets in line with the relevant standards means that treatment varies by type of school as below. Control is assessed by consideration of who determines access to the school via admissions policy, and who makes decisions on the use of the asset and is responsible for its maintenance and development. While aspects of control over assets are held by the schools' governing bodies, they act independently of the Council and so are deemed to be outside the group boundary in this context.

### Community Schools

As the Council is normally the freeholder of Community School premises, controls admissions, is responsible for maintenance and development and has a significant role in the running of the school, the school premises are recognised under Property, Plant and Equipment in line with the accounting policy stated above.

### Voluntary Controlled Schools

Schools are usually owned by a charity but the Council is responsible for the running of the school, employing the staff and determining and administrating the admissions policy. Although the Council does not have any clear legal entitlement to the asset, using the principal of faithful representation, the Council has determined that it will receive future service potential from these assets, and that it holds significant control over them through the admissions policy which determines access to the asset, and its responsibility for the maintenance and development of the assets. The land, buildings and equipment of these schools will therefore be recognised by the Council under Property, Plant and Equipment on the Balance Sheet of the Council.

### Voluntary Aided Schools

Schools are owned and managed by a charity or trust but the Council partially funds and also provides support services to the school. Although the Council will occasionally own the freehold of the land and buildings, the schools buildings are maintained and controlled by the respective charities/trusts and the Council's only statutory duty is for the playing fields. The admissions policy is set by the governing body, so the Council does not control access to the asset or the services provided, and hence IFRIC 12 does not apply. It has therefore been determined in conjunction with the Council's valuers that the playing field element of the schools premises will be recognised by the Council under Property, Plant and Equipment but that the building element fails the test of the Council holding significant control to allow them to be retained on the Council's Balance Sheet. IFRIC 4 has been deemed not to apply as the Council does not rely on the use of a specific school to ensure sufficient pupil places are available, and so the arrangement does not rely on specific assets.

### Foundation Schools

Schools are funded by the council but owned and managed by the governing body or other entity, including the provision of any support services, and decisions on the maintenance and development of land and buildings. The governing body acts independently of the Council in making these decisions. IFRIC 12 has been deemed not to apply as the Council does not control to whom the services are provided, as the governing body is the admissions authority and the Government controls the service and sets the curriculum. IFRIC 4 has been deemed not to apply as the Council does not rely on the use of a specific school to ensure sufficient pupil places are available and hence the arrangement does not rely on specific assets.

### Academies

Schools are managed completely independently of the Council with funding provided directly by central government. The Council grants long leases as part of the Academies transfer which are covered under IAS 17 definition of leases and treated accordingly. The Council will retain the title. However as responsibility for the land and buildings is with the school, which will hold these on their balance sheet, the Council has derecognised the land and buildings from Property, Plant and Equipment within its balance sheet. De-recognition takes place at the time that the long lease is granted. IFRIC 12 has been deemed not to apply as the Council does not control to whom the services are provided as Governors are the admissions authority and the Government controls the service and sets the curriculum. IFRIC 4 has been deemed not to apply as the Council has leased the land to the Academy and therefore covered by lease arrangement under IAS 17 and treated in accordance with the leases policy above.

### Free Schools

Schools are established, owned and managed completely independently of the Council with funding provided directly by central government. There are currently four Free Schools in Hertfordshire in which the Council has a property interest: these assets have been the subject of major construction or refurbishment and will be transferred by way of long lease once the defects period on these works is expired.

## Specific Reserves

Specific Reserves are sums of money earmarked to provide, in the main, flexibility in funding between years. A detailed make up of specific reserves is given in note 8 to the accounts. Transfers to create or replenish reserves are made via the Movement in Reserves Statement. Expenditure incurred on items for which the reserve was originally established is shown as service expenditure offset by a contribution from the reserve to the Movement in Reserves Statement.

## Value Added Tax

Income and expenditure are shown net of Value Added Tax (VAT). VAT is included in the Comprehensive Income and Expenditure Statement to the extent that it is irrecoverable.

# Notes to the Accounts

# Notes to the Accounts

## Note 1: Restatement and change in accounting policies

Local Authorities are permitted to change an accounting policy only if the change:

- is required by a standard or interpretation; or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows.

Changes to accounting policies may result in retrospective application where adjustments will be required to restate opening balances on a like-for-like basis, i.e. a Prior Period Adjustment (PPA), or prospective application i.e. only in the year the changes is being introduced and beyond.

PPA may also be required to correct for material errors or omissions which resulted in a misstatement in the accounts.

For 2017/18:

1) No PPA's were required to correct for material errors or omissions in the accounts
2) There were no changes to accounting policies which required retrospective application
3) There were no changes to accounting policies which applies from the current year

## Note 2: Accounting standards that have been issued but have not yet been adopted

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code), the Council is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code.

The following accounting standards have been issued but have not been adopted under the Code until 1 April 2018:

- IFRS 9 Financial Instruments introduces extensive changes to the classification and measurement of financial assets and a new “expected credit loss” model for impairing financial assets.
- IFRS 15 Revenue from Contracts with Customers including amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers presents new requirements for the recognition of revenue, based on a control-based revenue recognition model.
- IAS 12 Income Taxes: Recognition of Deferred tax Assets for Unrealised Losses applies to deferred tax assets related to debt instruments measured at fair value.
- IAS 7 Statement of Cash Flows: Disclosure Initiative may potentially require some additional analysis of Cash Flows from Financing Activities (note 27) in future years.

These changes are not significant and are not expected to have a material effect on the Council’s Statement of Accounts.

# Notes to the Accounts

## Note 3: Critical Judgements in applying Accounting Policies

In applying the accounting policies set out above, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts 2017/18 are:

### Schools Fixed Assets

While the Code requires the transactions of the Council's maintained schools to be consolidated in its single entity accounts, the inclusion of school fixed assets is determined by the assessment of the Council's control of those assets, and its rights to receive service potential or economic benefits. Judgement has been made that control depends on who controls access to the asset and hence its service potential, through control of pupil admissions; and who has responsibility for the maintenance and development of the asset. These powers may outweigh the control conferred by ownership of the asset. Aspects of control may be exercised by the governing body, who are judged to be independent of the control of the local authority.

On this basis, Community schools are included on the balance sheet, as pupil admissions are determined by the Council and all decisions on maintenance and development of the asset are taken by the Council. Voluntary Controlled (VC) schools are similarly included as the Council controls their admissions and is responsible for maintenance and development of the asset (and has been since these schools took VC status under the 1944 Education Act). Although ownership in general rests with the relevant Diocese, it is judged extremely unlikely that they would exercise their right to take back the asset; and under the 1998 Schools Standards and Framework Act, any such decision requires the consent of the Secretary of State.

The assets of Voluntary Aided (VA) schools have been judged not to be controlled by the Council, as it is the governing body who sets the admissions policy, and has responsibility for the maintenance and development of the assets. Capital Maintenance grant is paid to the Diocese rather than being administered by the council, and they contribute to the cost of major capital works. However, the playing fields of VA schools are included in the balance sheet because the Council has a statutory duty to maintain these.

Foundation Schools are similarly excluded as the governing body sets the admissions policy, and is responsible for decisions on the assets' maintenance and development.

### Complex Leases

The Council owns the freehold to two buildings in Stevenage (known as Farnham House and Robertson House). These buildings are leased to a third party, and then sub-leased back to the Council. The Council use these assets as office accommodation. The arrangement has arisen from historical ownership and lease arrangements, and generates net income to the Council of £1.1m. This income is included within the 'non-distributed costs' within 'costs of services'. The lease and sub-lease arrangements will end on the same day (28/09/2018). The lease and sub-lease arrangements contain normal commercial terms and only restrict how the Council, as the current occupier of the buildings, can use the buildings in normal landlord and tenant terms. The leases do not pass any risks of ownership to the third party.

As detailed in the 2011/12 financial statements, the decision was taken to classify leases of care homes from the Council to Quantum Care as operating leases. This is viewed as a critical judgement, given the classification as a finance lease would have resulted in the de-recognition of a large number of assets. This means that assets are retained on the Council's Balance Sheet even though they are leased to Quantum Care on a long-term basis. This is because the lease of the properties is tied up with the provision of services by Quantum and so is not intended to transfer benefits of ownership, only to secure best value from service contracts.

### Heritage Assets

As detailed in the 2011/12 accounts, judgement was made that the Council would use insurance valuations as an appropriate and relevant valuation for heritage assets. These valuations were carried out and verified by external valuers Townley Valuation Services (TVS), except for its Record Office documents, known as Hertfordshire Archives and Local Studies (HALS), where a cost or valuation could not be determined.

# Notes to the Accounts

### Icelandic Bank Deposits

The Council held deposits totalling £28m with Icelandic banks that defaulted on their obligations in October 2008. Since then the value of these deposits has been adjusted in the accounts, to reflect such repayments have been received, and with the impairment value calculated in accordance with accounting practice. In October 2011 the Icelandic Supreme Court upheld the priority status of deposits held by UK local authorities and other UK wholesale depositors, and distributions have been received from Glitnir and Landsbanki HF. In February 2014 the Council sold its claim against the insolvent estate of Landsbanki through an auction process. The sale of this claim means that the Council has recovered 92% of the amounts originally deposited with Landsbanki in 2008.

In February 2012 the Glitnir claim was paid out in full in various currencies, however part was in Icelandic Kroner subject to currency controls. In 2014/15 HCC sold its Icelandic Krona via a currency auction held by the Central Bank of Iceland. This has resulted in a final return of 101% of the original balances deposited.

The administrators for Heritable Ltd have to date made distributions for 98% of the original claim. The Council has included an impairment in the accounts to reflect the possibility that there will be no further recovery following settlement of the administrator's fees. This is based on the latest report from the administrators.

The administrators for Kaupthing Singer & Friedlander Ltd continue to make distributions in the form of dividends and impairment has been recognised based on forecasts in the latest administrator's report.

### Better Care Fund

The BCF "is a programme spanning both the NHS and local government. It has been created to improve the lives of some of the most vulnerable people in our society, placing them at the centre of their care and support, and providing them with ‘wraparound’ fully integrated health and social care, resulting in an improved experience and better quality of life."

Within Hertfordshire, the pooled budget arrangements are governed by the Section 75 agreed between HCC and E&NH, HV and C&P CCGs through the HWB. Following DoH Group Manual for Accounts 2015-16 Chapter 3 Annex 1 – Accounting for the Better Care Fund, it is important that the accounting reflect in substance the differing patterns of control in place for different elements of the BCF.

Where funding and control is shared the elements have been treated as joint operations and shown in Note 32 (as is the case for CCG monies comprising the core BCF allocation determined by social care relative needs formula, Protection of Social Care, Carers, and jointly funded staff together with joint schemes with East and North Hertfordshire CCG for Westgate and Intermediate Care). Where sole control is exercised by either HCC or the CCGs (as is the case for residual base budgets) the elements are reported within the relevant entity accounts.

### Local Enterprise Partnership

The Council is acting as the Accountable Body for the Hertfordshire Local Enterprise Partnership (LEP). Hertfordshire LEP was formed in 2011 and is a partnership between local businesses within the county of Hertfordshire and local authorities. Their priorities are based around 4 areas: Strategic Infrastructure, Skills & Employment, Enterprise & Innovation and Business Support.

The LEP is a non-statutory body and the LEP Board has 15 elected members made up of Chair, 5 Business representatives, 2 SME representatives, 2 Further or Higher Education representatives, 1 from not for profit sector and 4 from local authorities. They are elected for a set period and are unremunerated. Reporting into the Board are the Programme Management Committee (which scrutinises the work of the Programme Boards and includes Accountable Body membership) and 3 Programme Boards.

The over-riding governance structure is the Assurance Framework which is updated annually and subject to audit, and sets out decision making routes and the structures of all the Boards and Sub groups. The LEP produces a Strategic Economic Plan which sets out the priorities for the period. From this the LEP then bids to Central Government for Growth Deal funding. There have been 3 Growth Deal rounds so far, with the LEP having secured over £133m until 2021.

In accounting for the LEP it has been assessed that the Council is acting as the principal in accordance with IAS 18 Revenue and the LEP's transactions have been included in the Council's accounts.

Balances relating to the LEP included with the Council's accounts as at 31st March 2018 include earmarked reserves totalling £6.774m, capital grants unapplied of £26.4m and usable capital receipts of £0.5m

### Group Accounts

The Council has interests in other entities which fall within the group boundary of the Council on the grounds of control and significant influence in line with the Code. The Council's interests in Hertfordshire Catering Limited (HCL, a subsidiary), Herts Living Limited (HLL, a subsidiary) and Herts for Learning Ltd (HfL, an associate) are not considered material to the Council's overall financial position. Therefore group accounts have not been prepared for 2017/18.

### Future Funding for Local Government

The Statement of Accounts have been produced on a going concern basis. Despite the high degree of uncertainty about future levels of funding for local government, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to reduce levels of service provision. The Council is well placed to achieve the level of savings required in the Medium Term Finance Forecast (MTFF), and continue to deliver its statutory services

# Notes to the Accounts

## Note 4: Assumptions made about the future and other major sources on estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for the revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from Assumptions |
|---|---|---|
| **Property, Plant and Equipment** | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, which could impact on the useful lives of assets. The Council has Property, Plant and Equipment with a Net Book Value of £2.915 billion on the Balance Sheet as at 31st March 2018, with £68.860 million charged as depreciation during the year. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br><br>It is estimated that the annual depreciation charge for buildings would increase by approximately £0.835 million for every year that useful lives had to be reduced. |
| **Pension Liability** | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The liability estimated as at 31st March 2018 was £1.07 billion. | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £299 million. Full sensitivity analysis is disclosed in Note 37 Defined Benefit Pension Schemes. |
| **Provision for NNDR Appeals** | The value of National Non Domestic Rates (NNDR) income included in the accounts is reduced by a provision for the estimated value of appeals against valuation decisions, including backdating. These estimates have been calculated by billing authorities, using information from the Valuation Office on outstanding appeals and experience of successful appeal rates. The Council's provision is based on its 10% share of the income lost on successful appeals. | Each 1% increase in the value of appeals that is provided for would give an additional cost of £0.075 million. |
| **Provision for Doubtful Debts** | The value of outstanding debtors in the accounts is reduced by a provision for estimated doubtful debts, based on the experience that it is not economic or possible to recover all debt. The Council operates a policy of making provision for specified percentages of debt in age bands above 9 months. The Council does not make provision for debt secured by legal charge against property, where checks have provided a high degree of certainty that the debt is recoverable. | Any debt deemed as irrecoverable over and above this provision will be a charge to service expenditure. Each 1% increase in the level of bad debt requiring write off will give an additional cost of £0.053m. |

# Notes to the Accounts

## Note 5: Material Items of Income and Expense

### Service Income

The Council has received contractual rental income from **Quantum Care Ltd** of £6m

### Service Expenditure

The Council has made significant payments to the following contractors and providers that are not disclosed separately:

- **Abbots Care Ltd** – A county-wide block contract for the provision of homecare and enablement homecare services (£8.3m);
- **Arriva Kent and Surrey Ltd** – Provision of supported bus service including concessionary fares (£8.6m)
- **Care By Us Ltd** – relates to HCS spend on a county-wide block contract as well as additional spot rate provision of homecare and enablement homecare services (£12.9m)
- **Central London Community Healthcare** – For the provision of sexual health services (£6.7m);
- **Crime Reductions Initiatives** – (known as CRI) for the provision of drug and alcohol support and prevention services (£6.9m);
- **FCC Recycling Ltd** – Contractor for Water dale Transfer Station, Bletchley & Milton Landfill Site, Hitchin Transfer station, Greatmoor EFW and Lakeside Energy From Waste Site and Haulage to all disposal points. Also manages various Household Waste Recycling Centres (£9.9m);
- **Hertfordshire Community NHS Trust** – For the provision of sexual health services and school nurses (£19.4m)
- **Hertfordshire School Building** – Partnership contract for the Building Schools for the Future, Public Finance Initiative, Marriott's And Lonsdale Schools, Design Build Finance & Operate comprising of a Unitary Charge for the schools plus, as a pass through, utility costs; (£7.2m);
- **Opus Arup International Consultants** – Highways consultants as main contractor for highways design (£8.8m);
- **Quantum Care Ltd** – Spent on a contract for the provision of residential care home placements (£19.4m);
- **Ringway Infrastructure Services Ltd** – for the provision of highway maintenance work (£62.1m);
- **Runwood Homes Plc** – Contracted for the provision of residential care home placements (£5.8m);
- **Serco Plc** – The payments to SERCO Plc are for the provision of a range of support services and customer services as per the Core Shared Managed Services contract and for the provision of Social Care Access & Telecare; (£27.3m); and
- **Viridor Waste Management Ltd** – Contractors managing Lakeside and Ardley EFW (£5.5m);

## Note 6: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Director of Resources on 31 May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events have taken place before this date, provided information about conditions existed at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There have been no material events after the reporting date to be disclosed in these financial statements.

# Notes to the Accounts

## Note 7: Adjustment between accounting basis and funding basis under regulations

This note details the adjustments that are made between the total comprehensive income and expenditure account, recognised by the Council in the year in accordance with proper accounting practice, and the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2016/17 | General Fund Balance | Capital Receipts Reserve | Capital Grants Reserve | Movement in Unusable Reserves |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| **Adjustments involving the Capital Adjustment Account** | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Charges for depreciation and impairment of non current assets | (72,927) | - | - | **72,927** |
| Amortisation of intangible assets | (715) | - | - | **715** |
| Capital grants and contributions | 59,082 | - | - | **(59,082)** |
| Revenue expenditure funded from capital under statute | (58,038) | - | - | **58,038** |
| Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement | (215,832) | - | - | **215,832** |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Statutory provision for the financing of capital investment | 22,792 | - | - | **(22,792)** |
| Capital expenditure charged against the General Fund balance | 21,319 | - | - | **(21,319)** |
| Use of Capital Reserves (Earmarked Reserves) to finance expenditure | (65) | - | - | **65** |
| **Adjustments involving the Capital Grants Unapplied Account** | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 82,600 | - | (82,600) | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | 72,775 | **(72,775)** |
| Repayment of Grant | (14) | - | 14 | - |
| **Adjustment involving the Capital Receipts Reserve** | | | | |
| Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement | 5,519 | (5,519) | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | 9,660 | - | **(9,660)** |
| Transfer of LEP Loan repayment | - | (1,000) | - | **1,000** |
| **Adjustments involving the Deferred Capital Receipts Reserve** | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | - | - | - |
| Transfer of deferred sale proceeds to the general fund in relation to Finance Leases | (99) | - | - | **99** |

(table continued on next page)

| 2016/17 | General Fund Balance £000s | Capital Receipts Reserve £000s | Capital Grants Reserve £000s | Movement in Unusable Reserves £000s |
|---|---|---|---|---|
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | |
| Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement | - | - | - | - |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 112 | - | - | **(112)** |
| Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements | (11) | - | - | **11** |
| Soft Loans | (213) | - | - | **213** |
| **Adjustments involving the Pensions Reserve** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (112,153) | - | - | **112,153** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 69,898 | - | - | **(69,898)** |
| **Adjustments involving the Collection Fund Adjustment Account** | | | | |
| Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements | 3,319 | - | - | **(3,319)** |
| **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 | (195) | - | - | **195** |
| **Total Adjustments** | **(195,624)** | **3,141** | **(9,811)** | **202,293** |

Agenda Pack 149 of 442

# Notes to the Accounts

| 2017/18 | General Fund Balance | Capital Receipts Reserve | Capital Grants Reserve | Movement in Unusable Reserves |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| **Adjustments involving the Capital Adjustment Account** | | | | |
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Charges for depreciation and impairment of non current assets | (40,722) | - | - | **40,722** |
| Amortisation of intangible assets | (952) | - | - | **952** |
| Capital grants and contributions | 47,165 | - | - | **(47,165)** |
| Revenue expenditure funded from capital under statute | (30,056) | - | - | **30,056** |
| Amounts of non current assets written off on disposal or sale as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement | (219,097) | - | - | **219,097** |
| Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement | | | | |
| Statutory provision for the financing of capital investment | 3,161 | - | - | **(3,161)** |
| Capital expenditure charged against the General Fund balance | 10,824 | - | - | **(10,824)** |
| Use of Capital Reserves (Earmarked Reserves) to finance expenditure | (65) | - | - | **65** |
| **Adjustments involving the Capital Grants Unapplied Account** | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | 83,462 | - | (83,462) | **-** |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | 44,193 | **(44,193)** |
| Repayment of Grant | - | - | - | **-** |
| **Adjustment involving the Capital Receipts Reserve** | | | | |
| Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement | 19,874 | (19,874) | - | **-** |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | 18,119 | - | **(18,119)** |
| Transfer of LEP Loan repayment | - | (10,000) | - | **10,000** |
| **Adjustments involving the Deferred Capital Receipts Reserve** | | | | |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | - | - | - | **-** |
| Transfer of deferred sale proceeds to the general fund in relation to Finance Leases | (105) | - | - | **105** |

(table continued on next page)

# Notes to the Accounts

| 2017/18 | General Fund Balance | Capital Receipts Reserve | Capital Grants Reserve | Movement in Unusable Reserves |
|---|---|---|---|---|
| | £000s | £000s | £000s | £000s |
| **Adjustments primarily involving the Financial Instruments Adjustment Account:** | | | | |
| Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement | - | - | - | - |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | 112 | - | - | **(112)** |
| Adjustment for Equivalent Interest Rate on finance costs , in accordance with statutory requirements | 8 | - | - | **(8)** |
| Soft Loans | 208 | - | - | **(208)** |
| **Adjustments involving the Pensions Reserve** | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement | (139,685) | - | - | **139,685** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 71,314 | - | - | **(71,314)** |
| **Adjustments involving the Collection Fund Adjustment Account** | | | | |
| Amount by which Council Tax and NNDR income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax and NNDR income calculated for the year in accordance with statutory requirements | (2,097) | - | - | **2,097** |
| **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 | 2,633 | - | - | **(2,632)** |
| **Total Adjustments** | **(194,018)** | **(11,755)** | **(39,269)** | **245,042** |

# Notes to the Accounts

## Note 8: Transfers to / from earmarked reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

The following gives a short description of each reserve, with a summary table provided at the end of this note:

### School Balances

- **School Balances –** cash reserves held in schools shown as carry forward balances.

- **Strategic Area Partnership** - to finance the provision of new learning opportunities to deliver the learner entitlement for 14 to 19 year olds (now included in schools budget shares).

- **Community Focused Extended School Activities** - balances carried forward by schools relating to community focused activities.

- **Schools Budget Central Expenditure** - previous underspend against the central expenditure budgets within the Schools Budget. This will be used to finance the Council's Schools Budget in future years, in line with the requirements of the Dedicated Schools Grant.

- **ESC Balances** – cash reserves held in Education Support Centres shown as carry forward balances.

### Other Reserves

- **Academy Conversion Reserve** - to finance the planning and legal costs associated with Academy conversions as the number of schools converting escalates.

- **Adult Care Services Carry Forwards** – carry forward reserve to be used for Local Welfare Provision and Health Funding, including amounts relating to the Better Care Fund.

- **Bad Debt Reserve** – to provide for additional bad debt should this be required.

- **BSF PFI Reserve** – the excess of PFI credits over current expenditure levels carried forward to fund future obligations in respect of the Building Schools for the Future project.

- **Business Rates Equalisation Reserve** – to manage volatility in council tax and business rates forecasting from District and Borough Councils.

- **Capital Financing Reserve** – created from revenue underspends, to be applied as Revenue Contributions to Capital Outlay to support future years' capital programmes.

- **Capital Receipts Spend to Release Reserve** – to be applied as Revenue Contributions to Capital Outlay to support capital spend enabling achievement of capital receipts.

- **Commuted Maintenance** – sums secured in year through the development of legal agreements to fund maintenance of non-standard assets in the future. A withdrawal is made on the basis of a long term plan of maintenance need. Income is added at the end of each year from negotiated settlements with contractors for new developments.

- **Corporate Carry Forwards** – this relates to the carry forward of agreed budgets relating to specific projects planned for 2017/18 but now expected to complete in 2018/19.

- **Corporate Managed Properties** – monies carried forward to be used for maintenance on shared managed properties.

- **County Council Elections** – to meet the cost of County Council elections held every 4 years.

- **Cuffley Camp Reserve** – to cover costs arising following termination of lease at Cuffley Camp. Costs remain in line with expectations, but some are now expected to fall in 2018/19.

- **East Coast & Humberside Control Room Consortium** – Hertfordshire has taken over as the lead authority of the East Coast and Humberside Control Room Consortium from Humberside. The Consortium is comprised of 4 authorities (Hertfordshire, Humberside, Norfolk and Lincolnshire) and was set up to improve the resilience and efficiency of the control rooms of each authority. The consortium is funded by a Ministry of Housing, Communities & Local Government (MHCLG) grant and Humberside have transferred the balance of the grant which will be held on a reserve to fund the Consortium going forward.

- **Economic Growth Fund** – Hertfordshire County Council has set aside 32% of its share of the Business Rates Pool gain (8% of the total Net Retained Levy) in an Economic Growth Fund, to be allocated to projects and initiatives that support economic development and the growth of the NNDR taxbase in Hertfordshire.

- **Education & Early Intervention Reserve** - to be used for education, support and intervention in Schools, Learning Centres, alternative education and recreation settings.

- **Education Support Reserve** – to support improved educational outcomes in schools.

- **Flood and Water Management** – funds set aside to support the new sustainable urban drainage responsibility.

- **General Contingency Reserve** – reserve held to address known issues that have arisen during 2017/18 but which could not be immediately resolved within the year.

- **Hadham Towers Restoration** – to provide for essential restoration work to return the former Hadham Towers Waste Disposal site to its original use as agricultural land.

- **Hertfordshire Safeguarding Adults Board** – partner contributions held to fund additional expenditure/meet any future shortfalls.

- **Herts Music Service - Music Donations** – this fund comprises of legacy donations to the Music Service held in practice on trust for the purposes for which it was donated, namely to support Music Centres across the County.

- **Innovation Fund (Children's Services)** – this reserve will be used to fund both phase 1 and phase 2 of the Family Safeguarding (Innovation Fund) project.

- **Invest to Transform** – reserve set aside to support innovative projects across the Council that will underpin service transformation and deliver future efficiencies.

- **LAMS Reserve** - holds funds set aside to support the Council's participation in the LAMS scheme which facilitates mortgage lending to eligible Hertfordshire residents. As the scheme is now closed, these funds have been redesignated to support the Property Development Programme.

- **Local Enterprise Partnership (LEP) Capital Reserves** – these funds are set aside to support the Local Enterprise Partnership infrastructure initiative, providing funding for schemes to develop Hertfordshire's economy and infrastructure. The purpose of the reserve is to act as loan fund against infrastructure.

- **Local Enterprise Partnership (LEP) Revenue Reserves** – These funds have been set aside to generate economic activity by local enterprise partnerships. They also support the operating costs of the LEP.

- **Members Highway Locality Reserve** - funding for Member prioritised highway spending.

- **MMI Reserve** - a specific reserve set up in recognition of the increased risk relating to the Municipal Mutual Insurance contingent liability.

- **Nobel Lifecycle fund** – reserve set up to be used over the next 10 years to fund future obligations for lifecycle works as they become required.

- **Planning Delivery Grant** – reserve held for the installation of a new development management IT system.

- **Private Finance Initiative (PFI) Equalisation Reserve** – the reserve represents the excess of PFI credits over current expenditure levels carried forward to fund future obligations in respect of young persons' homes and family centres.

- **Proceeds of Crimes Act (POCA) Receipts** - Proceeds of Crimes Act held by the Council in respect of ongoing trading standards and Serious and Organised Crime Agency (SOCA) court cases, to be spent on Community Protection activities.

- **Public Health** – carry forward reserve to support Public Health against risks of the cost of new mandated drugs and health epidemics.

- **Revenue Budget Support 2016/17** – to support the 2016/17 revenue budget.

- **Safeguarding & Specialist Services** - to be used to finance safeguarding vulnerable children.

- **Salix** - to meet capital costs of energy conservation works; replenished by repayment of a proportion of ongoing savings.

- **Self-Insurance Reserve** - a reserve to cover for uninsured liabilities in respect of employer's liability, third party insurance and potential costs incurred as a result of storm damage.

- **SEND Reform Grant** – a reserve created from grant funding received to support the transition from statements of SEN to combined Education, Health & Care (EHC) Plans.

- **Shared Anti-Fraud Service (SAFS) Surplus** – surplus to be used to fund additional expenditure/meet any shortfall in future years.

- **Shared Internal Audit Service (SIAS) Surplus** – surplus to be used to fund additional expenditure/meet any shortfall in future years.

- **Spatial Planning Reserve** - to fund development of strategic spatial framework for the County and in particular, support the outcomes from the "Devo" discussions which are specifically examining joint working on planning and infrastructure issues. There is also a need to use this reserve to fund transport strategy work to support the next round of transport infrastructure bids to the LEP's Strategic Growth Fund.

- **Statutory Planning Authority Inquiries** – to meet costs associated with attending public inquiries as the Statutory Planning Authority, which vary significantly between years and the public examination of local plans. The next one of these will be the Minerals Local Plan in 2017/18.

- **Thriving Families Reserve** – relates to grant monies for Thriving Families, a multi-year programme which has recently been extended by central government.

- **Transition Reserve** – to support the management of the identified savings gap between 2019/20 and 2021/22, recognising the risk to the Council of the implementation of a new local government financing model.

- **Waste PFI Reserve** – set up to deal with a range of risks which could result from the project dealing with the long term treatment of residual waste.

- **Watford Music Service** – this fund (a requirement of the agreement with Watford Grammar School for Boys), is held against future liabilities for this Music Centre.

- **Week 53 Reserve** - to provide payment to contractor as per an agreed schedule. The annual schedule is payment for exactly 52 weeks over any given year. Every six or seventh year the schedule has to increase to 53 weeks and an annual contribution is made to the reserve to cover this.

# Notes to the Accounts

| Balance at 1 April 2016 £000s | *Transfers out 2016/17* £000s | *Transfers in 2016/17* £000s | Net Transfers during 2016/17 £000s | Balance at 31 March 2017 £000s | | Capital (C) or Revenue (R) | Balance at 1 April 2017 £000s | *Transfers out 2017/18* £000s | *Transfers in 2017/18* £000s | Net Transfers during 2017/18 £000s | Balance at 31 March 2018 £000s |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (60,963) | 64,272 | (62,091) | 2,181 | (58,783) | Schools Balances | R | (58,783) | 61,791 | (64,531) | (2,741) | (61,523) |
| (298) | 104 | - | 104 | (194) | Strategic Area Partnership | R | (194) | 193 | - | 193 | - |
| (1,058) | 212 | - | 212 | (846) | Community Focused Extended School Activities | R | (846) | 434 | - | 434 | (412) |
| (22,013) | 10,814 | (10,090) | 724 | (21,289) | Schools Budget Central Expenditure | R | (21,289) | 8,560 | (10,605) | (2,045) | (23,334) |
| (1,910) | 1,919 | (1,740) | 178 | (1,731) | ESC Balances | R | (1,731) | 1,738 | (1,523) | 215 | (1,516) |
| **(86,241)** | **77,320** | **(73,922)** | **3,399** | **(82,842)** | **Balances held by schools under a scheme of delegation** | - | **(82,842)** | **72,717** | **(76,660)** | **(3,943)** | **(86,785)** |
| (1,000) | - | - | - | (1,000) | Academy Conversion Reserve | R | (1,000) | - | - | - | (1,000) |
| (1,993) | 1,993 | (472) | 1,521 | (472) | Adult Care Services Carryforwards | R | (472) | 472 | (6,154) | (5,682) | (6,154) |
| - | - | - | - | - | Adult Care Services Grant Carryforwards | R | - | - | (1,115) | (1,115) | (1,115) |
| - | - | - | - | - | Bad Debt Reserve | R | - | - | (2,583) | (2,583) | (2,583) |
| (3,174) | - | (942) | (942) | (4,116) | BSF PFI Reserve | R | (4,116) | 350 | (582) | (232) | (4,348) |
| - | - | - | - | - | Business Rates Equalisation Reserve | R | - | - | (1,103) | (1,103) | (1,103) |
| (3,174) | 3,424 | (250) | 3,174 | - | Capital Financing Reserve | C | - | - | (2,287) | (2,287) | (2,287) |
| (2,923) | 2,100 | - | 2,100 | (823) | Capital Receipts Spend to Release Reserve | R | (823) | - | - | - | (823) |
| (1,664) | 1,272 | (125) | 1,147 | (516) | Commuted Maintenance | R | (516) | - | (492) | (492) | (1,008) |
| (470) | 262 | (883) | (621) | (1,091) | Corporate Carry Forwards | R | (1,091) | 366 | (4,820) | (4,454) | (5,545) |
| - | - | (290) | (290) | (290) | Corporate Managed Properties | R | (290) | - | - | - | (290) |
| (725) | - | (290) | (290) | (1,016) | County Council Elections | R | (1,016) | 1,016 | (4) | 1,011 | (5) |
| - | - | - | - | - | Cuffley Camp Reserve | R | - | - | (705) | (705) | (705) |
| - | - | (2,896) | (2,896) | (2,896) | East Coast & Humberside Control Room Consortium | R | (2,896) | 1,265 | (8) | 1,256 | (1,640) |
| - | - | (190) | (190) | (190) | Economic Growth Fund | R | (190) | - | - | - | (190) |
| (200) | - | (90) | (90) | (290) | Education & Early Intervention Reserve | R | (290) | 43 | (155) | (112) | (402) |
| - | - | - | - | - | Education Support Reserve | R | - | - | (1,290) | (1,290) | (1,290) |
| (160) | 160 | (159) | 1 | (159) | Flood and Water Mgmt | R | (159) | 159 | - | 159 | - |
| - | - | - | - | - | General Contingency Reserve | R | - | - | (2,789) | (2,789) | (2,789) |
| (126) | - | - | - | (126) | Hadham Towers Restoration | R | (126) | - | - | - | (126) |
| (117) | - | (45) | (45) | (162) | Hertfordshire Safeguarding Adults Board | R | (162) | 14 | - | 14 | (148) |

(table continued on next page)

# Notes to the Accounts

| Balance at 1 April 2016 £000s | *Transfers out 2016/17* £000s | *Transfers in 2016/17* £000s | Net Transfers during 2016/17 £000s | Balance at 31 March 2017 £000s | | Capital (C) or Revenue (R) | Balance at 1 April 2017 £000s | *Transfers out 2017/18* £000s | *Transfers in 2017/18* £000s | Net Transfers during 2017/18 £000s | Balance at 31 March 2018 £000s |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (264) | - | - | - | (264) | Herts Music Service - Music Donations | R | (264) | - | (3) | (3) | (266) |
| (3,201) | 2,100 | (1,388) | 712 | (2,489) | Innovation Fund (Children's Services) | R | (2,489) | 756 | - | 756 | (1,733) |
| (22,094) | 5,374 | (4,350) | 1,024 | (21,070) | Invest to Transform | R | (21,070) | 2,278 | (2,090) | 187 | (20,883) |
| - | - | - | - | - | Investment Reserve | R | - | - | (6,300) | (6,300) | (6,300) |
| (2,115) | 65 | (184) | (119) | (2,234) | LAMS reserve | C | (2,234) | 242 | (111) | 131 | (2,103) |
| (5,833) | 6,609 | (838) | 5,771 | (62) | Local Enterprise Partnership (LEP) Capital Reserves | R | (62) | 62 | - | 62 | - |
| (1,918) | 1,486 | (6,493) | (5,007) | (6,925) | Local Enterprise Partnership (LEP) Revenue Reserves | R | (6,925) | 485 | (333) | 152 | (6,774) |
| (563) | 563 | (50) | 513 | (50) | Members Highway Locality | R | (50) | 50 | (321) | (271) | (321) |
| (816) | - | (137) | (137) | (953) | MMI Reserve | R | (953) | 320 | - | 320 | (633) |
| (300) | - | (59) | (59) | (358) | Nobel Lifecycle Fund | R | (358) | 9 | - | 9 | (349) |
| (109) | - | - | - | (109) | Planning Delivery Grant | R | (109) | 58 | (39) | 19 | (90) |
| (1,746) | - | (8) | (8) | (1,754) | PFI Equalisation Reserve | R | (1,754) | - | (6) | (6) | (1,760) |
| (317) | - | (12) | (12) | (329) | POCA Receipts | R | (329) | 43 | (51) | (9) | (337) |
| (3,700) | 1,030 | (1,276) | (246) | (3,946) | Public Health | R | (3,946) | 578 | (1,312) | (734) | (4,680) |
| (385) | 385 | - | 385 | - | Revenue Budget Support 2016/17 | R | - | - | - | - | - |
| (325) | 265 | (282) | (17) | (342) | Safeguarding & Specialist Services | R | (342) | 140 | (80) | 60 | (282) |
| (40) | 287 | (323) | (37) | (77) | Salix | R | (77) | 266 | (301) | (35) | (111) |
| (5,489) | 3,658 | - | 3,658 | (1,832) | Self-Insurance Reserve | R | (1,832) | - | (4,819) | (4,819) | (6,651) |
| (839) | 1,097 | (746) | 351 | (489) | SEND Reform grant | R | (489) | 519 | (564) | (45) | (534) |
| (158) | 61 | - | 61 | (97) | Shared Anti Fraud Service (SAFS) Surplus | R | (97) | 13 | - | 13 | (84) |
| (82) | 12 | - | 12 | (70) | Shared Internal Audit Service (SIAS) Surplus | R | (70) | - | (7) | (7) | (77) |
| (111) | - | - | - | (111) | Spatial Planning Reserve | R | (111) | - | - | - | (111) |
| (387) | - | - | - | (387) | Statutory Planning Authority Inquiries | R | (387) | - | - | - | (387) |
| (667) | 121 | (19) | 102 | (565) | Thriving Families | R | (565) | 19 | (258) | (239) | (804) |
| - | - | - | - | - | Transition Reserve | R | - | - | (3,000) | (3,000) | (3,000) |
| (8,000) | - | - | - | (8,000) | Waste PFI reserve | C | (8,000) | - | - | - | (8,000) |
| (872) | - | (192) | (192) | (1,064) | Waste Week 53 | R | (1,064) | - | (192) | (192) | (1,257) |
| (221) | - | - | - | (221) | Watford Music Service | R | (221) | - | (22) | (22) | (243) |
| (162,517) | 109,643 | (96,912) | 12,732 | (149,785) | **Total** | | (149,785) | 82,238 | (120,556) | (38,318) | (188,105) |

# Notes to the Accounts

## Note 9: Other Operating Expenditure

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 2,177 | Levies | 2,112 |
| 210,313 | (Gains) / Losses on the disposal of non current assets | 199,224 |
| (4,574) | Operating expenditure and income not attributable to services | (6,139) |
| **207,917** | **Total** | **195,197** |

The loss on the disposal of non-current assets in 2017/18 includes accounting for maintained schools converting to foundation or academy status. This has resulted in a transfer of assets by way of 125 year leases of land, property, plant and equipment relating to the conversion of maintained schools (£191.1m).

The figure for operating income not attributable to services includes £5.6m of rental income to the Council relating to properties leased out as care homes. The comparative figure for 2016/7 was £4.5m.

## Note 10: Financing and Investment Income and Expenditure

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 17,919 | Interest payable and similar charges | 17,622 |
| 31,532 | Pensions interest cost and expected return on pensions assets | 28,216 |
| (3,249) | Interest receivable and similar income | (4,248) |
| (1,417) | Surplus or Deficit on Trading Operations | (792) |
| **44,785** | **Total** | **40,798** |

## Note 11: Taxation and Non Specific Grant Income

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| (520,122) | Council Tax income | (549,462) |
| (114,579) | Non domestic rates | (114,732) |
| (224,983) | Non-ringfenced government grants | (194,907) |
| **(859,685)** | **Total** | **(859,101)** |

# Notes to the Accounts

## Note 12: Property, Plant & Equipment and Investment Properties

### Property, Plant & Equipment – Movement on Balances

| Movements in 2016/17 | Land and Buildings £000s | Vehicles, Plant, Furniture and Equipment £000s | Infrastructure Assets £000s | Community Assets £000s | Surplus Assets £000s | Assets under Construction £000s | Total Property, Plant and Equipment £000s | PFI Assets Included in Property, Plant & Equipment £000s |
|---|---|---|---|---|---|---|---|---|
| ***Cost or Valuation*** | | | | | | | | |
| **At 1 April 2016** | **2,254,542** | **52,890** | **916,637** | **-** | **135,711** | **4,100** | **3,363,881** | **65,848** |
| Additions | 53,233 | 9,666 | 62,673 | - | 2,647 | 11,262 | 139,481 | - |
| Donations | - | - | - | - | - | - | - | - |
| Revaluations Increases / (Decreases) recognised in the Revaluation Reserve | 44,850 | - | - | - | 25,116 | - | 69,966 | - |
| Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services | (15,893) | - | - | - | (1,283) | - | (17,176) | - |
| Derecognition - Disposals | (208,199) | (11,497) | - | - | (897) | - | (220,593) | - |
| Derecognition – Other | (1,066) | - | - | - | - | - | (1,066) | - |
| Assets reclassified (to) / from Held for Sale | (60) | - | - | - | (36,364) | - | (36,424) | - |
| Other movements in Cost or Valuation | (1,154) | 921 | - | - | 2,073 | (1,839) | - | - |
| **At 31 March 2017** | **2,126,253** | **51,979** | **979,310** | **-** | **127,004** | **13,523** | **3,298,069** | **65,848** |
| ***Accumulated Depreciation and Impairment*** | | | | | | | | |
| **At 1 April 2016** | **(21,278)** | **(24,553)** | **(250,999)** | **-** | **(253)** | **-** | **(297,082)** | **(46)** |
| Depreciation Charge | (30,966) | (12,055) | (26,540) | - | (549) | - | (70,110) | (2,329) |
| Depreciation written out to the Revaluation Reserve | 11,658 | - | - | - | 273 | - | 11,931 | - |
| Depreciation written out to the Surplus / Deficit on the Provision of Service | 14,200 | - | - | - | 186 | - | 14,386 | - |
| Impairment losses / (reversals) recognised in the Revaluation Reserve | - | - | - | - | - | - | - | - |
| Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services | - | - | - | - | - | - | - | - |
| Derecognition - Disposals | 1 | 10,258 | - | - | 7 | - | 10,265 | - |
| Derecognition – Other | - | - | - | - | - | - | - | - |
| Assets reclassified (to) / from Held for Sale | - | - | - | - | - | - | - | - |
| Other movements in Depreciation and Impairments | (1) | - | - | - | 1 | - | - | - |
| **At 31 March 2017** | **(26,385)** | **(26,351)** | **(277,539)** | **-** | **(334)** | **-** | **(330,609)** | **(2,375)** |
| ***Net Book Value*** | | | | | | | | |
| **At 31 March 2016** | **2,233,264** | **28,337** | **665,638** | **-** | **135,458** | **4,100** | **3,066,799** | **65,802** |
| **At 31 March 2017** | **2,099,868** | **25,628** | **701,771** | **-** | **126,670** | **13,523** | **2,967,460** | **63,473** |

# Notes to the Accounts

| Movements in 2017/18 | Land and Buildings £000s | Vehicles, Plant, Furniture and Equipment £000s | Infrastructure Assets £000s | Community Assets £000s | Surplus Assets £000s | Assets under Construction £000s | Total Property, Plant and Equipment £000s | PFI Assets Included in Property, Plant & Equipment £000s |
|---|---|---|---|---|---|---|---|---|
| ***Cost or Valuation*** | | | | | | | | |
| **At 1 April 2017** | **2,126,256** | **51,979** | **979,310** | **-** | **127,004** | **13,523** | **3,298,072** | **65,848** |
| Additions | 27,367 | 8,705 | 68,552 | - | 10,459 | 4,498 | **119,581** | - |
| Donations | - | - | - | - | - | - | **-** | - |
| Revaluations Increases / (Decreases) recognised in the Revaluation Reserve | 13,523 | - | - | - | 41,556 | - | **55,078** | - |
| Revaluations Increases / (Decreases) recognised in the Surplus / Deficit on the Provision of Services | 9,318 | - | - | - | 4,150 | - | **13,468** | - |
| Derecognition - Disposals | (192,849) | (12,039) | - | - | (988) | - | **(205,875)** | - |
| Derecognition – Other | (916) | (1,446) | - | - | (8) | - | **(2,371)** | - |
| Assets reclassified (to) / from Held for Sale | (625) | - | - | - | (50) | - | **(675)** | - |
| Other movements in Cost or Valuation | 1,556 | 6,095 | - | - | 8,043 | (16,466) | **(772)** | - |
| **At 31 March 2018** | **1,983,890** | **53,293** | **1,047,862** | **-** | **190,165** | **1,556** | **3,276,506** | **65,848** |
| ***Accumulated Depreciation and Impairment*** | | | | | | | | |
| **At 1 April 2017** | **(26,386)** | **(26,350)** | **(277,539)** | **-** | **(334)** | **-** | **(330,610)** | **(2,375)** |
| Depreciation Charge | (28,696) | (11,408) | (28,086) | - | (670) | - | **(68,860)** | (2,582) |
| Depreciation written out to the Revaluation Reserve | 10,785 | - | - | - | 239 | - | **11,023** | - |
| Depreciation written out to the Surplus / Deficit on the Provision of Service | 15,365 | - | - | - | 105 | - | **15,470** | - |
| Impairment losses / (reversals) recognised in the Revaluation Reserve | - | - | - | - | - | - | **-** | - |
| Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services | - | - | - | - | - | - | **-** | - |
| Derecognition - Disposals | 4 | 11,311 | - | - | - | - | **11,315** | - |
| Derecognition – Other | - | - | - | - | - | - | **-** | - |
| Assets reclassified (to) / from Held for Sale | - | - | - | - | - | - | **-** | - |
| Other movements in Depreciation and Impairments | (4) | - | - | - | 4 | - | **-** | - |
| **At 31 March 2018** | **(28,934)** | **(26,447)** | **(305,625)** | **-** | **(656)** | **-** | **(361,661)** | **(4,957)** |
| ***Net Book Value*** | | | | | | | | |
| **At 31 March 2017** | **2,099,870** | **25,628** | **701,771** | **-** | **126,670** | **13,523** | **2,967,462** | **63,473** |
| **At 31 March 2018** | **1,954,956** | **26,846** | **742,237** | **-** | **189,509** | **1,556** | **2,914,845** | **60,891** |

# Notes to the Accounts

## Capital Commitments

The value of material contracts to which the Council is committed to as at the 31st March 2018 is estimated at £36.116m (£22.877m in 2016/17). For the purposes of this note a commitment is considered material if it exceeds a value of £500,000.

| Description | £000s |
|---|---|
| Schools - Secondary Development Agreements | 9,962 |
| Schools - other improvement w orks | 6,023 |
| Carriagew ay w orks | 16,898 |
| Footw ay w orks | 754 |
| Other Highw ays Works | 1,883 |
| Structures | 597 |
| **Total** | **36,116** |

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. The valuations were carried out by an external valuer, Roger Firth, a Fellow of the Royal Institution of Chartered Surveyors (FRICS), in his capacity as an Associate Director of Lambert Smith Hampton, and Philip Brawn (FRICS) also of Lambert Smith Hampton. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

Assets are then carried in the balance sheet using the following measurement basis:

| Type of Asset | Basis of Valuation |
|---|---|
| **Infrastructure<br>Community Assets<br>Assets Under Construction** | **Depreciated historical cost** |
| **Other Land & Buildings** | **Current value based on existing use value (EUV).<br>Depreciated replacement cost (DRC)<br>if EUV cannot be determined** |
| **Vehicles, Plant, Equipment<br>and Furniture** | **Depreciated historical cost as<br>a proxy for fair value, where assets have short useful lives** |
| **Surplus Assets** | **Fair value based on highest and best use value** |
| **Investment Property<br>Assets Held For Sale** | **Market value** |

# Notes to the Accounts

There have been no significant assumptions applied in estimating the fair values, which are:

*5 year revaluation table*

| | Land and Buildings | Vehicles, Plant, Furniture and Equipment | Infrastructure Assets | Community Assets | Surplus Assets | Assets under Construction | Total Property, Plant and Equipment | PFI Assets Included in Property, Plant and Equipment |
|---|---|---|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Valued at Historic Cost | - | 26,846 | 742,238 | - | - | 1,556 | 770,640 | 2,604 |
| Valued at Current Value in: | | | | | | | | |
| 2014/15 | 19,960 | - | - | - | 767 | - | 20,727 | 13,846 |
| 2015/16 | 681,560 | - | - | - | 43,732 | - | 725,292 | 44,441 |
| 2016/17 | 626,608 | - | - | - | 17,870 | - | 644,478 | - |
| 2017/18 | 626,568 | - | - | - | 127,140 | - | 753,708 | - |
| **Grand Total** | **1,954,696** | **26,846** | **742,238** | **-** | **189,509** | **1,556** | **2,914,845** | **60,891** |

## Disposals

Disposals include assets transferred to schools that have converted to academy status, where a 125 year lease is granted.

## Investment Properties

There are currently no assets held as Investment Properties by the Council.

## Surplus Assets

Information about the fair values of the surplus assets as at 31st March 2018 is as follows:

| 31 March 2018 | | | |
|---|---|---|---|
| Level 1 | Level 2 | Level 3 | Fair Value |
| Quoted Prices in active market for identical assets | Observable inputs for the asset | Unobservable inputs for the asset | |
| £000s | £000s | £000s | £000s |
| - | - | 189,509 | 189,509 |
| **-** | **-** | **189,509** | **189,509** |

# Notes to the Accounts

## Note 13: Heritage Assets

During 2017/18, an exercise was undertaken by the Council's valuers which resulted in a revaluation loss of £0.483m recognised in year.

Asset values are as shown in the summary of transactions below.

| | Paintings £'000s | Artefacts £'000s | Sculptures £'000s | Total Assets £'000s |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| 1 April 2016 | 1,879 | 87 | 25,522 | 27,488 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Revaluations | - | - | 5,550 | 5,550 |
| Impairments | - | - | - | - |
| **31 March 2017** | **1,879** | **87** | **31,072** | **33,038** |
| **Cost or valuation** | | | | |
| 1 April 2017 | 1,879 | 87 | 31,072 | 33,038 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| Revaluations | 28 | - | (512) | (483) |
| Impairments | - | - | - | - |
| **31 March 2018** | **1,908** | **87** | **30,560** | **32,555** |

### Paintings

The Council's external valuer for its art work, Townley Valuation Services (TVS), carried out a valuation exercise of material items within the collection of paintings as at 31 March 2018, and has confirmed that there has been an increase in market values of £28k. The valuations were based on TVS inspecting our documented records and our photographic archive, and undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

During the year none of the paintings was deemed to have suffered major damage requiring write down to be charged to the Comprehensive Income and Expenditure Statement.

### Art Collection

The collection consists of nearly 1,700 paintings, posters and sketches which are displayed in County Hall, other Council properties, libraries, schools, development centres, elderly persons homes and on loan to museums. Key paintings within this art collection are: -

- Philip Mercier, Portrait of Frederick Lewis, Prince of Wales valued at £100,000;
- Philip Mercier, Portrait of Princess Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Amelia, Daughter of King George II and Queen Caroline valued at £80,000;
- Philip Mercier, Portrait of Princess Anne, Daughter of King George II and Queen Caroline valued at £80,000;
- Ceri Richards, Matisse valued at £60,000;
- Anne Redpath, The Blue Plate valued at £50,000;
- Sir Thomas Lawrence, Portrait of William Plummer valued at £50,000 (increase of £15,000);
- Circle of Jean Baptiste van Loo, Portrait of Queen Caroline valued at £40,000;

- Charles Jervas, Portrait of King George II, standing full length valued at £40,000;
- John Tunnard, Brandis valued at £35,000;
- Richard Westall, The Shepherd in a Storm valued at £35,000 (increase of £10,000);
- Frances Hodgkins, Still Life with Vase and Eggs valued at £32,000.

### Sculptures

The Council's collection of sculptures is reported in the Balance Sheet at insurance valuation which is based on market values. These sculptures will be revalued as part of the Council 's five year revaluation programme and be subject to an annual existence check on a sample basis. The Council's external valuer for its art work Townley Valuation Services (TVS) carried out a full valuation of the collection of sculptures as at 31 March 2013 based on TVS inspecting all our documented records and our photographic archive, undertaking desk based research by art experts in TVS that has included visits to museums and inspecting a number of pieces by visiting the location where they are displayed or stored.

The highest value items are reviewed annually and TVS have advised that as at 31st March 2018 insurance valuations should be decreased by £0.512m, as below:

- The stone figures of Queen Eleanor from Waltham Cross (on loan) - £3.5m (decrease of £0.5m);
- Edward Onslow Ford, bust of Sir Hubert von Herkomer– valuation £8,000 (decrease of £12,000);

### Artefacts

This contains the civic regalia including a forty inch sterling silver chain, pendants and badges associated with the position of the Chairman and Vice-Chairman, an old school door and frame and a Flemish Landscape Tapestry, probably Oudenaard, circa 1670-1690.

### Hertfordshire Archives and Local Studies (HALS)

The Hertfordshire Archives and Local Studies (HALS) consist of the Council’s Record Office documents and are included as part of the Council’s library assets. Whilst these may be of interest to an historian they hold no determinable value and accordingly are not reported in the balance sheet.

### Preservation and Management

The Council has not undertaken any major repairs or restoration of any of its heritage assets in 2017/18. The cost of any such repairs and restoration if incurred would be charged to the Comprehensive Income and Expenditure Statement.

The Council employs a fully qualified archive conservator for any repairs needed at HALS. Schedules of work needed are kept and are undertaken on a rolling programme. Sometimes grant funding can be acquired to help with a major conservation project e.g. from the National Manuscripts Conservation Trust. The Council employs an administrator in the Library service, who manages all issues of repairs and maintenance. These are based on an annual cycle of inspection and feedback from schools and apply to that part of the collection that is loaned to schools. The remaining collection is managed by Property, who administers a limited range of repairs and maintenance, related to investment projects or requests for intervention for support for maintenance from schools.

The County Archivist manages the archive collections held at HALS. There are various policies in existence for the management of certain types of records e.g. the County Council’s archives are governed by the Council’s Records Management Policy (Aug 2009 held on the Intranet) and the Retention Guidelines (also on the Intranet).

The schools loan collection is managed by the Library service with active engagements with schools. The remaining elements in the collection are managed by Property.

Acquisitions are rare and primarily made by donation. However, on rare occasions when a particularly important asset is available for purchase, the Council will undertake the purchase provided that it meets the objectives of the Council in terms of its collection of heritage assets. HALS has a formal Acquisitions Policy and additions to the other collections have only been made as part of a re-fit of head office accommodation at Stevenage. The additional pieces were approved at member level and were newly commissioned pieces from a local artist.

Assets are collated, preserved and managed in accordance with the aforementioned guidelines. The register for each collection records the nature, provenance, condition and current location of each asset.

Each individual collection at HALS has a unique Accession number which is recorded in a manual register. During 2013/14 a project was completed to transfer this information to computer using archive software (CALM), and new accessions are routinely added to this database. The other collections' registers have been made available previously and validated as part of the recent revaluation programme.

Disposals of heritage assets are not anticipated but if deemed desirable will require member approval supported by guidance from officers who hold accountability for the collections. In order to dispose of any archive held at HALS permission would have to be sought from the individual owner of the collection. Many collections owned by the Council are inalienable as grant funding was awarded in order to purchase them, making their disposal very unlikely.

## Note 14: Intangible Assets

The Council 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 Council. Major systems such as SAP and the Integrated Education System are normally assessed at 10 years life while PC- based software is typically assessed at 5 years. These software and web intangible assets are carried at historical cost as a proxy for current replacement costs, and are amortised on a straight-line basis. Centrally charged amortisation is absorbed as overheads across all service headings if deemed material.

The movement of intangible asset balances during the year is as follows:

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| Software & Licences | Portal & Web Design | Total | | Software & Licences | Portal & Web Design | Total |
| | | | ***Balance at start of year*** | | | |
| 6,211 | 63 | **6,274** | - Gross carrying amount | 6,513 | 63 | **6,575** |
| (2,306) | (38) | **(2,343)** | - Accumulated amortisation | (2,976) | (50) | **(3,026)** |
| **3,905** | **25** | **3,930** | Net carrying amount at start of year | **3,537** | **13** | **3,550** |
| | | | ***Changes in year*** | | | |
| 334 | - | **334** | Purchases | 352 | - | **352** |
| (703) | (13) | **(716)** | Amortisation for the period | (940) | (13) | **(952)** |
| - | - | **-** | Other changes | 772 | - | **772** |
| **3,537** | **13** | **3,550** | **Net carrying amount at end of year** | **3,721** | **-** | **3,721** |
| | | | Comprising: | | | |
| 6,513 | 63 | **6,575** | - Gross carrying amount | 7,587 | 63 | **7,649** |
| (2,976) | (50) | **(3,026)** | - Accumulated amortisation | (3,865) | (63) | **(3,928)** |
| **3,537** | **13** | **3,550** | **Net carrying amount at end of year** | **3,721** | **-** | **3,721** |

## Note 15: Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

| 2016/17 £000s | 2016/17 £000s | | 2017/18 £000s | 2017/18 £000s |
|---|---|---|---|---|
| | **518,299** | **Opening Capital Financing Requirement** | | **531,007** |
| | | ***Capital investment*** | | |
| 139,481 | | Property, Plant and Equipment | 119,581 | |
| - | | Investment Properties | - | |
| 416 | | Loans for another body's capital expenditure | 762 | |
| - | | Investments treated as capital | - | |
| 334 | | Intangible Assets | 352 | |
| 58,038 | | Revenue Expenditure Funded from Capital under Statute | 30,056 | |
| | **198,270** | | | **150,750** |
| | | ***Sources of finance*** | | |
| (9,660) | | Capital receipts | (18,119) | |
| 65 | | Capital Reserves | 65 | |
| (131,857) | | Government grants and other contributions | (91,358) | |
| - | | Sums set aside from revenue: | - | |
| (22,792) | | Minimum Revenue Provisions | (3,161) | |
| (21,319) | | Direct revenue contributions | (10,824) | |
| | **(185,562)** | | | **(123,397)** |
| | **531,007** | **Closing Capital Financing Requirement** | | **558,361** |
| | | **Explanation of movements in year:** | | |
| | 35,499 | Increase in the underlying need to borrow (supported by government financial assistance) | | 30,514 |
| | (22,792) | Decrease in the underlying need to borrow | | (3,161) |
| | - | Assets acquired under finance leases | | - |
| | - | Assets acquired under PFI/PPP contracts | | - |
| | **12,708** | **Increase/(decrease) in Capital Financing Requirement** | | **27,354** |

# Notes to the Accounts

## Note 16: Leases

### Council as Lessee

***Finance Leases***

The Council has acquired a number of vehicles and non-property assets under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 33,699 | Other Land and Buildings | 33,524 |
| 28 | Vehicles, Plant, Furniture and Equipment | - |
| **33,727** | **Total** | **33,524** |

The Council is committed to making the minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| | Finance lease liabilities (Net Present Value of minimum lease payments): | |
| 33 | – current | 35 |
| 35 | – non-current | - |
| - | | - |
| 5 | Finance costs payable in future years | 2 |
| **73** | **Minimum Lease Payments** | **36** |

The minimum lease payments will be payable over the following periods:

| 31 March 2017 Finance Lease Liabilities £000s | 31 March 2017 Minimum Lease Payments £000s | | 31 March 2018 Finance Lease Liabilities £000s | 31 March 2018 Minimum Lease Payments £000s |
|---|---|---|---|---|
| 33 | 36 | Not later than one year | 35 | 36 |
| 32 | 36 | Later than one year and not later than five years | - | - |
| - | - | Later than five years | - | - |
| **65** | **73** | **Total** | **35** | **36** |

# Notes to the Accounts

***Operating Leases***

The Council has a number of arrangements classified as operating leases, consisting of Land & Buildings and Vehicles. The future minimum lease payments due under non-cancellable leases in future years are:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 3,522 | Not later than one year | 3,898 |
| 10,038 | Later than one year and not later than five years | 9,518 |
| 19,966 | Later than five years | 21,010 |
| **33,525** | **Minimum lease payments** | **34,426** |

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

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 3,305 | Land & Buildings | 3,395 |
| 338 | Vehicles | 574 |
| **3,643** | **Total** | **3,969** |

## Council as Lessor

***Finance Leases***

The Council has leased out a number of Land & Buildings assets under finance leases. These assets are derecognised from the Council's Balance Sheet.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. 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:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| | Finance lease liabilities (Net Present Value of minimum lease payments): | |
| 105 | – current | 111 |
| 3,081 | – non-current | 2,970 |
| 8,634 | Unearned finance income | 8,044 |
| 2,359 | Unguaranteed residual interest of property | 2,359 |
| **14,178** | **Gross investment in the lease** | **13,484** |

The minimum lease payments will be payable to the Council over the following periods:

| 31 March 2017 Gross investment in the lease £000s | 31 March 2017 Minimum Lease Payments £000s | | 31 March 2018 Gross investment in the lease £000s | 31 March 2018 Minimum Lease Payments £000s |
|---|---|---|---|---|
| 695 | 695 | Not later than one year | 695 | 695 |
| 2,779 | 2,779 | Later than one year and not later than five years | 2,779 | 2,779 |
| 10,705 | 8,345 | Later than five years | 10,010 | 7,651 |
| **14,178** | **11,819** | **Total** | **13,484** | **11,124** |

***Operating Leases***

The Council has a number of arrangements classified as operating leases consisting of Land & Buildings. These are arrangements where Council-owned properties are leased to other organisations for a range of purposes. These include leases of land for electricity substations or communications infrastructure, leases to other public or voluntary sector organisations for use in delivery of their services or leases to private sector individuals or organisations where the land is surplus to the Council's operating requirements. The future minimum lease payments receivable under non-cancellable leases in future years are:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 6,804 | Not later than one year | 5,978 |
| 20,627 | Later than one year and not later than five years | 19,716 |
| 98,765 | Later than five years | 90,412 |
| **126,196** | **Total** | **116,107** |

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

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 7,221 | Land & Buildings | 6,804 |
| - | Vehicles | - |
| **7,221** | **Total** | **6,804** |

## Note 17: Private Finance Initiatives (PFI) and Similar Contracts

The Code of Practice 2017/18 requires that PFI schemes should be accounted for on the basis of IFRIC 12 “Service Concessions”. To be within the scope of IFRIC 12, the PFI scheme must contractually oblige the private sector operator to deliver, on behalf of the Council, public services related to infrastructure. In addition, IFRIC 12 requires the Council to:

- Control or regulate what services the operator must provide with the infrastructure, to whom it must provide them and at what price; and to
- Control any significant residual interest, through beneficial entitlement or otherwise, in the infrastructure at the end of the term of the scheme.

### Children’s Services

The Council entered into a PFI scheme in June 2007 for the design, finance and maintenance of seven new children's' homes, a family assessment centre, a disability resource centre, a children’s centre and the refurbishment of five family support centres, through a private sector operator, with a facility for 25 years. The private sector operator is Young Herts and Unitary Charge payments are made monthly on invoice. The PFI scheme involved rebuilding /refurbishing existing council buildings and the operation of those centres. The units became operational at various times from 2007/08 to 2009/10. The scheme is due to end on 31 March 2033 at which stage all the assets will revert to the Council. The value of these assets (land & buildings) following revaluation as at the dates they became operational were £18.17m as at 31 March 2010. During 2010/11 a number of the homes were converted from six to seven bed units. This was a low cost change achieved by converting a staff sleep in room to a resident’s room, any revenue costs as a result of this change will be minimum.

The Council’s PFI obligation for the capital (finance lease) element is:

| 31 March 2017 | | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| Capital £000s | Interest £000s | Service £000s | | Capital £000s | Interest £000s | Service £000s |
| 636 | 1,032 | 1,265 | Not later than one year | 695 | 989 | 1,287 |
| 3,024 | 3,660 | 5,439 | Later than one year and not later than five years | 3,191 | 3,455 | 5,696 |
| 4,816 | 3,292 | 8,218 | Later than five years and not later than ten years | 4,938 | 2,968 | 8,882 |
| 5,632 | 1,600 | 11,197 | Later than ten years and not later than fifteen years | 6,138 | 1,216 | 11,352 |
| 1,491 | 75 | 2,199 | Later than fifteen years and not later than tw enty years | () | | - |
| **15,599** | **9,660** | **28,317** | **Total** | **14,964** | **8,628** | **27,218** |

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IFRIC 12. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Council’s approach for each relevant class of asset.

There was a re-valuation exercise in 2014/15 as a result of which new values have been reflected in the accounts. The net book value as at 31 March 2015 was £14.743m.

# Notes to the Accounts

The outstanding liabilities to be paid to the contractors for capital expenditure incurred are as follows:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 16,185 | Balance outstanding at start of year | 15,599 |
| (586) | Payments during the year | (636) |
| - | Capital expenditure incurred during the year | - |
| - | Other movements | - |
| **15,599** | **Balance outstanding at end of year** | **14,963** |

### Building Schools for the Future

This project reached Financial Close in January 2011 on a limited scheme which included Marriott's & Lonsdale Schools, with Nobel School being a design & build project financed by the Council. Whilst it was originally expected that the PFI funded schools would become operational and unitary charge payable to the operator (at that time Balfour Beatty Education) from September 2012 the actual handover date was 7 January 2013.

The scheme is still due to end on 31 August 2037 at which stage all assets will revert to the Council.

The value of the Marriott's and Lonsdale Schools (land and buildings) at the date they became operational was £43.24m

The Council's PFI obligation for the capital (finance lease) element is:

| 31 March 2017 | | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| Capital £000s | Interest £000s | Service £000s | | Capital £000s | Interest £000s | Service £000s |
| 827 | 3,737 | 2,128 | Not later than one year | 977 | 3,656 | 2,147 |
| 4,544 | 14,015 | 8,703 | Later than one year and not later than five years | 4,765 | 13,587 | 9,377 |
| 7,209 | 14,935 | 13,536 | Later than five years and not later than ten years | 7,801 | 14,250 | 14,303 |
| 9,969 | 10,908 | 17,271 | Later than ten years and not later than fifteen years | 10,709 | 9,963 | 18,381 |
| 15,797 | 5,287 | 19,122 | Later than fifteen years and not later than twenty years | 15,258 | 3,781 | 16,823 |
| 1,991 | 93 | 1,138 | Later than twenty years and not later than twenty five years | | - | - |
| **40,338** | **48,975** | **61,898** | **Total** | **39,510** | **45,238** | **61,030** |

As the schools are operational they have been recognised as assets within the balance sheet. They have initially been recognised at cost and are reflected in the assets as at 31 March 2013.

Subsequently the assets have been measured at fair value, and be kept up to date in accordance with the Councils' approach for the relevant class of asset. There was a re-valuation exercise in 2015/16 as a result of which new values have been reflected in the accounts. The net book value as at 31 March 2016 was £51.109m.

# Notes to the Accounts

The outstanding liabilities to be paid to the contractors for capital expenditure incurred are as follows:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 41,388 | Balance outstanding at start of year | 40,335 |
| (1,054) | Payments during the year | (827) |
| - | Other movements | - |
| **40,335** | **Balance outstanding at end of year** | **39,507** |

## Note 18: Debtors

The following amounts were owed to the Council by third parties at financial year end.

Short-Term:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 38,898 | Central government bodies | 31,475 |
| 57,679 | Other local authorities | 54,802 |
| 470 | NHS bodies | 6,491 |
| - | Public corporations and trading funds | - |
| 49,483 | Other entities and individuals | 53,314 |
| (22,462) | Provisions for doubtful debts | (22,349) |
| **124,068** | **Total** | **123,733** |

Long-Term:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| - | Central government bodies | - |
| 14,971 | Other local authorities | 8,809 |
| - | NHS bodies | - |
| - | Public corporations and trading funds | - |
| 19,857 | Other entities and individuals | 17,022 |
| - | Provisions for doubtful debts | - |
| **34,828** | **Total** | **25,831** |

Analysis of provisions for doubtful debts:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| | Short Term: | |
| **(22,040)** | **Balance at start of the year** | **(22,462)** |
| (422) | Change in general provision | 113 |
| **(22,462)** | **Balance at end of Year** | **(22,349)** |
| | Long Term: | |
| - | Balance at start of the year | - |
| - | Change in general provision | - |
| - | Balance at end of Year | - |
| **(22,462)** | **Total** | **(22,349)** |

## Note 19: Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 70,496 | Cash held by the Council with bank | 69,284 |
| (7,192) | Bank current account balance / (overdraft) | (16,334) |
| 36,977 | Short-term deposits | 71,014 |
| **100,281** | **Total** | **123,964** |

The bank position is managed on a daily basis as part of the Treasury Management function, and all account balances are pooled, with any overdrawn accounts offset by cash balances on other accounts within the pooled arrangements. Short-term deposits have been classified as Cash & Cash Equivalents if the deposits have a maturity of less than 24 hours at the date of inception.

## Note 20: Assets held for Sale

| 2016/17 Non-Current £000s | 2016/17 Current £000s | | 2017/18 Non-Current £000s | 2017/18 Current £000s |
|---|---|---|---|---|
| **-** | **1,939** | **Balance outstanding at start of year** | **-** | **33,897** |
| | | *Assets newly classified as held for sale:* | | |
| - | 36,424 | - Property, Plant and Equipment | - | 675 |
| - | - | - Intangible Assets | - | - |
| - | - | - Other assets / liabilities in disposal groups | - | - |
| - | (26) | Revaluation losses | - | (800) |
| - | - | Revaluation gains | - | - |
| - | - | Impairment losses | - | - |
| | | *Assets declassified as held for sale:* | | |
| - | - | - Property, Plant and Equipment | - | - |
| - | - | - Intangible Assets | - | - |
| - | - | - Other assets / liabilities in disposal groups | - | - |
| - | (4,439) | Assets sold | - | (22,166) |
| - | - | Transfers from non current to current | - | - |
| - | - | Other movements | - | - |
| **-** | **33,897** | **Balance outstanding at end of year** | **-** | **11,606** |

# Notes to the Accounts

## Note 21: Creditors

The following amounts were owed by the Council to third parties at financial year end:

### Short-Term:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| (21,699) | Central government bodies | (22,241) |
| (25,795) | Other local authorities | (24,517) |
| (2,571) | NHS bodies | (2,789) |
| (12) | Public corporations and trading funds | (36) |
| (103,115) | Other entities and individuals | (106,772) |
| **(153,192)** | **Total** | **(156,354)** |

### Long-Term:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| (270) | Central government bodies | (386) |
| (540) | Other local authorities | (603) |
| - | NHS bodies | - |
| - | Public corporations and trading funds | - |
| (211) | Other entities and individuals | (256) |
| **(1,021)** | **Total** | **(1,244)** |

## Note 22: Provisions

The following provisions have been set aside in the 2017/18 accounts to meet future expenditure where liabilities are known or expected.

| | Balance at 1 April 2017 £000s | Additional provisions made in 2017/18 £000s | Amounts used in 2017/18 £000s | Unused amounts reversed in 2017/18 £000s | Unwinding of discounting in 2017/18 £000s | Balance at 31 March 2018 £000s |
|---|---|---|---|---|---|---|
| Insurance Provision | (14,301) | (1,447) | 3,669 | 2,809 | - | **(9,269)** |
| Teachers Pension Provision | (197) | (56) | 96 | - | - | **(157)** |
| Sleep-in Provision | - | (1,338) | - | - | - | **(1,338)** |
| NNDR Appeals Provision | (5,785) | (2,615) | 867 | - | - | **(7,533)** |
| Municipial Mutual Insurance Provision | - | (246) | - | - | - | **(246)** |
| Other Liabilities | (208) | - | - | 8 | - | **(200)** |
| **Total** | **(20,490)** | **(5,702)** | **4,632** | **2,817** | **-** | **(18,743)** |

Expected outflow of economic benefits:

| | Not later than one year | Later than one year and not later than five years | Later than five years | **Total Provisions** |
|---|---|---|---|---|
| | **£000s** | **£000s** | **£000s** | **£000s** |
| Insurance Provision | (5,895) | (3,373) | - | **(9,269)** |
| Teachers Pension Provision | (157) | - | - | **(157)** |
| Sleep-in Provision | (1,338) | - | - | **(1,338)** |
| NNDR Appeals Provision | (7,533) | - | - | **(7,533)** |
| Municipial Mutual Insurance Provision | (246) | - | - | **(246)** |
| Other Liabilities | (8) | (30) | (162) | **(200)** |
| **Total** | **(15,177)** | **(3,404)** | **(162)** | **(18,743)** |

## Insurance Provisions

Insurance provisions have been set aside to meet known claims for which it is anticipated the Council may be liable. The Council operates insurance provisions and reserves to meet self-insured liabilities in respect of fire damage, employers and third party liability and storm damage.

## Teachers' Pension Provision

This provision is set aside for teachers not currently employed by schools, for whom pension contribution payments had not been made. These employees may have thought that they had opted-out of the scheme however this is difficult to evidence and HCC would be required to pay a back-dated contribution if this was not the case.

This provision was made as Serco undertook an audit of both active and leaver teaching records where the employee was not paying into the Teachers Pensions scheme, identifying cases of potential arrears of contributions. Whilst the initial project was resolved, TPA themselves have started a data cleansing exercise which has identified further discrepancies.

## Sleep-ins

A ruling by the Employment Appeals Tribunal in April 2017 confirmed that National Living Wage (NLW) requirements applied for sleep-in support, as the employee is required to remain at the premises regardless of whether they are awake or asleep.

HCC has complied with this ruling from 2017/18 by processing backdated payments to providers where a flat fee was paid for sleep-ins. However, a provision is set aside for providers that have not yet come forward to make a claim against the Council.

## NNDR Appeals

HCC as precepting authority discloses its share of the provision calculated by billing authorities (districts) for the estimated costs of backdated appeals on National Non Domestic Rating (NNDR) values in the ratings list. These calculations are based on the lists of outstanding appeals with the Valuation Office as at 31/3/18. Billing authorities have used local experience of the % success of appeals, adjusted where relevant for the likely outcome on the largest valuations.

## Municipal Mutual Insurance Provision

In common with most other local authorities, until 30 September 1992 the Council insured with the Municipal Mutual Insurance (MMI) Company. Following MMI's insolvency a Scheme of Arrangement was put in place, pursuant to section 425 of the Companies Act 1985, now section 899 of the Companies Act 2006. The Scheme is managed by the Scheme Administrator and overseen by the Creditors' Committee as well as MMI's regulator appointed by the

Financial Conduct Authority. The Scheme of Arrangement monitors MMI's solvency and provides for a levy to be imposed on all the Scheme Creditors in the event funds are required to pay for outstanding claims.

On 13 November 2012, the Scheme was triggered by the Directors of MMI as they could no longer foresee a solvent run-off for the payment of outstanding claims. This resulted in the imposition of a levy on all Scheme Creditors that have had claims paid since inception of the Scheme of Arrangement. This first levy of 15% amounting to £705,000 was issued on 1 January 2014 based on claims valued at £4.7m (less £50,000 retention). In recognition of a contingent liability for any future claims a reserve of £1.3m has been maintained to cover further levy payments required. There has been and still remains uncertainty about the total level of a levy, with the reserve holding sufficient to cover the worst case scenario.

### Other Provisions

HCC has been required to set aside funds to make certain pension payments following a decision by the Pension's Ombudsman. The value of this provision will be assessed on an ongoing basis as part of the triennial valuation of pension liabilities. The outflow of funds represents pension payments made.

## Note 23: Usable Reserves

The following balances were held in usable reserves at year end:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| (149,785) | Earmarked Reserves (see note 8) | (188,105) |
| (500) | Capital Receipts Reserve | (12,255) |
| (72,174) | Capital Grants Unapplied | (111,443) |
| (31,809) | General Fund | (31,497) |
| **(254,268)** | **Total** | **(343,300)** |

### Capital Receipts Reserve

The Capital Receipts Reserve represents the capital receipts available to either repay external debt or finance capital expenditure.

| 2016/17 £000s | 2016/17 £000s | | 2017/18 £000s | 2017/18 £000s |
|---|---|---|---|---|
| | **(3,641)** | **Balance at 1 April** | | **(500)** |
| (5,519) | | Transfer of sale proceeds credited as part of the gain / loss on disposal to the Comprehensive Income and Expenditure Statement | (19,874) | |
| 9,660 | | Use of the Capital Receipts Reserve to finance new capital expenditure | 18,119 | |
| (1,000) | | Loan Repayments | (10,000) | |
| | **3,141** | | | **(11,755)** |
| | **(500)** | **Balance at 31 March** | | **(12,255)** |

# Notes to the Accounts

## Capital Grants Unapplied

Capital Grants Unapplied is the balance of grants and other contributions received but not yet applied to capital expenditure where there is no requirement to repay if conditions attached to the funding are not met. Where grants and contributions do have repayment conditions, the funds are held as a creditor balance in Capital Grants Received in Advance (see note 38). The total balance held in Grants Unapplied and Received in Advance was £158.5m at 31 March 2018.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | **(62,363)** | **Balance at 1 April** | | **(72,174)** |
| (82,184) | | Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (83,607) | |
| (417) | | Capital grants and contributions transferred to Capital Grants unapplied and credited to the Comprehensive Income and Expenditure Statement | (3) | |
| 1 | | Capital grants and contributions transferred from Capital Grants unapplied and credited/debited to the Comprehensive Income and Expenditure Statement | 148 | |
| 72,775 | | Application of grants to capital financing transferred to the Capital Adjustment Account | 44,193 | |
| 14 | | Repayments of grants | - | |
| | **(9,811)** | | | **(39,269)** |
| | **(72,173)** | **Balance at 31 March** | | **(111,443)** |

## Note 24: Unusable Reserves

The following balances were held in unusable reserves at year end:

| 31 March 2017 | | 31 March 2018 |
|---|---|---|
| £000s | | £000s |
| (664,922) | Revaluation Reserve | (666,315) |
| (575) | Available for Sale Financial Instruments Reserve | (4,360) |
| (1,860,367) | Capital Adjustment Account | (1,747,162) |
| 4,193 | Financial Instruments Adjustment Account | 3,865 |
| 1,066,299 | Pensions Reserve | 1,030,918 |
| (5,545) | Deferred Capital Receipts Reserve | (5,440) |
| (14,082) | Collection Fund Adjustment Account | (11,985) |
| 16,419 | Accumulating Compensated Absences Adjustment Account | 13,787 |
| **(1,458,580)** | **Total** | **(1,386,692)** |

# Notes to the Accounts

## 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 any 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.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | (617,260) | **Balance at 1 April** | | (664,922) |
| (104,722) | | Upward revaluation of assets | (87,087) | |
| 17,275 | | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | 21,469 | |
| | (87,447) | **Surplus of Deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services** | | (65,618) |
| 5,355 | | Difference between fair value depreciation and historical cost depreciation | 5,760 | |
| 34,429 | | Accumulated gains on assets sold or scrapped | 58,466 | |
| | 39,784 | **Amount written off to the Capital Adjustment Account** | | 64,226 |
| | (664,922) | **Balance at 31 March** | | (666,315) |

## Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains any gains or losses made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments.

While some of the Council's Available for Sale financial instruments are held in fixed value units (Constant Net Asset Value MMFs), two investments in 2017/18 were held in MMFs with variable net asset and six investments in 2017/18 were held in pooled funds covering a number of asset classes which also have variable capital asset values. These funds with variable capital values are revalued as at 31st March 2018 to their market value.

These funds with variable capital values are revalued as at 31 March 2018 to their market value.

| 31 March 2017 | | 31 March 2018 |
|---|---|---|
| £000s | | £000s |
| 423 | **Balance at 1 April** | (575) |
| (998) | Revaluations [ (increase) / decrease ] of Available for Sale Financial Instruments | (3,784) |
| (575) | **Balance at 31 March** | (4,360) |

# Notes to the Accounts

## 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 and gains recognised on donated assets 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 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | (1,983,533) | **Opening Balance at 1 April** | | (1,860,367) |
| | | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| 70,110 | | - Charges for depreciation and impairment of non-current assets | 68,860 | |
| 2,817 | | - Revaluation losses on Property, Plant and Equipment | (28,138) | |
| 715 | | - Amortisation of intangible assets | 952 | |
| 58,038 | | - Revenue expenditure funded from capital under statute | 30,056 | |
| 215,832 | | - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 219,097 | |
| (39,784) | | Adjusting amounts written out of the Revaluation Reserve | (64,226) | |
| | 307,728 | **Net written out amount of the cost of non-current assets consumed in the year** | | 226,601 |
| | | Capital financing applied in the year: | | |
| (9,660) | | - Use of the Capital Receipts Reserve to finance new capital expenditure | (18,119) | |
| 1,000 | | - Transfer of LEP Loan repayment | 10,000 | |
| 65 | | - Use of the Capital Reserve to finance new capital expenditure | 65 | |
| (59,082) | | - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | (47,165) | |
| (72,775) | | - Application of grants to capital financing from the Capital Grants Unapplied Account | (44,193) | |
| (22,792) | | - Statutory provision for the financing of capital investment charged against the General Fund | (3,161) | |
| (21,319) | | - Capital expenditure charged against the General Fund | (10,824) | |
| | (184,562) | | | (113,397) |
| | (1,860,367) | **Balance at 31 March** | | (1,747,163) |

# Notes to the Accounts

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on Council Tax.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | **4,081** | **Balance at 1 April** | | **4,193** |
| (112) | | Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (112) | |
| 11 | | Adjustment for Equivalent Interest Rate on finance costs, in accordance with statutory requirements | (8) | |
| 213 | | Soft Loans | (208) | |
| | **112** | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | | **(328)** |
| | **4,193** | **Balance at 31 March** | | **3,865** |

## Pension 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 fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions 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.

| 2016/17 | | 2017/18 |
|---|---|---|
| £000s | | £000s |
| **895,868** | **Balance at 1 April** | **1,066,299** |
| 128,176 | Actuarial (gains) or losses on pensions assets and liabilities benefits debited or credited to the Comprehensive Income and Expenditure Statement | (103,752) |
| 112,153 | 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 | 139,685 |
| (69,898) | Employer's pensions contributions and direct payments to pensioners payable in the year | (71,314) |
| **1,066,299** | **Balance at 31 March** | **1,030,918** |

### 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, except in the case of finance leases where amounts are transferred to the General Fund.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | (5,644) | **Balance at 1 April** | | (5,545) |
| - | | Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement | - | |
| 99 | | Transfer to General Fund upon receipt of cash | 105 | |
| | 99 | | | 105 |
| | (5,545) | **Balance at 31 March** | | (5,440) |

### Collection Fund Adjustment Account

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

*Council Tax*

| 2016/17 | | 2017/18 |
|---|---|---|
| £000s | | £000s |
| (14,611) | **Balance at 1 April** | (15,903) |
| (1,292) | 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 | 3,254 |
| (15,903) | **Balance at 31 March** | (12,649) |

*NNDR*

| 2016/17 | | 2017/18 |
|---|---|---|
| £000s | | £000s |
| 3,848 | **Balance at 1 April** | 1,821 |
| (2,027) | Amount by which business rates (NNDR) income credited to the Comprehensive Income and Expenditure Statement is different from NNDR income calculated for the year in accordance with statutory requirements | (1,157) |
| 1,821 | **Balance at 31 March** | 664 |

# Notes to the Accounts

### 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 and flexi 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.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | **16,224** | **Balance at 1 April** | | **16,419** |
| (16,224) | | Settlement or cancellation of accrual made at the end of the preceding year | (16,419) | |
| 16,419 | | Amounts accrued at the end of the current year | 13,787 | |
| | **195** | 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 | | **(2,632)** |
| | **16,419** | **Balance at 31 March** | | **13,787** |

## Note 25: Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following interest related items, in addition to operating costs:

| 2016/17 | | 2017/18 |
|---|---|---|
| £000s | | £000s |
| 3,268 | Interest received | 4,372 |
| (16,019) | Interest paid | (14,902) |
| - | Dividends paid | 750 |

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

| 2016/17 | | 2017/18 |
|---|---|---|
| £000s | | £000s |
| 70,110 | Depreciation | 68,860 |
| 2,817 | Impairment and downward valuations | (28,138) |
| 715 | Amortisation | 952 |
| - | (Increase)/decrease in impairment for bad debts | - |
| 10,998 | (Increase)/decrease in creditors | 6,460 |
| (21,429) | (Increase)/decrease in debtors | 12,600 |
| (408) | (Increase)/decrease in inventories | (270) |
| 42,255 | Movement in pension liability | 68,371 |
| 215,832 | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | 219,097 |
| (265) | Other non-cash items charged to the net surplus or deficit on the provision of services | (4,329) |
| **320,626** | | **343,603** |

# Notes to the Accounts

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| (2,325) | Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries) | (138) |
| (5,519) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (19,874) |
| (141,681) | Any other items for which the cash effects are investing or financing cash flows | (130,627) |
| **(149,526)** | | **(150,639)** |

## Note 26: Cash Flow Statement – Investing Activities

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| (140,560) | Purchase of property, plant and equipment, investment property and intangible assets | (120,121) |
| (3,050) | Purchase of short-term and long-term investments | (5,070) |
| 402 | Other payments for investing activities | (2,973) |
| 5,420 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 19,769 |
| 2,335 | Proceeds from short-term and long-term investments | 995 |
| 152,339 | Other receipts from investing activities | 128,825 |
| **16,886** | **Net cash flows from investing activities** | **21,425** |

## Note 27: Cash Flow Statements – Financing Activities

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 30,000 | Cash receipts of short- and long-term borrowing | - |
| - | Other receipts from financing activities | - |
| (1,670) | Cash payments for the reduction of outstanding liabilities relating to finance leases and on-Balance-Sheet PFI contracts | (1,496) |
| (2,927) | Repayments of short- and long-term borrowing | (32,950) |
| (456) | Other payments for financing activities | (248) |
| **24,947** | **Net cash flows from financing activities** | **(34,694)** |

# Notes to the Accounts

## Note 28: Notes to the Expenditure and Funding Analysis

### 28a: Adjustments between Funding and Accounting Basis

The Expenditure and Funding Analysis contains an analysis of the adjustments required to the amounts chargeable to the General Fund, in order to arrive at the Net Expenditure in the Comprehensive Income and Expenditure Statement. The major adjustments are explained below:

| 2016/17 | Adjustments for Capital Purposes £000s | Net Change for the Pensions Adjustments £000s | Other Adjustments £000s | Total Adjustments £000s |
|---|---|---|---|---|
| Adult Care Services | 3,168 | 2,321 | 123 | 5,613 |
| Central Items | 10 | 795 | (4) | 801 |
| Children's Services | 52,074 | 5,636 | 42 | 57,752 |
| Community Protection | 1,993 | 7,111 | 71 | 9,175 |
| Environment | 28,083 | 535 | (136) | 28,482 |
| Public Health | 687 | 72 | (7) | 752 |
| Resources | 7,375 | 1,168 | 99 | 8,642 |
| **Net Cost of Services** | **93,390** | **17,637** | **188** | **111,215** |
| Other Income and Expenditure | 62,990 | 24,618 | (3,200) | 84,409 |
| **Surplus or Deficit** | **156,380** | **42,255** | **(3,011)** | **195,624** |

| 2017/18 | Adjustments for Capital Purposes £000s | Net Change for the Pensions Adjustments £000s | Other Adjustments £000s | Total Adjustments £000s |
|---|---|---|---|---|
| Adult Care Services | 2,864 | 6,158 | 17 | 9,038 |
| Central Items | 19 | 701 | - | 720 |
| Children's Services | 10,459 | 26,029 | (2,674) | 33,815 |
| Community Protection | 2,273 | 7,749 | (11) | 10,011 |
| Environment | 26,912 | 1,866 | 11 | 28,790 |
| Public Health | - | 221 | 7 | 227 |
| Resources | 9,455 | 4,844 | 26 | 14,325 |
| **Net Cost of Services** | **51,982** | **47,568** | **(2,624)** | **96,925** |
| Other Income and Expenditure | 74,530 | 20,803 | 1,760 | 97,093 |
| **Surplus or Deficit** | **126,511** | **68,371** | **(864)** | **194,018** |

Further details about these adjustments are shown below:

- Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for the following items in Other Income & Expenditure:
    - Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision 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 receivable in the year to those receivable without 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 or for which conditions were satisfied in the year.

- Net change for the pensions adjustments – this column reflects the removal of pensions contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

  - For services this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with current service costs and past service costs.

  - For Financing and investment income and expenditure –- the net interest on the defined benefit liability is charged to the CIES.

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

  - For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

  - The charge under Taxation and non-specific grant income and expenditure represents the difference between the amount that is chargeable under statutory regulations for council tax and NNDR 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.

### 28b: Segmental Expenditure and Income

Revenue from external customers is analysed on a segmental basis below. This is the only material category of income or spend in column 1 of the EFA required to be disclosed separately.

| 2016/17 Revenue from external customers £000s | | 2017/18 Revenue from external customers £000s |
|---|---|---|
| (51,854) | Adult Care Services | (56,524) |
| - | Central Items | - |
| (71,357) | Children's Services | (67,939) |
| (1,744) | Community Protection | (1,737) |
| (12,986) | Environment | (11,719) |
| (189) | Public Health | (91) |
| (21,084) | Resources | (19,225) |
| **(159,215)** | **Total Analysed on a Segmental Basis** | **(157,234)** |

# Notes to the Accounts

## Note 29: Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

| | 2016/17<br>£000s | 2017/18<br>£000s |
|---|---|---|
| Employee Benefits Expense | 738,100 | 779,558 |
| Depreciation, amortisation and impairment (capital charges) | 73,642 | 41,674 |
| Interest Payments | 17,919 | 17,633 |
| Precepts & Levies | 2,177 | 2,112 |
| Gain/Loss on disposal of non-current assets | 210,313 | 199,224 |
| Other service expenses | 996,365 | 971,131 |
| **Total Expenditure (A)** | **2,038,517** | **2,011,331** |
| Fees, charges and other service income | (243,504) | (239,775) |
| Government grants and other contributions | (948,403) | (947,095) |
| Income from Council Tax and Business Rates | (634,702) | (664,194) |
| Interest & investment income | (3,249) | (4,256) |
| **Total Income (B)** | **(1,829,858)** | **(1,855,320)** |
| **Net Expenditure (A + B)** | **208,659** | **156,011** |

## Note 30: Trading Operations

The Council has established trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. The following were active trading operations in 2017/18:

### Hertfordshire Business Services (HBS)

HBS offers a professional purchasing, supply and contract management service to the Council and other customers. HBS is a leading member of the Central Buying Consortium consisting of 17 local authorities and negotiates both joint and Council specific contracts.

### Hertfordshire Reprographics

Hertfordshire Reprographics is the Council's in-house print unit. It provides a range of reprographic services including printing, fast print, plan print and photocopying.

| 2016/17<br>£000s | 2016/17<br>£000s | | 2017/18<br>£000s | 2017/18<br>£000s |
|---|---|---|---|---|
| (34,958) | | Turnover for Hertfordshire Business Services (HBS) | (36,097) | |
| 33,506 | | Expenditure for Hertfordshire Business Services (HBS) | 35,304 | |
| | **(1,452)** | **(Surplus) / Deficit for Hertfordshire Business Services** | | **(793)** |
| (1,057) | | Turnover for Hertfordshire Reprographics | (966) | |
| 1,092 | | Expenditure for Hertfordshire Reprographics | 967 | |
| | **35** | **(Surplus) / Deficit for Hertfordshire Reprographics** | | **1** |
| | **(1,417)** | **Net Surplus on trading operations** | | **(792)** |

# Notes to the Accounts

## Note 31: Agency Services

### Services on behalf of CCGs

The Joint Commissioning Partnership Board was established in 2002 by the Primary Care Trusts (PCTs) in Hertfordshire and Hertfordshire County Council in order to implement and direct joint commissioning for Health and Social Care services. From April 2013, PCT functions have been taken over by Clinical Commissioning Groups (CCG's) and by NHS England. As a result of this reorganisation, agency spend has reduced as responsibility for some specialist functions, including secure services, has transferred to NHS England.

Most of these services are within a Pooled Budget arrangement and HCC only accounts for their contributions in respect of these arrangements (see note 32). However some services are provided where the funding is not pooled because pooling of funding leads to the sharing of risk, and in some areas it is considered that the risk (e.g. in terms of level of funding required) should lie exclusively with one party.

The entries relating to agency services, which are net nil in the Comprehensive Income and Expenditure table, are detailed below:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 11,336 | Expenditure incurred on behalf of CCGs / NHS England | 11,677 |
| (11,336) | Expenditure recovered from CCGs / NHS England | (11,677) |
| **-** | **Net expenditure on service for NHS Hertfordshire** | **-** |

### Services on behalf of HHIA

The Hertfordshire Home Improvement Agency (the HHIA) was established in October 2017 and is a shared service between Hertfordshire County Council (HCC), East Herts District Council, North Herts District Council, Broxbourne Borough Council and Watford Borough Council to provide home and housing adaptations to Hertfordshire residents with Disabled Facilities Grant (DFG) allocations. HCC provides the shared service through the HHIA in accordance with the Partnership Agreement.

The entries relating to agency services include £4k absorbed by the Council and reported in Other Operating Expenditure. Further details are shown in the table below:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| - | Expenditure incurred on behalf of HHIA | 244 |
| - | Expenditure recovered in accordance with the Partnership Agreement | (102) |
| - | Income received in accordance with the Partnership Agreement | (87) |
| - | Better Care Fund - funding towards HHIA | (50) |
| **-** | **Net expenditure on service for HHIA** | **4** |

## Note 32: Pooled Budgets

In 2017/18 funding was provided by the Ministry of Housing, Communities & Local Government (MHCLG) to Hertfordshire County Council for the Improved Better Care Fund (iBCF). This funding is part of the BCF pooled budget but is separately identified in the table above.

In November 2015 a new S75 agreement was signed between Hertfordshire County Council, the Hertfordshire CCGs and Cambridgeshire & Peterborough CCG to include the Better Care Fund (which has incorporated the Westgate and Intermediate Care and Enablement Beds in East & North Hertfordshire pooled budgets within it). In 2016/17 there has been a BCF Variation Partnership Agreement signed updating the S75 although as the majority of the document is unchanged the November 2015 document is still current along with the Service Schedules (Schedule 1). A further Variation Partnership Agreement was produced in 2017/18.

The Better Care Fund in Hertfordshire is significantly larger than these specifically pooled amounts - which include funding for the protection of social care which is passed from the CCGs to Hertfordshire County Council - this amounts to £3,500k for Herts Valleys CCG and £4,250k for East & North Herts CCG. The remainder of the Better Care Fund (total fund is £290,739k) is currently not integrated and remains within the originating organisations.

A number of providers are commissioned from the pooled budgets. During 2017/18, this included £155.9m paid to Herts Partnership NHS Foundation Trust (£164.5m in 2016/17). Summary information for the pooled budgets that the Council contributed to is shown below:

**2016/17**

| | Westgate – East and North Herts | Intermediate care and Enablement beds in east and North Hertfordshire | Better Care Fund East & North Herts | Better Care Fund Cambridgeshire & Peterborough | Better Care Fund Herts Valleys | Mental haelth, learning disability (was JCPB) | Integrated Community Equipment Service |
|---|---|---|---|---|---|---|---|
| | £000s | £000s | £000s | £'000s | £000s | £000s | £000s |
| Funding provided to the pooled budget | | | | | | | |
| The Council | (2,718) | (648) | - | - | - | (176,763) | (3,377) |
| BCF Transfer betw een Pools | - | - | - | - | - | - | - |
| East & North Herts CCG | (706) | (2,336) | (17,904) | - | - | (71,528) | (1,643) |
| Herts Valleys CCG | - | - | - | - | (18,457) | (72,283) | (1,666) |
| Cambs & Peter CCG | - | - | - | (300) | - | (2,448) | (58) |
| Expenditure met from the pooled budget | 3,382 | 3,151 | 17,838 | 300 | 18,616 | 322,836 | 5,646 |
| **Net (surplus) / deficit arising on the pooled budget during the year** | **(42)** | **166** | **(66)** | **-** | **159** | **(186)** | **(1,099)** |

**2017/18**

| | Westgate – East and North Herts | Intermediate care and Enablement beds in east and North hertfordshire | Better Care Fund East & North Herts | Better Care Fund Cambridgeshire & Peterborough | Improved Better Care Fund Hertfordshire County Council | Total Schedule 1.1 | Better Care Fund Herts Valleys | Improved Better Care Fund Hertfordshire County Council | Total Schedule 1.2 | Mental haelth, learning disability (was JCPB) | Integrated Community Equipment Service |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000s | £000s | £000s | £'000s | £'000s | £'000s | £'000s | £'000s | £'000s | £000s | £000s |
| Funding provided to the pooled budget | | | | | | | | | | | |
| The Council | (2,325) | (191) | (45) | | (6,473) | **(9,033)** | (57) | (6,598) | **(6,655)** | (186,103) | (2,877) |
| BCF Transfer betw een Pools | | (776) | 776 | - | - | **-** | - | - | **-** | - | - |
| East & North Herts CCG | (715) | (2,219) | (13,980) | - | - | **(16,913)** | - | - | **-** | (73,900) | (1,395) |
| Herts Valleys CCG | - | - | - | - | - | **-** | (13,757) | - | **(13,757)** | (74,159) | (1,414) |
| Cambs & Peter CCG | | | | (322) | | **(322)** | | | **-** | (2,420) | (58) |
| Expenditure met from the pooled budget | 2,996 | 1,927 | 12,917 | 322 | 4,379 | **22,541** | 12,929 | 5,151 | **18,080** | 336,528 | 5,074 |
| **Net (surplus) / deficit arising on the pooled budget during the year** | **(44)** | **(1,258)** | **(331)** | **-** | **(2,094)** | **(3,727)** | **(885)** | **(1,447)** | **(2,332)** | **(55)** | **(671)** |

## Note 33: Members' Allowances

The Council paid the following amounts in respect of Members' Allowances in 2017/18. In addition to the amounts paid to elected members, the table below includes amounts paid on behalf of the members in respect of Income Tax, National Insurance, pension contributions, and employers' pension contributions paid by the Council. The table also disclosed the allowances paid to co-opted public members of certain committees.

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| Paid to individual | Other Costs | Total | | Paid to individual | Other Costs | Total |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| | | | **Elected Members** | | | |
| 1,177 | 212 | 1,389 | Allowances | 1,179 | 88 | 1,267 |
| 46 | - | 46 | Expenses | 47 | - | 47 |
| 18 | - | 18 | Lunches | 15 | - | 15 |
| **1,241** | **212** | **1,453** | | **1,242** | **88** | **1,330** |
| | | | **Others** | | | |
| 2 | - | 2 | Allowances | 3 | - | 3 |
| | - | | Expenses | - | - | - |
| **2** | **-** | **2** | | **3** | **-** | **3** |
| **1,243** | **212** | **1,455** | **Total** | **1,245** | **88** | **1,333** |

## Note 34: Termination Benefits and Exit Packages

The Council terminated 235 employee contracts in 2017/18, who were either made redundant as part of the Council's rationalisation of these services or had departures agreed with their line management. This incurred liabilities of £2.491m. The table below details the number of exit packages and total cost per band. In accordance with the requirements of the Code of Practice, the costs disclosed are the additional costs of early termination, and exclude any amounts paid to employees under the standard terms of membership of their pension schemes.

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|---|---|---|---|---|---|---|---|---|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| | | | | | | | £ | £ |
| £0 – £20,000 | 73 | 74 | 220 | 121 | 293 | 195 | 1,901,799 | 1,196,209 |
| £20,001 – £40,000 | 6 | 9 | 35 | 25 | 41 | 34 | 1,188,277 | 917,668 |
| £40,001 - £60,000 | 1 | 1 | 2 | 3 | 3 | 4 | 154,006 | 199,435 |
| £60,001 - £80,000 | - | - | 3 | 1 | 3 | 1 | 209,311 | 69,761 |
| £80,001 - £100,000 | - | - | 3 | - | 3 | - | 254,544 | - |
| £100,001 - £150,000 | - | 1 | - | - | - | 1 | - | 107,499 |
| £150,001 - £200,000 | - | - | - | - | - | - | - | - |
| Greater than £200,000 | - | - | - | - | - | - | - | - |
| **Total** | **80** | **85** | **263** | **150** | **343** | **235** | **3,707,938** | **2,490,572** |

# Notes to the Accounts

## Note 35: Officers' Remuneration

The remuneration paid to the Council's employees (including Community Schools) earning over £50,000 is shown in the table below. These figures exclude pension contributions:

| 2016/17 HCC Employees | Remuneration Band (£'s) | 2017/18 HCC Employees |
|---|---|---|
| 186 | 50,000 - 54,999 | 218 |
| 127 | 55,000 - 59,999 | 126 |
| 90 | 60,000 - 64,999 | 116 |
| 59 | 65,000 - 69,999 | 72 |
| 39 | 70,000 - 74,999 | 45 |
| 19 | 75,000 - 79,999 | 18 |
| 13 | 80,000 - 84,999 | 15 |
| 13 | 85,000 - 89,999 | 8 |
| 5 | 90,000 - 94,999 | 6 |
| 5 | 95,000 - 99,999 | 11 |
| 3 | 100,000 -104,999 | 5 |
| 5 | 105,000 - 109,999 | 3 |
| - | 110,000 - 114,999 | 2 |
| - | 115,000 - 119,999 | - |
| 1 | 120,000 -124,999 | 2 |
| - | 125,000 -129,999 | - |
| - | 130,000 -134,999 | - |
| 1 | 135,000 -139,999 | 1 |
| 2 | 140,000 -144,999 | 2 |
| - | 145,000 -149,999 | - |
| - | 150,000 -154,999 | - |
| - | 155,000 -159,999 | - |
| - | 160,000 -164,999 | - |
| - | 165,000 -169,999 | - |
| - | 170,000 -174,999 | - |
| - | 175,000 -179,999 | - |
| - | 180,000 -184,999 | - |
| 1 | 185,000 -189,999 | 1 |
| **569** | | **651** |

Remuneration is defined in the Accounts and Audit Regulations 2017 as including:

- Sums paid to or receivable by an employee - Remuneration is usually taken to comprise gross pay (i.e. before the deduction of employee's pension contributions), compensation for loss of office and any other payments receivable on the termination of employment, even where these are not taxable and any ex gratia payments other than those for direct reimbursement of costs. Remuneration does not include employer's pension contributions.

- Expense allowances chargeable to tax - For example the profit element of car allowances.

- The money value of benefits - Other benefits, such as car loans, leased cars, travel cards and mobile phones.

# Notes to the Accounts

The Accounts and Audit Regulations 2015 require the disclosure of information to provide greater transparency in respect of the total remuneration package for the senior team charged with stewardship of the organisation.

For senior members of the organisation disclosure is also made under the following categories:

- Salary, fees and allowances
- Bonuses
- Expenses allowances
- Compensation for loss of employment
- Employer's pension contribution
- Any other emoluments

The following table sets out the Senior Officers whose salary is £150,000 or more per year.

| Position | Notes | Year | Salary | Benefits in Kind *(*)* | Compensation Payments | Total Remuneration excluding pension contributions | Pension Contributions | Remuneration including Pension Contributions |
|---|---|---|---|---|---|---|---|---|
| | | | £ | £ | £ | £ | £ | £ |
| Chief Executive & Director of Environment - J Wood | | 2017/18 | 186,850 | 546 | - | 187,396 | 38,491 | 225,887 |
| | | 2016/17 | 185,000 | 65 | - | 185,065 | 38,110 | 223,175 |

*(*) Benefits in Kind covers Car Lease payments*

The following table sets out the remuneration disclosures for Senior Officers whose salary is less than £150,000 but equal to, or more than, £50,000 per year. For the purposes of this disclosure Senior Officers have been defined as the Chief Executive, his direct reports, deputy chief officers and the Monitoring Officer. The total number of employees whose salary is between £50,000 and £150,000 is shown within £5,000 bands in the earlier table within this Note.

| Position | Notes | Year | Salary £ | Benefits in Kind (*) £ | Compensation Payments £ | Total Remuneration excluding pension contributions £ | Pension Contributions £ | Remuneration including Pension Contributions £ |
|---|---|---|---|---|---|---|---|---|
| Director Adult Care Services | | 2017/18 | 136,350 | - | - | 136,350 | 28,088 | 164,438 |
| | | 2016/17 | 135,000 | - | - | 135,000 | 27,810 | 162,810 |
| Director Community Protection (CFO) (see Note 1) | | 2017/18 | - | - | - | - | - | - |
| | | 2016/17 | 89,794 | 2,274 | - | 92,068 | 17,546 | 109,614 |
| Acting Director Community Protection (CFO) (see note 2) | | 2017/18 | 121,106 | 6,120 | - | 127,227 | 15,102 | 142,329 |
| | | 2016/17 | - | - | - | - | - | - |
| Acting Deputy Chief Fire Officer (see note 2) | | 2017/18 | - | - | - | - | - | - |
| | | 2016/17 | 105,611 | 7,883 | - | 113,494 | 15,102 | 128,596 |
| Deputy Chief Fire Officer (see note 2) | | 2017/18 | 95,000 | 4,573 | - | 99,573 | 12,854 | 112,427 |
| | | 2016/17 | - | - | - | - | - | - |
| Deputy Director Community Protection (see note 2) | | 2017/18 | 95,000 | - | - | 95,000 | 19,570 | 114,570 |
| | | 2016/17 | - | - | - | - | - | - |
| Chief Legal Officer | | 2017/18 | 110,721 | - | - | 110,721 | 22,808 | 133,529 |
| | | 2016/17 | 106,654 | - | - | 106,654 | 21,971 | 128,625 |
| Director of Children's Services | | 2017/18 | 144,430 | - | - | 144,430 | 29,753 | 174,183 |
| | | 2016/17 | 143,000 | - | - | 143,000 | 29,458 | 172,458 |
| Deputy Director Children's Services, Education | | 2017/18 | - | - | - | - | - | - |
| | | 2016/17 | 50,868 | 955 | - | 51,823 | 10,479 | 62,302 |
| Director Family Safeguarding | | 2017/18 | 97,465 | - | - | 97,465 | 20,078 | 117,543 |
| | | 2016/17 | 88,579 | - | - | 88,579 | 18,247 | 106,826 |
| Deputy Director, Environment | | 2017/18 | 108,962 | - | - | 108,962 | 22,446 | 131,408 |
| | | 2016/17 | 107,883 | - | - | 107,883 | 22,224 | 130,107 |
| Director Public Health | | 2017/18 | 110,575 | - | - | 110,575 | 22,778 | 133,353 |
| | | 2016/17 | 109,480 | - | - | 109,480 | 22,553 | 132,033 |
| Deputy Director Public Health | | 2017/18 | - | - | - | - | - | - |
| | | 2016/17 | 140,933 | - | - | 140,933 | 29,032 | 169,965 |
| Director Resources (S151 officer) | | 2017/18 | 142,814 | - | - | 142,814 | 29,420 | 172,234 |
| | | 2016/17 | 140,933 | - | - | 140,933 | 29,032 | 169,965 |

*(*) Benefits in Kind covers Car Lease payments*

**Note 1:** The Director of Community Protection is seconded to the Chair of the National Fire Chiefs Council with effect from 1 April 2017.
**Note 2:** As a result of the secondment of the Director Community Direction a number Community Protection (Herts Fire & Rescue) roles have been re-organised to cover

# Notes to the Accounts

## Note 36: Pensions Schemes Accounted for as Defined Contributions Schemes

### Teacher's Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency (TPA) in the Department for Education. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The pension cost charged to the accounts is the contribution rate of 16.48% for 2017/18.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme - no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable for the year.

Council contributions to the Teachers' Pensions Agency in respect of teachers' retirement benefits have amounted to £37.389m for 2017/18 (£38.590m in 2016/17).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers' scheme. During 2017/18 the cost of these unfunded discretionary awards amounted to £4.165m (£4.162m in 2016/17).

### Public Health

Public Health employees who were compulsorily transferred from the PCTs to the Council and who had access to the NHS Pension Scheme on 31st March 2013 retained access to that Scheme on transfer at 1st of April 2013. The Scheme provides these employees with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The pension cost charged to the accounts is the contribution rate of 14.3% for 2017/18.

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Council is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis the balance sheet and the Public Health service revenue account is charged with the employer's contributions payable for the year.

Council contributions to the NHS Pension Fund in respect of these employees' retirement benefits have amounted to £0.205m for 2017/18 (£0.234m in 2016/17).

## Note 37: Defined Benefit Pension Schemes

### Participation in Defined Benefit Pension Schemes:

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The Council participates in two defined benefit pension schemes:

- **The Local Government Pension Scheme** for employees other than teachers and fire-fighters. This scheme operates under the regulatory framework for the Local Government Pension Scheme and its governance is the responsibility of Hertfordshire County Council's Pensions Committee. The scheme is administered by the Council and is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- **The Fire-fighters Pension Scheme** – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pension liability. Employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

In addition to the above, the Council also makes contributions into the Teachers' Pension Scheme and the NHS Pension Scheme. Further information relating to these schemes, which provide retirement benefits for teaching and Public Health staff is shown in the note to the accounts "Defined Contribution Schemes" (Note 36). IAS 19 does not apply to the Council's contribution to these pension schemes.

Hymans Robertson, an independent firm of actuaries, has valued the Council's fund asset share and liabilities for both the Local Government Pension Scheme and Fire-fighters Pension Scheme.

The pension increase assumption, as with the accounting exercise in 2011, will be in line with the Consumer Price Index (CPI) which will be calculated at 1% per annum below RPI.

The underlying assets and liabilities for retirement benefits attributable to the Council as at 31 March together with the movement from the previous year are shown below.

The most recent actuarial valuation of the Local Government Pension scheme was carried out as at 31 March 2017. This valuation identified that the Council's share of assets were sufficient to meet 96% of its liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The certified employer contribution rate for the period 1 April 2017 - 31 March 2020 remained unchanged at 20.6% of pensionable payroll.

### Transactions relating to retirement benefits:

The Council recognises the cost of retirement benefits in the reported 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, so the real cost of post-employment/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 Statement during the year:

# Notes to the Accounts

| 2016/17 Local Government Pension Scheme £000s | 2016/17 Fire-Fighters Pension Scheme £000s | | 2017/18 Local Government Pension Scheme £000s | 2017/18 Fire-Fighters Pension Scheme £000s |
|---|---|---|---|---|
| | | Comprehensive Income and Expenditure Statement | | |
| | | *Cost of Service:* | | |
| 69,626 | 8,600 | – Current service cost | 100,268 | 10,500 |
| 795 | 1,600 | – Past service cost | 701 | - |
| - | - | – Settlements | - | - |
| | | *Financing and Investment Income and Expenditure:* | | |
| 16,632 | 14,900 | - Net interest on the net defined benefit liability | 15,716 | 12,500 |
| **87,053** | **25,100** | **Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services** | **116,685** | **23,000** |
| | | *Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:* | | |
| | | Remeasurement of the net defined benefit liability comprising: | | |
| (247,692) | - | - Expected Return on scheme assets (excluding the amount included in the net interest in the net defined benefit liability) | (58,512) | - |
| (26,066) | 2,800 | - Actuarial (gains) and losses due to changes in demographic assumptions | - | (5,100) |
| 381,559 | 88,200 | - Actuarial (gains) and losses due to changes in financial assumptions | (48,675) | (8,800) |
| (21,211) | (49,414) | - Actuarial (gains) and losses due to other experience | 86 | 17,250 |
| **86,590** | **41,586** | **Total Post Employment Benefit Charged to Other Comprehensive Income and Expenditure** | **(107,101)** | **3,350** |
| **173,643** | **66,686** | | **9,584** | **26,350** |

| 2016/17 Local Government Pension Scheme £000s | 2016/17 Fire-Fighters Pension Scheme £000s | | 2017/18 Local Government Pension Scheme £000s | 2017/18 Fire-Fighters Pension Scheme £000s |
|---|---|---|---|---|
| | | *Movement in reserves statement:* | | |
| (87,053) | (25,100) | – Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance w ith the Code | (116,685) | (23,000) |
| - | - | *Actual amount charged against Council Tax for pensions in the year* | - | - |
| 55,350 | 3,277 | – employers' contributions payable to scheme | 56,061 | 3,327 |
| - | 7,109 | – top-up grant contribution | - | 7,923 |
| 4,162 | - | – retirement benefits payable to pensioners | 4,004 | - |
| **(27,541)** | **(14,714)** | | **(56,620)** | **(11,750)** |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2018 is a gain of £314.904m.

The following amounts are carried in the balance sheet:

| 2016/17 Local Government Pension Scheme £000s | 2016/17 Fire-Fighters Pension Scheme £000s | | 2017/18 Local Government Pension Scheme £000s | 2017/18 Fire-Fighters Pension Scheme £000s |
|---|---|---|---|---|
| 2,565,719 | 482,000 | Present Value of the defined benefit obligation | 2,635,595 | 497,100 |
| (1,981,420) | - | Fair Value of scheme assets | (2,101,777) | - |
| **584,299** | **482,000** | **Net Liability arising from the defined benefit obligation** | **533,818** | **497,100** |

## Assets and liabilities in relation to retirement benefits

*Reconciliation of present value of the scheme liabilities*

| 2016/17 Local Government Pension Scheme £000s | 2016/17 Fire-Fighters Pension Scheme £000s | | 2017/18 Local Government Pension Scheme £000s | 2017/18 Fire-Fighters Pension Scheme £000s |
|---|---|---|---|---|
| **2,142,769** | **425,700** | **Opening balance at 1 April** | **2,565,719** | **482,000** |
| 73,899 | 8,600 | Current service costs | 104,914 | 10,500 |
| 75,177 | 14,900 | Interest costs | 67,329 | 12,500 |
| 16,392 | 2,000 | Contributions by scheme participants | 16,421 | 2,200 |
| | | *Remeasurement gain/loss* | | |
| (26,066) | 2,800 | • Actuarial (gains) and losses arising from changes in demographic assumptions | - | (5,100) |
| 381,559 | 88,200 | • Actuarial (gains) and losses arising from changes in financial assumptions | (48,675) | (8,800) |
| (21,091) | (49,200) | • Other experience | (410) | 16,700 |
| (73,553) | (12,600) | Benefits paid | (66,400) | (12,900) |
| 795 | 1,600 | Past service costs | 701 | - |
| (4,162) | - | Entity combinations | (4,004) | - |
| - | - | Settlements | - | - |
| **2,565,719** | **482,000** | **Closing balance at 31 March** | **2,635,595** | **497,100** |

# Notes to the Accounts

*Reconciliation of fair value of the scheme assets*

| 2016/17 Local Government Pension Scheme £000s | 2016/17 Fire-Fighters Pension Scheme £000s | | 2017/18 Local Government Pension Scheme £000s | 2017/18 Fire-Fighters Pension Scheme £000s |
|---|---|---|---|---|
| **1,672,601** | **-** | **Opening balance at 1 April** | **1,981,420** | **-** |
| | | *Remeasurement gain/loss* | | |
| 58,545 | - | • Net interest income on Scheme Assets | 51,613 | - |
| 247,692 | - | • Expected return on assets (excluding the amount included in the net interest expense) | 58,512 | - |
| 59,743 | 10,600 | Employer contributions | 60,211 | 10,700 |
| 16,392 | 2,000 | Contributions by scheme participants | 16,421 | 2,200 |
| 4,162 | - | Contributions in respect of unfunded benefits | 4,004 | - |
| (73,553) | - | Benefits paid | (66,400) | - |
| (4,162) | - | Unfunded benefits paid | (4,004) | - |
| - | (12,600) | Pension and lump sum expenditure | - | (12,900) |
| - | - | Settlements | - | - |
| **1,981,420** | - | **Closing balance at 31 March** | **2,101,777** | - |

The Fire-fighters' Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

# Notes to the Accounts

| 2016/17 Local Government Pension Scheme Quoted prices in active markets £000s | 2016/17 Local Government Pension Scheme Quoted prices not in active markets £000s | 2016/17 Fire-Fighters Pension Scheme £000s | | 2017/18 Local Government Pension Scheme Quoted prices in active markets £000s | 2017/18 Local Government Pension Scheme Quoted prices not in active markets £000s | 2017/18 Fire-Fighters Pension Scheme £000s |
|---|---|---|---|---|---|---|
| | | | ***Equity*** | | | |
| 154,487 | - | - | Consumer | 96,034 | - | - |
| 148,271 | - | - | Manufacturing | 82,605 | - | - |
| 35,702 | - | - | Energy and Utilities | 22,037 | - | - |
| 132,687 | - | - | Financial Institutions | 93,752 | - | - |
| 26,829 | - | - | Health and Care | 13,304 | - | - |
| 108,038 | - | - | Information Technology | 65,523 | - | - |
| 6,673 | - | - | Other | 4,997 | - | - |
| | | | ***Debt Securities*** | | | - |
| - | - | - | Corporate Bonds (investment grade) | - | - | - |
| - | - | - | UK Government | - | - | - |
| - | - | - | Other | - | 855 | - |
| - | 91,479 | - | ***Private Equity*** | - | 79,743 | - |
| | | | ***Real Estate*** | | | |
| - | 64,116 | - | UK Property | - | 69,626 | - |
| - | 74,255 | - | Overseas Property | - | 68,617 | - |
| | | | ***Investment Funds and Unit Trusts*** | | | |
| 415,167 | - | - | Equities | 552,424 | - | - |
| 545,812 | - | - | Bonds | 755,894 | - | - |
| - | - | - | Commodities | - | - | - |
| - | 4,498 | - | Infrastructure | - | 5,013 | - |
| 7,648 | 104,306 | - | Other | 15,654 | 107,231 | - |
| | | | ***Derivatives*** | | | |
| - | (3,939) | - | Foreign Exchange | - | (1,681) | - |
| 65,390 | - | - | ***Cash & Cash Equivalents*** | 70,150 | - | - |
| **1,646,705** | **334,715** | **-** | **Total** | **1,772,374** | **329,403** | **-** |

The above asset values as at 31 March 2018 are at bid value as required under IAS 19.

# Notes to the Accounts

## Asset and Liability Matching Strategy

The Council, having taken appropriate professional advice, has taken steps to mitigate investment risk and to set an investment strategy that is appropriate for the Fund's liabilities. A summary of the key steps taken is provided below:

- **Diversification** – the Fund has adopted a strategy that is diversified by asset class, region, sector and investment manager.
- **De-risking plan** – the Fund is moving towards a lower risk strategy that will comprise 65% in "growth" assets and 35% in "defensive" assets. The allocation between growth and defensive assets as at the accounting year end date was approximately 74% growth / 26% defensive.
- **Defensive asset portfolio** – the Fund has appointed three specialist mandates to manage the defensive assets (absolute return, UK corporate bonds, and liability matching). The liability matching mandate will seek to offer some protection from changes in inflation and interest rates.
- **Monitoring** – the Fund's investment arrangements are regularly monitored. The Council receives independent reporting from the custodian and the Fund's Investment Consultant and the Pensions Committee meet the investment managers on an ongoing basis.

## Impact on Future Cash flows

The liabilities show the underlying commitments that the Council has in the long-term to pay retirement benefits. The total liability as at 31 March 2018 of £1.065bn has a substantial impact on the net worth of the Council as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean:-

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, and;
- In the case of Firefighters pensions the underlying principle is that employer and employee contributions together will meet the full costs of pension liabilities being accrued in respect of currently serving employees while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The total contributions estimated to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £59.1m. Expected contributions for the Firefighters Pension Scheme in the year to 31 March 2019 have not been estimated as being an unfunded scheme, the employer contribution depends on the benefits that will be paid in the year, the employee contributions and transferred in amounts received.

The maturity profile is as follows:

| | Local Government Pension Scheme | | Fire Fighters Pension Scheme | |
|---|---|---|---|---|
| | Liability Split | Weighted Average Duration | Liability Split | Weighted Average Duration |
| Active Members | 42.30% | 22.20 | 39.40% | 25.00 |
| Deferred Members | 23.40% | 21.80 | 4.40% | 26.50 |
| Pensioner Members | 34.20% | 11.20 | 56.10% | 11.50 |

## 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. Both the Fire-fighters Scheme and the Local Government Pension Fund liabilities have been assessed by Hymans

# Notes to the Accounts

Robertson, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2017.

The principal assumptions used by the actuary have been:

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| Local Government Pension Scheme | Fire-Fighters Pension Scheme New Scheme | | Local Government Pension Scheme | Combined Fire-Fighters Pension Scheme |
| | | Mortality assumptions: | | |
| | | Longevity at 65 for current pensioners: | | |
| 22.5 years | 30.2 years | o Men | 22.5 years | 28.6 years |
| 24.9 years | 31.7 years | o Women | 24.9 years | 31.0 years |
| | | Longevity at 65 for future pensioners: | | |
| 24.1 years | 31.6 years | o Men | 24.1 years | 29.7 years |
| 26.7 years | 33.2 years | o Women | 26.7 years | 32.2 years |
| 2.50% | 3.40% | Rate of increase in salaries | 2.50% | 3.40% |
| 2.40% | 2.40% | Rate of increase in pensions | 2.40% | 2.40% |
| 2.60% | 2.60% | Rate for discounting scheme liabilities | 2.70% | 2.70% |
| 75% | 90% | Take-up of option to convert annual pension into retirement lump sum * | 75% | 90% |

* An allowance is included for future retirements to elect to take 75% of the maximum tax-free cash for post-April 2008 service and 50% of the maximum additional tax-free cash up to HMRC limits for pre- April 2008 service

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions 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.

## Sensitivity Analysis

| Change in Assumptions at 31st March 2018 | Local Government Pension Scheme | | Fire Fighters Pension Scheme | |
|---|---|---|---|---|
| | Approximate % increase to Employer Liability | Approximate monetary amount £000s | Approximate % increase to Employer Liability | Approximate monetary amount £000s |
| 0.5% increase in the Salary Increase Rate | 1.00% | 27,706 | 1.00% | 4,372 |
| 0.5% increase in the Pension Increase Rate | 8.00% | 223,262 | 8.00% | 38,524 |
| 0.5% decrease in Real Discount Rate | 10.00% | 253,399 | 9.00% | 45,623 |

# Notes to the Accounts

## Note 38: Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

### Credited to Taxation and Non Specific Grant Income

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| (79,992) | Revenue Support Grant | (44,535) |
| - | Adult Social Care (New Burdens) | (4,153) |
| (11,918) | Education Services Grant | (3,221) |
| (7,760) | Transition Grant | (7,849) |
| (6,899) | New Homes Bonus | (5,642) |
| (2,631) | Business Rates Autumn Statement Compenstion 2016/17 | (4,253) |
| (746) | Send Reform | (1,440) |
| (2,141) | Independent Living Fund | (2,070) |
| (1,699) | Other grants less than £1m each | (2,873) |
| (7,442) | Fire Pension Top-up Grant | (7,923) |
| (103,756) | Capital Grants and Contributions | (110,948) |
| **(224,984)** | **Total** | **(194,907)** |

# Notes to the Accounts

## Credited to Services

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| | **Education Funding Agency** | |
| (14,834) | Grant for Sixth Formers | (14,617) |
| (572,900) | Dedicated Schools Grant | (584,632) |
| (26,320) | Pupil Premium | (24,294) |
| (6,150) | Building Schools for the Future | (6,150) |
| (3,453) | PE and Sports Grant | (5,299) |
| (14,097) | Universal Infant Free School Meals | (13,677) |
| (262) | Other grants less than £1m each | (194) |
| | **Department for Education** | |
| (1,174) | Youth Innovation Fund | (247) |
| (2,279) | Others grants less than £1m each | (1,199) |
| | **Department of Health** | |
| (50,047) | Public Health | (48,813) |
| - | Others grants less than £1m each | - |
| | **Youth Justice Board** | |
| (714) | Youth Justice | - |
| (65) | Other grants less than £1m each | (791) |
| | **Department for Communities and Local Government** | |
| (1,871) | PFI Credits | (1,871) |
| - | Improved Better Care Fund (iBCF) | (13,071) |
| (1,758) | Troubled Families Grant | (2,110) |
| (564) | Others grants less than £1m each | (584) |
| | **Home Office** | |
| (2,107) | Unaccompanied Asylum Seeking Children | (2,504) |
| (943) | Other grants less than £1m each | (991) |
| | **Department for Transport** | |
| (74) | Local sustainable transport fund | - |
| (1,212) | Bus Services Operators Grant (BSOG) | (1,212) |
| (448) | Other grants less than £1m each | (165) |
| | **Highways England** | |
| - | A5 Detrunking | (2,000) |
| | **Skills Funding Agency** | |
| (2,124) | Community Learning | (1,858) |
| (539) | Other grants less than £1m each | (766) |
| | **Various Other bodies** | |
| (1,640) | Music Services Grant | (1,642) |
| (17,844) | Other grants less than £1m each & contributions | (23,501) |
| **(723,419)** | | **(752,188)** |

# Notes to the Accounts

### Capital Grants Received in Advance

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver in the event that these conditions are not met. The balances at the year-end are as follows:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| **(45,462)** | **Balance at start of year** | **(48,901)** |
| (63,569) | New grants received in advance | (45,284) |
| 0 | Grants reclassifed in year to Capital Grants Received in Advance | (118) |
| 1,048 | Grants reclassifed in year from Capital Grants Received in Advance | 74 |
| 59,082 | Application of grants used in year | 47,165 |
| **(48,901)** | **Balance at end of year** | **(47,064)** |

These balances, together with Capital Grants Unapplied (see Note 23), give a total £158.5m at 31 March 2018 available for funding capital spending.

## Note 39: Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

| Schools Budget Funded by Dedicated Schools Grant | Central Expenditure £000s | Individual Schools Budget £000s | Total £000s |
|---|---|---|---|
| Final DSG for 2017/18 before deductions for academy recoupment and direct funding of high needs places by the EFA | | | **908,740** |
| Deductions for academy recoupment and direct funding of high needs places by the EFA for 2017/18 | | | (324,108) |
| Total DSG after deductions for academy recoupment and direct funding of high needs places by the EFA for 2017/18 | | | **584,632** |
| Plus: Brought forward from 2017/18 | | | 21,289 |
| *Less: Carry-forward to 2017/18 agreed in advance* | | | (11,954) |
| **Agreed initial budgeted distribution in 2017/18** | **93,633** | **500,334** | **593,967** |
| In year adjustments | - | - | - |
| **Final budget distribution for 2017/18** | **93,633** | **500,334** | **593,967** |
| *Less: Actual central expenditure* | (86,976) | - | (86,976) |
| *Less: Actual ISB deployed to schools* | - | (495,611) | (495,611) |
| *Plus: Local authority contribution for 2017/18* | - | - | - |
| 2017/18 in year balance carried forward to 2018/19 | **6,657** | **4,723** | **11,380** |
| Carry forward to 2018/19 agreed in advance | - | - | 11,954 |
| **Total carry forward to 2018/19** | | | **23,334** |

Comparatives for 2016/17 of the deployment of DSG received are as follows:

| Schools Budget Funded by Dedicated Schools Grant | Central Expenditure £000s | Individual Schools Budget £000s | Total £000s |
|---|---|---|---|
| Final DSG for 2016/17 before deductions for academy recoupment and direct funding of high needs places by the EFA | | | **871,302** |
| Deductions for academy recoupment and direct funding of high needs places by the EFA for 2016/17 | | | (298,402) |
| Total DSG after deductions for academy recoupment and direct funding of high needs places by the EFA for 2016/17 | | | **572,900** |
| Plus: Brought forward from 2015/16 | | | 22,013 |
| *Less: Carry-forward to 2017/18 agreed in advance* | | | (11,854) |
| **Agreed initial budgeted distribution in 2016/17** | **84,037** | **499,022** | **583,059** |
| In year adjustments | - | - | - |
| **Final budget distribution for 2016/17** | **84,037** | **499,022** | **583,059** |
| *Less: Actual central expenditure* | (77,649) | - | (77,649) |
| *Less: Actual ISB deployed to schools* | - | (495,975) | (495,975) |
| *Plus: Local authority contribution for 2016/17* | - | - | - |
| 2016/17 in year balance carried forward to 2017/18 | **6,388** | **3,047** | **9,435** |
| Carry forward to 2017/18 agreed in advance | - | - | 11,854 |
| **Total carry forward to 2017/18** | | | **21,289** |

## Note 40: External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and to non-audit services provided by the Council's external auditors:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 142 | Fees payable with regard to external audit services carried out by the appointed auditor for the year | 121 |
| - | Fees payable for the certification of grant claims and returns for the year | - |
| 13 | Fees payable in respect of other services provided during the year | 13 |
| **155** | **Total** | **134** |

Fees payable in respect of external audit services in 2017/18 includes a rebate from the Public Sector Audit Appointments Limited (PSAA) for a redistribution of Audit Commission retained earnings (£21k). Fees payable in respect of other services provided during the year relate to the audit of the Teachers' Pension return.

## Note 41: Contingent Assets

There were no contingent assets as at 31 March 2018.

## Note 42: Contingent Liabilities

At 31 March 2018 the Council was aware of the following potential liabilities it may face in the future. These items have not been reflected in the accounts as there is no certainty that an actual liability may arise, or because there is uncertainty as to the amount of liability or when it will arise.

The Contingent liabilities identified relate to:

### Municipal Mutual Insurance

In common with most other local authorities, until 30 September 1992 the Council insured with the Municipal Mutual Insurance (MMI) Company. Following MMI's insolvency a Scheme of Arrangement was put in place, pursuant to section 425 of the Companies Act 1985, now section 899 of the Companies Act 2006. The Scheme is managed by the Scheme Administrator and overseen by the Creditors' Committee as well as MMI's regulator appointed by the Financial Conduct Authority. The Scheme of Arrangement monitors MMI's solvency and provides for a levy to be imposed on all the Scheme Creditors in the event funds are required to pay for outstanding claims.

On 13 November 2012, the Scheme was triggered by the Directors of MMI as they could no longer foresee a solvent run-off for the payment of outstanding claims. This resulted in the imposition of a levy on all Scheme Creditors that have had claims paid since inception of the Scheme of Arrangement. This first levy of 15% amounting to £705,000 was issued on 1 January 2014 based on claims valued at £4.7m (less £50,000 retention).

During 2016/17 an interim levy was paid, take the overall levy to 25% based on current estimated liabilities of MMI relating to HCC.

Because the 25% levy is applied to all future claims arising, a further provision against the value of currently open claims was made in March 2018. The provision of £245,604 was funded by a drawdown on the MMI reserve held to cover the contingent liability.

There is continued uncertainty around the scale of the final payment due to the types of claims that continue to be submitted against MMI (historic child abuse and mesothelioma). Given this uncertainty, and in recognition of a contingent liability for any future claim, a reserve of £0.633m has been maintained.

### Local Authority Mortgage Scheme (LAMS)

Under this scheme, the Council has entered arrangements that provide a guarantee to meet first losses on specified mortgages within the local authority area. £10m was deposited with Lloyds Bank and Leeds Building Society during 2012/13, and these institutions will make mortgage advances up to this amount. The value of this guarantee, based on estimated mortgage default rates, is shown as a charge in the Comprehensive Income and Expenditure Account. However, as the actual likely default rate for these mortgages is unknown, there remains a contingent liability that the Council will have to meet the cost of defaults above this. The Council received a premium interest for the risk associated with the LAMS Scheme, which was added to the commercial deposit rate. This premium was set aside in an earmarked reserve to contribute towards funding any future potential liabilities.

### Hertfordshire Pension Fund

The Council has a contingent liability in respect of admitted bodies in the Hertfordshire Pension Fund to which it has contracted services and transferred staff. Under the Local Government Pension Scheme Regulations 2013, the Council is responsible for the liabilities of these admitted bodies in the event that they fail to pay their obligations to the Pension Fund. The Council operates a risk management strategy for these admitted bodies and its standard approach is to require a financial bond to be maintained to offset their actuarially assessed liabilities.

### Sleep-Ins backdated for 6 Years

A ruling by the Employment Appeals Tribunal in April 2017 confirmed that National Living Wage (NLW) requirements applied for sleep-in support, as the employee is required to remain at the premises regardless of whether they are awake or asleep.

HCC has complied with this ruling from 2017/18 by processing backdated payments to providers where a flat fee was paid for sleep-ins. However there is a possibility that Providers could request 6 years of backdated payments from HCC as they may be liable to pay these costs to their employees.

It is expected further information on whether HCC will be required to backdate the payment for 6 years will be announced by Central Government during 2018/19 which will provide greater certainty over the potential liability.

### Metropolitan Line Extension (Croxley Rail Link)

As a result of political and cost changes identified and reported in 2016/17, and following discussion between Transport for London (TfL) and the Department for Transport (DfT), it is unlikely that the Metropolitan Line Extension (Croxley Rail Link) will proceed as planned. This may lead to potential liabilities for the Council, which at 31 March were uncertain and not quantified.

## Note 43: Financial Instruments

The Council's financial liabilities held during the year are all measured at amortised cost and comprise**:**

- Long-term loans from the Public Works Loan Board and commercial lenders
- Finance Leases detailed in note 16
- Private Finance Initiative contracts detailed in note 17
- Guarantees for Local Authority Mortgage Scheme
- Trade payables for goods and services received

The financial assets held by the Council during the year are held under the following three classifications:

1. **Loans and Receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) comprising:**
    - Bank current and high interest call account with Barclays Bank
    - Fixed term deposits with banks and building societies
    - Impaired investments in Icelandic banks
    - Loans to other local authorities
    - Trade receivables for goods and services delivered
    - Loans made for service purposes, detailed below as Soft Loans
2. **Available for sale financial assets (those that are quoted in an active market) comprising:**
    - Money Market Funds, both constant and variable Net Asset Value funds.
    - Pooled fund investments including property, equity, bond and multi-asset funds
3. **Available for Sale financial assets (based on unobservable inputs):**
    - Investments in companies set up by the Council (Surecare, Hertfordshire Catering Limited, Herts for Learning and Herts Living Limited)
    - Investment in shares in the Municipal Bond Agency

The financial instruments disclosed in the Balance sheet are analysed across the above categories as follows:

| 31 March 2017 Short Term £000s | 31 March 2017 Long Term £000s | | 31 March 2018 Short Term £000s | 31 March 2018 Long Term £000s |
|---|---|---|---|---|
| | | **Investments** | | |
| 15,104 | - | Loans and receivables | 23,050 | - |
| 20,919 | 31,411 | Available-for-sale financial assets | 17,759 | (34,974) |
| - | 425 | Unquoted equity investment at cost | - | - |
| **36,022** | **31,836** | **Total investments** | **40,809** | **(34,974)** |
| | | **Debtors** | | |
| 73,564 | 36,105 | Loans and receivables | 74,213 | 25,831 |
| **73,564** | **36,105** | **Total debtors*** | **74,213** | **25,831** |
| | | **Cash & Cash Equivalents** | | |
| 69,954 | - | Loans & Receivables | 62,917 | - |
| 30,327 | - | Available-for-sale investments | 61,047 | - |
| **100,281** | **-** | **Total Cash & Cash Equivalents** | **123,964** | **-** |
| | | **Borrowings** | | |
| (32,909) | (260,768) | Financial liabilities at amortised cost | (2,848) | (260,760) |
| **(32,909)** | **(260,768)** | **Total borrowings** | **(2,848)** | **(260,760)** |
| | | **Other Liabilities** | | |
| (1,463) | (54,474) | PFI liabilities | (1,672) | (52,802) |
| (33) | (35) | Finance lease liabilities | (35) | - |
| - | (46) | Future Repayments due on Mortgages and Advances | - | (5) |
| **(1,496)** | **(54,554)** | **Total other liabilities** | **(1,707)** | **(52,806)** |
| | | **Creditors** | | |
| (116,799) | (1,021) | Financial liabilities at amortised cost | (120,311) | (1,244) |
| **(116,799)** | **(1,021)** | **Total creditors*** | **(120,311)** | **(1,244)** |

* The Debtor and Creditor lines in Note 43 do not match those given in Notes 18 and 21, as these values include £49,519k and (£36,043k) respectively that do not meet the definition of a financial instrument.

## Soft Loans

Soft loans are those advanced at below market rates in support of the Council's service priorities. Loans of cash value £14.2m are included in the long-term debtors figure on the balance sheet at their adjusted value of £13.3m. There is one significant individual soft loan made by HCC. This has been made at nil interest using Local Enterprise Partnership balances to lend £6m to Watford Borough Council. The remaining £7.2m is mostly comprised of Adult Social Care and Children's Services loans to service users (or their families) at nil interest to pay for home adaptations which will support the service user to live at home, and reduce their need for council services. These loans are secured against the property to ensure full repayment on the sale of the property.

## Reclassifications

Unquoted equity investments in companies set up by the Council [Herts Catering Limited and Herts for Learning Limited] were previously carried at cost as allowed under an exemption within the code for Group Accounts. As the Council has not prepared group accounts for 2017/18 this exemption is no longer available and these have been reclassified at fair value as available for sale equity instruments.

# Notes to the Accounts

## Income, Expenses, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

| 2016/17 Financial Liabilities measured at amortised cost £000s | 2016/17 Financial Assets: Loans & Receivables £000s | 2016/17 Financial Assets: Available for sale £000s | 2016/17 Assets & Liabilities at Fair Value through Profit and Loss £000s | 2016/17 Total £000s | | 2017/18 Financial Liabilities measured at amortised cost £000s | 2017/18 Financial Assets: Loans & Receivables £000s | 2017/18 Financial Assets: Available for sale £000s | 2017/18 Assets & Liabilities at Fair Value through Profit and Loss £000s | 2017/18 Total £000s |
|---|---|---|---|---|---|---|---|---|---|---|
| 17,883 | - | - | - | **17,883** | Interest expense | 17,617 | - | - | - | **17,617** |
| - | - | - | - | **-** | Losses on derecognition | - | - | - | - | **-** |
| - | - | - | - | **-** | Reductions in fair value | - | - | - | - | **-** |
| - | (7) | - | - | **(7)** | Impairment losses | - | (14) | - | - | **(14)** |
| - | - | - | - | **-** | Exchange Rate Losses | - | - | - | - | **-** |
| - | 44 | - | - | **44** | Fee expense | - | 27 | - | - | **27** |
| **17,883** | **37** | **-** | **-** | **17,919** | **Interest Payable and Similar Charges** | **17,617** | **13** | **-** | **-** | **17,631** |
| - | (1,452) | (1,793) | - | **(3,244)** | Interest income | - | (2,190) | (1,945) | - | **(4,135)** |
| - | (4) | - | - | **(4)** | Interest income accrued on impaired financial assets | - | (3) | - | - | **(3)** |
| **-** | **(1,456)** | **(1,793)** | **-** | **(3,249)** | **Interest Receivable and Similar Charges** | **-** | **(2,193)** | **(1,945)** | **-** | **(4,138)** |
| - | - | (998) | - | **(998)** | Gains on revaluation | - | - | (3,784) | - | **(3,784)** |
| - | - | - | - | - | Losses on revaluation | - | - | - | - | **-** |
| - | - | - | - | - | Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment | - | - | - | - | **-** |
| **-** | **-** | **(998)** | **-** | **(998)** | **Impact of Revaluation in Other Comprehensive Income** | **-** | **-** | **(3,784)** | **-** | **(3,784)** |
| **17,883** | **(1,419)** | **(2,791)** | **-** | **13,673** | **Net (gain) / loss for the year** | **17,617** | **(2,179)** | **(5,729)** | **-** | **9,709** |

## Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables, and long-term debtors and creditors 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 instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2018 of 0.76% to 2.25% for loans from the Public Works Loan Board (PWLB) and 2.06% to 2.13% for other loans receivable and payable, based on new lending rates for equivalent loans at that date;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values are shown in the tables below, split by their levels in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

# Notes to the Accounts

There were no transfers between input levels during the financial year 2017/18.

The fair values calculated are as follows:

Fair value of liabilities:

| 31 March 2017 | | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| Carrying Amount £000s | Fair Value £000s | Fair Value Level | | Carrying Amount £000s | Fair Value £000s | Fair Value Level |
| 293,677 | 438,763 | 2 | Borrow ings | 263,608 | 421,126 | 2 |
| 55,937 | 93,143 | 2 | PFI Liabilities | 54,474 | 87,279 | 2 |
| 68 | 68 | 2 | Finance Lease Liabilities | 35 | 35 | 2 |
| 46 | 46 | 2 | Future repayments on mortgages and advances | 5 | 5 | 2 |
| 117,232 | 117,232 | 2 | Creditors | 121,555 | 121,555 | 2 |

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates. These Level 2 fair values have been calculated by discounting future cashflows at current market rates for comparable loans, and in addition on LOBO (Lender's Option, Borrower's Option) loans a fair value for the options has been calculated by the Council's treasury advisor using market information.

Short-term creditors are carried at cost, as this is a fair approximation of their carrying value. The fair value of long-term creditors is assumed to be commensurate with the carrying value.

Fair value of assets:

| 31 March 2017 | | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| Carrying Amount £000s | Fair Value £000s | Fair Value Level | | Carrying Amount £000s | Fair Value £000s | Fair Value Level |
| 85,058 | 85,058 | 2 | Loans and Receivables | 85,967 | 85,967 | 2 |
| 82,656 | 82,656 | 1 | Available for sale financial assets | 43,831 | 43,831 | 1 |
| 425 | 425 | N/A | Available for sale financial assets | 4,264 | 4,264 | 3 |
| 109,669 | 109,669 | 2 | Debtors | 100,044 | 100,044 | 2 |

No loans and receivable assets are long-term investments and therefore no adjustments for fair value are required, as fair value is assumed to equate to carrying value.

Available for sale assets are carried in the Balance Sheet at their fair value. Most of these fair values are Level 1 and are based on public price quotations as there is an active market for the instrument. However, there are some where the fair values are level 3, based on unobservable data including an assessment of the net assets of the entity.

Short-term debtors are carried at cost, as this is a fair approximation of their carrying value. The fair value of Long-term Debtors is assumed to be commensurate with the carrying value.

# Notes to the Accounts

## Note 44: Impairment Losses

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| (7) | Icelandic Investments | 14 |
| **(7)** | **Total** | **14** |

### Accounting

A £0.014m reversal of previous years' impairment loss for Kaupthing, Singer and Friedlander Ltd (KSF) has been recognised in the Comprehensive Income and Expenditure Account in 2017/18, reflecting an improvement in the forecast recovery for the KSF investments based on the latest forecast dividend from the administrators. This has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the Council until remaining outstanding monies are recovered.

The Heritable investments were fully impaired in 2015/16 as a result of the administrators' forecast that there would be no further distributions in respect of the Heritable investments. They have not changed their view on Heritable and (as detailed below) we expect no further dividend to be paid for these investments. No adjustment has therefore been made to impairment losses for Heritable investments during 2017/18

Notional interest is also credited to the Comprehensive Income and Expenditure account in 2016/17 of £0.003m.

### Icelandic Investments

In October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £28m deposited with these institutions, with varying maturity dates and interest rates. All monies invested with these institutions are subject to the respective administration and receivership processes, and the amounts and timing of payments to depositors such as the Council are determined by the administrators / receivers. Since 2009/10, the Council has considered an impairment adjustment for the deposits, based on latest information, and has calculated the impairment. These amounts have been adjusted as updated information on the amounts and timings of payments has been provided by the administrators / receivers

The current position in relation to recovery of the sums deposited is set out below.

### Heritable Bank

Heritable Bank is a UK registered bank under English law. The company was placed in administration on 7 October 2008.

Following a dividend payment in August 2015, 98p in the £ has been distributed to Creditors.

The latest administrators report from March 2018 states that there are currently no planned distributions to creditors. This is unchanged from the report from March 2017, and in 2016/17 the Council recognised impairment based on there being no expectation of further recovery.

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 6 October 2008. Details of the Council's deposits with Heritable Bank and the associated impairment are shown overleaf:

| Date Invested | Maturity Date | Amount Invested | Interest Rate | Recovered by 31/3/18 £'000 | Carrying Amount £000s | Impairment £000s |
|---|---|---|---|---|---|---|
| 15/09/2008 | 15/04/2009 | £2m | 6.00% | 1,967 | 0 | 283 |
| 19/09/2008 | 23/12/2008 | £5m | 6.05% | 4,914 | 0 | 693 |

### Kaupthing, Singer and Friedlander Ltd (KSF)

The latest creditor report issued in October 2017 by the administrators Ernst and Young noted that the return to creditors was projected to be in the range of 86.25p to 87.0p in the £. The Council has recognised impairment based on a recovery of 86.625% of its claim, (this is the mid-point of the range estimated by the administrators).

Following a dividend payment in November 2017, 85.5p in the £ has been distributed to Creditors.

In calculating the impairment the Council has therefore made the assumption that future recoveries will be received in May and November 2018 at 0.25p in the £, and May 2019 a 0.63p in the £.

Recoveries are expressed as a percentage of the Council's claim in the administration, which includes interest accrued up to 7 October 2008. Details of the Council's deposits with Kaupthing, Singer & Friedlander Ltd. and the associated impairment are shown below:

| Date Invested | Maturity Date | Amount Invested | Interest Rate | Recovered by 31/3/18 £'000 | Carrying Amount £000s | Impairment £000s |
|---|---|---|---|---|---|---|
| 04/01/2007 | 04/01/2011 | £2m | 5.46% | 1,780 | 26.0 | 452 |
| 14/08/2007 | 16/08/2010 | £2m | 6.35% | 1,727 | 25.2 | 465 |

### LBI hf *(formerly Landsbanki hf)*

Following the sale in February 2014 of the Landsbanki claim, the Council has no outstanding assets or liabilities in relation to Landsbanki. 92% of the amounts originally deposited was recovered.

### Glitnir Bank hf

The Council now has no outstanding assets or liabilities in relation to this deposit. The total return achieved in relation to this investment was 101% of the amounts originally deposited.

## Note 45: 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 need 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 rate movements.

# Notes to the Accounts

### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

- By formally adopting the requirements of the Code of Practice (the 2011 CIPFA Treasury Management in the Public Service: Code of Practice was adopted on 21 February 2012 by the members of the County Council)
- By approving annually in advance prudential indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the government guidance.

For the 2017/18 financial year the prudential indicators and treasury management strategy were reported and approved at the County Council's meeting on the 21 February 2017. The annual treasury management strategy outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure, which can be summarised as follows:

- To reduce exposure of cash balances by funding the 2017/18 Capital Programme from balances and seeking opportunities to repay debt early,
- The majority of balances to be held in specified investments i.e. with UK government or local authorities and institutions with high credit ratings, with limits on non-specified investments by type, amount and duration,
- Institution and Group limits are applied,
- Only lending to banks outside the UK if the country has a sovereign rating of AA+,
- Setting a credit rating criteria framework that provides size and duration limits for investments that are applied as credit ratings change to reflect perceived risk to security of investments.
- The criteria specify action to be taken upon credit rating downgrades, or notice of potential downgrades.

Throughout 2017/18 the Council operated to criteria within those laid out in the Treasury Management Strategy.

Actual performance is reported annually to the Council's Audit Committee. These policies are implemented by a central treasury team. The Council maintains 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 through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The Council's treasury management strategy for 2017/18 set out the minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard and Poor's.

The following analysis summarises the Council's potential maximum exposure to credit risk. The table (from an average of the default rates from Fitch, Moody's and Standard and Poor's) gives details of corporate finance average cumulative default rates (including financial organisations) for the period 1981–2015 on investments. The risk of default by trade debtors is based on the average amount of debt written off as a percentage of total debt over the last six financial years (2011/12 to 2017/18).

| Estimated maximum exposure to default 2017 £000s | Deposits with banks and financial institutions | Amount at 31 March 2018 £000s | Historical experience of default % | Adjustment for market conditions at 31 March 2018 ^ | Estimated maximum exposure to default 2018 £000s |
|---|---|---|---|---|---|
| (a * b) | | (a) | (b) | ( c) | (a * b) |
| 2 | UK Local Authorities | 23,006 | 0.01% | 1.18 | 2 |
| 20 | AAA rated counterparties | 78,536 | 0.04% | 1.18 | 32 |
| 1 | AA rated counterparties | - | 0.01% | 1.18 | - |
| 10 | A rated counterparties | 9,963 | 0.06% | 1.18 | 6 |
| - | BBB rated counterparties | - | 0.13% | 1.18 | - |
| - | Other counterparties | 30,942 | 0.00% | 1.18 | - |
| 330 | Trade debtors | 103,750 | -0.33% | 1.18 | (344) |
| **362** | | **246,197** | | | **(303)** |

The table above excludes the outstanding balances on Icelandic investments (set out in Note 44).

*Financial Assets that are past due*

The Council does not generally allow credit for its trade debtors. The amount of debt past its due date for payment amounted to £20.3m. The past due amount can be analysed by age as follows:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 2,209 | Not later than three months | 4,596 |
| 2,195 | Three to six months | 4,793 |
| 9,169 | More than six months | 10,948 |
| **13,573** | | **20,337** |

## Liquidity risk

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). 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.

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

## Refinancing and Maturity Risk

The Council maintains a significant 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 prudential 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.

The maturity analysis of financial liabilities is as follows:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 32,909 | Not later than one year | 2,848 |
| - | One to two years | 249 |
| 3,145 | Two to five years | 5,396 |
| 8,500 | Five to ten years | 9,500 |
| 249,122 | More than ten years | 245,615 |
| **293,677** | | **263,608** |

The maturity analysis of financial assets is as follows:

| 31 March 2017 £000s | | 31 March 2018 £000s |
|---|---|---|
| 96,908 | Less than 1 year | 149,814 |
| - | One to two years | - |
| - | Two to three years | - |
| - | More than three years | - |
| **96,908** | | **149,814** |

The Icelandic investments are included in the table above on the basis of the anticipated recoveries over future years; at 31 March 2018 all further Iceland recoveries are expected to take place within the next 24 months.

## 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 could have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement could rise;
- Borrowings at fixed rates – the fair value of the borrowing liability could fall;
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement could rise; and
- Investments at fixed rates – the fair value of the assets could fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central 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.

According to this assessment strategy, at 31 March 2018, if interest rates had moved by 1% with all other variables held constant, the financial effect would be:

| 2016/17<br>1% Increase<br>£000s | 2016/17<br>1% Decrease<br>£000s | | 2017/18<br>1% Increase<br>£000s | 2017/18<br>1% Decrease<br>£000s |
|---|---|---|---|---|
| 256 | - | Increase in interest payable on variable rate borrowings | 170 | - |
| (1,145) | 1,029 | Increase in interest receivable on variable rate investments | (1,035) | 681 |
| - | - | Increase in government grant receivable for financing costs | - | - |
| **(889)** | **1,029** | **Impact on Surplus or Deficit on the Provision of Services** | **(865)** | **681** |

The impact of a 1% decrease in interest rates is not equivalent to a 1% increase in rates because, with bank base rate at only 0.5% on 31st March 2018, the rate of interest on a number of investments is below 1% and could not, therefore, effectively fall by a further 1%. In addition, the borrowing figures contain a number of LOBO Loans which are only likely to be exercised if interest rates increase.

*Price risk*

At the 31 March 2018 the Council had £30m invested across 6 pooled funds. £10m was held in a property fund, £6m in an equity fund, £10m in two bond funds, and £4m in two multi-asset funds. This element of the Council's portfolio is therefore now exposed to the risk of changing unit prices on these investments. These changing unit prices are influenced by the underlying asset types, equity prices, bond prices and commercial property prices. A 5% net fall across these different fund unit prices would result in a £1.5m fall in the Council's investment value. This movement would not be reflected in the Comprehensive Income and Expenditure Statement (CIES), instead the movement would be reflected in the Available for Sale Reserve. On sale any overall loss or gain over the life of the investment would then be recognised by moving from the Available for Sale Reserve, via the CIES to the General fund. To minimise the risk of volatility in unit prices resulting in a capital loss the Council has diversified across a number of asset classes and intends to hold these funds for the long term.

*Foreign exchange risk*

At 31 March 2018 the Council had no investments denominated in foreign currency.

## Note 46: Trust Funds

The Council acts as Treasurer and Financial Adviser primarily to a number of educational prize funds, endowments, scholarships and bequests that generally have specific trustees to manage them. Capital is invested in accordance with the trustee's instructions in a range of external investments or, if held as cash by the Council, such balances will earn interest at the market seven-day rate. These funds do not represent assets of the Council and have not been included in the balance sheet. As at 31st March 2018 the total value of educational endowments was £0.33m (31st March 2017 - £0.58m).

## Note 47: Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

The central UK government has effective control over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Grants received from government departments are set out in Note 29. Grant receipts outstanding as at 31 March 2018 are shown in Note 38. These grants are in addition to the Council's share of the revenue support grant and redistributed business rates income as calculated by central government.

### Other Public Bodies

In addition to the relationship with Central Government, Hertfordshire County Council has relationships with various NHS bodies. The significant transactions are disclosed in Notes 31 - Agency Services and Note 32 - Pooled Budgets.

### Hertfordshire County Council Pension Fund

The Council administers the Pension Fund on behalf of its employees and those of District Councils within the county and other admitted bodies. On 1 April 2010, pension fund cash was separated from Hertfordshire County Council funds and from that date pensions cash was separately invested and all interest received applied directly to the Pension Fund.

### Locality Budgets

Each elected member of the County Council has £10,000 per year to spend on grants in their local community. The approach is flexible and based on two fundamental principles.

The funding from the Locality Budgets scheme must be used for purposes which promote the social, economic or environmental wellbeing of Hertfordshire having regard to the Council's sustainable community strategy. Locality Budgets cannot be used for purposes which would be contrary to the County Council's prevailing policies or be used for any purposes prohibited by law.

### Members and Officers

In addition the following members and officers sit on the Boards of the following organisations. The table overleaf records the total value of transactions in the year with these organisations.

| Total of Council's transactions with the organisation 2016/17 £000s | Name | Organisation | Total of Council's transactions with the organisation 2017/18 £000s |
|---|---|---|---|
| 107 | Steve Drury (16/17 only) | Ascend Charity | na |
| 1,467 | Roma Mills (16/17 only) | Carers in Hertfordshire | na |
| 35 | Roy Wilsher (16/17 only) | Chief Fire Officers' Association | na |
| 18 | Ian Reay (16/17 & 17/18) | Chilterns Conservation Board | 14 |
| na | Asif Khan (17/18 only) | College of Haringey, Enfield and North East London | 39 |
| na | Richard Roberts (17/18 only) | Community Action Dacorum | 444 |
| 12 | Ron Tindall (16/17 & 17/18) | Hertfordshire Domestic Abuse Helpline | 15 |
| 192 | Terry Douris (16/17 only), David Andrews (16/17 & 17/18) | Hertfordshire Groundwork Trust | 264 |
| 10,148 | Claire Cook (16/17 only),Steven Pilsworth (17/18 only) | Hertfordshire Schools Building Partnership (HSBP) | 10,528 |
| 748 | Peter Maguire and Michael Collier (16/17 & 17/18) | Herts Catering Ltd (HCL) | 397 |
| 7,002 | Michael Collier (16/17 & 17/18) | Herts For Learning (HFL) | 4,094 |
| 9 | Roy Wilsher (16/17 only) | Herts in Trust | na |
| 16 | Andrew Stevenson (16/17 only) | Herts Probation Trust | na |
| na | Annie Brewster (17/18 only) | Herts Sports Partnership | 67 |
| 86 | Alan Searing (16/17 only) | Herts Young Mariners Base (HYMB) | na |
| na | Alan Plancey (17/18 only) | Jewish Care | 241 |
| n/a | Mike Collier (17/18 only) | Police & Crime Commissioner (PCC) | 79 |
| 9 | Jenny Coles (16/17 & 17/18) | Research in Practice | 14 |
| 11 | Fiona Hill (16/17 & 17/18) | Royston Day Centre | 11 |
| 21 | Sandy Walkington (16/17 & 17/18) | St Albans Bereavement Network | 21 |
| 134 | Claire Cook (16/17 only), Iain MacBeath (16/17 & 17/18), Derrick Ashley (16/17 & 17/18) and Steven Pilsworth (17/18 only) | SureCare Supplies Ltd | 911 |
| na | Michael Hearn (17/18 only) | The Hearn Training Company Limited | 22 |
| 341 | Robert Gordon (16/17 only), Jim McManus (16/17 only), Paul Zukowskyj (16/17 & 17/18), Tim Hutchings (16/17 & 17/18) and Steve Jarvis (17/18 only) | University of Hertfordshire | 1,442 |
| na | Tim Williams (17/18 only) | Watford (sheltered) Workshops Ltd | 74 |
| 72 | Derek Scudder (16/17 only) | Watford Sheltered Workshops Ltd | na |
| 15 | Sara Johnston (16/17 only) | Welwyn Hatfield Women's Refuge | na |
| **20,444** | **Total** | | **18,676** |

** The 2016/17 comparative figure for HSBP was incorrectly shown as £150k in last year's statement of accounts, and has been updated in the table above.*

The totals stated in the table above reflect the net transactions with each organisation respectively (i.e. expenditure less income) and exclude transactions with HCC schools. All totals are net expenditure, with the exception of Surecare Supplies, which is net income.

Where there is a new entry for 2017/18, either because there was no relationship in the prior year, or the relationship was judged immaterial, the comparative level of total transactions with the organisation have not been included in the 2016/17 details. The amounts disclosed in the 2016/17 accounts have been shown for comparative purposes even if no ongoing relationship exists.

## Note 48: Investments in Companies and Group Relationships

The Council holds the following investments in companies. These investments have been considered for inclusion within the Council's group boundary, as explained in the accounting policy for Group Accounts. However, group accounts have not been prepared consolidating Hertfordshire Catering Limited as the adjustments required to consolidate into group accounts were not considered material. The Council's interests in other companies are not regarded as material and have therefore also not been included.

| Name | Nature of Business | Owned<br>% | Nominal Value<br>£ |
|---|---|---|---|
| Hertfordshire Catering Ltd | A wholly owned and controlled local authority limited company that provides a school meals service. | 100%. Not consolidated into Group Accounts due to immaterial value of transactions* | £100,000 |
| Herts for Learning Ltd | A schools company owned by the Council, and schools (both maintained and academies) within Hertfordshire. | The Council owns 19% of shares, with maintained Hertfordshire schools owning 65%. | £ 3,150 |
| Surecare Supplies Ltd | A wholly owned and controlled local authority limited company which provides access to high value for money contracts and a wide range of products and services for care homes | Wholly owned (have bought the one and only share) | £ 10,000 |
| East of England Trading Standards Association | A company created to draw down funding to deliver certain regional projects, composed of eleven local authorities. | 9.00% | £ 1 |
| Herts Living Ltd | A wholly owned and controlled local authority limited company which buys, sells and develops real estate properties. | Wholly owned | £175,000 |

** Although the generated turnover for HCL is material, once inter-company transactions are considered, the resulting adjustment to produce Group Accounts is neither material in nature, nor enhances the overall value and clarity of the accounts for Stakeholders. As a result, HCL has not been consolidated into HCC's group accounts.*

Copies of the accounts for these companies can be obtained from the Chief Legal Officer, Hertfordshire County Council, County Hall, Hertford SG13 8DQ (Contact telephone: 01992 555527).

In addition to the consideration of these companies, maintained schools within Hertfordshire are deemed under IFRS 10 to be entities under the Council's control, and so fall within the group boundary. The Code provides a specific adaptation to IFRS 10 and IAS27, under which schools are consolidated within the single entity accounts. The summary position of these schools at 31 March 2018, by category, is shown in the following table:

| | Number of schools | Expenditure £'000s | Income £'000s | Surplus/Deficit at 31/03/18 £'000s |
|---|---|---|---|---|
| **Nursery** | **14** | **10,906,515** | **10,984,780** | **(78,265)** |
| Community | 14 | 10,906,515 | 10,984,780 | (78,265) |
| **Primary** | **364** | **446,597,755** | **443,213,182** | **3,384,573** |
| Academy | 21 | 20,336,749 | 20,101,615 | 235,133 |
| Community | 218 | 298,647,211 | 296,130,545 | 2,516,666 |
| Voluntary Aided | 83 | 82,067,013 | 81,667,376 | 399,637 |
| Voluntary Controlled | 33 | 30,345,925 | 30,336,883 | 9,042 |
| Foundation | 9 | 15,200,857 | 14,976,762 | 224,095 |
| **Secondary** | **20** | **106,688,368** | **106,498,125** | **190,243** |
| Academy | 1 | 1,480,810 | 1,655,844 | (175,034) |
| Community | 3 | 19,694,413 | 19,505,776 | 188,637 |
| Voluntary Aided | 3 | 15,169,044 | 15,248,881 | (79,837) |
| Voluntary Controlled | 1 | 2,109,630 | 2,137,533 | (27,904) |
| Foundation | 12 | 68,234,472 | 67,950,090 | 284,381 |
| **Special *** | **20** | **41,375,482** | **40,928,724** | **446,759** |
| Community | 19 | 39,073,501 | 38,588,611 | 484,891 |
| Foundation | 1 | 2,301,981 | 2,340,113 | (38,132) |
| **Education Support Centres *** | **7** | **13,067,027** | **13,334,433** | **(267,407)** |
| Community | 7 | 13,067,027 | 13,334,433 | (267,407) |
| **Total** | **425** | **618,635,147** | **614,959,243** | **3,675,904** |

* includes Edwinstree Base Unit

## Note 49: Acquired and Discontinued Operations

There have been no Acquired or Discontinued Operations during 2017/18

# Local Government
# Pension Fund Accounts

# Local Government Pension Fund Accounts

## Local Government Pension Fund Accounts

The Council is the Administering Authority for the Hertfordshire Pension Fund ("Pension Fund") which is managed and administered in accordance with the Local Government Pension Scheme Regulations 2013. These accounts give a stewardship report of the financial transactions of the Pension Fund during 2017/18, and of the disposition of its assets at 31 March 2018.

The Local Government Pension Scheme ("Scheme") is a funded scheme, financed by contributions from employees and employers and by earnings from investments. The Pension Fund has published a Funding Strategy Statement, which sets out the Pension Fund's strategy for meeting employers' pension liabilities. The aim of the funding strategy is to ensure the long-term solvency of the Pension Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment.

The Pension Fund covers staff employed by the Council (including maintained schools), the ten District Councils in Hertfordshire and 309 other bodies. The Pension Fund is available to all local authority employees within Hertfordshire, except teachers and fire personnel for whom separate pension arrangements apply. The Pension Fund provides pensions and other benefits for employees, their spouses, civil partners, nominated co-habiting partners or dependants. The income of the Pension Fund arises from contributions by the employees and by their employers and from dividends and interest on investments. The membership of the Pension Fund at 31 March 2018 was as follows:

| 31 March 2017 | | 31 March 2018 |
|---|---|---|
| 33,447 | Contributors | 35,812 |
| 26,019 | Pensioners | 26,856 |
| 39,744 | Deferred benefits (former contributors) | 41,409 |
| **99,210*** | **Total Members** | **104,077** |

*The 2016/17 membership figures have been updated from those published in the 2016/17 Annual Report following late notifications of changes of membership. This is to ensure that the most accurate figures available are reported.

The table below provides a summary of the Pension Fund accounts for the year 2017/18:

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| **3,584,250** | **Value of the Pension Fund at 1 April** | **4,243,371** |
| 23,978 | Net additions / (withdrawals) from dealing with those directly involved in the scheme | 27,532 |
| (14,786) | Management expenses | (14,629) |
| 649,930 | Net returns on investments | 242,744 |
| **659,121** | Increase / (Decrease) in the Pension Fund during the year | **255,646** |
| **4,243,371** | **Value of the Pension Fund at 31 March** | **4,499,017** |

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £3,584 million, were sufficient to meet 91% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £336 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the Funding Strategy Statement (FSS). Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

# Local Government Pension Fund Accounts

The Administering Authority publishes a separate Annual Report and Statement of Accounts for the Pension Fund which provides detailed information and is accessible from the Pension Fund website at https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx.

## 1. Fund Account

| 2016/17 | | | | 2017/18 | |
|---|---|---|---|---|---|
| £000s | £000s | | Note | £000s | £000s |
| 34,359 | | Contributions receivable from members | 1 | 35,382 | |
| 131,199 | | Contributions receivable from employers | 1 | 136,379 | |
| 14,492 | | Transfers in from other schemes | 2 | 17,635 | |
| 4 | | Other income | | 112 | |
| | **180,055** | **Additions from dealings with those directly involved in the Scheme** | | | **189,508** |
| (117,876) | | Pensions | | (122,729) | |
| (25,347) | | Commutation of pensions and lump sum retirement benefits | | (22,904) | |
| (2,863) | | Lump sum death benefits | | (2,468) | |
| | **(146,087)** | **Benefits payable to members** | 3 | | **(148,102)** |
| (629) | | Refunds of contributions | | (626) | |
| (321) | | State scheme premiums | | (58) | |
| (9,041) | | Transfers out to other schemes | 4 | (13,190) | |
| | **(9,990)** | **Payments to and on account of leavers** | | | **(13,874)** |
| | **23,978** | **Net additions / (withdrawals) from dealings with those directly involved in the Scheme** | | | **27,532** |
| (1,558) | | Administrative costs | | (1,491) | |
| (1,037) | | Oversight and governance costs | | (1,166) | |
| (12,190) | | Investment management expenses | 5 | (11,972) | |
| | **(14,786)** | **Management expenses** | | | **(14,629)** |
| 40,343 | | Investment Income | 6 | 39,655 | |
| (291) | | Taxes on income | | (167) | |
| 609,877 | | Profits and losses on disposals of investments and changes in value of investments | 7 | 203,256 | |
| | **649,930** | **Net return on investments** | | | **242,744** |
| | **659,121** | **Net increase / (decrease) in the net assets available for benefits during the year** | | | **255,646** |

## 2. Net Assets Statement

| 31 March 2017 £000s | 31 March 2017 £000s | | Note | 31 March 2018 £000s | 31 March 2018 £000s |
|---|---|---|---|---|---|
| 1,148,718 | | Equities | | 815,111 | |
| | | Pooled investment vehicles | | | |
| 286,375 | | Pooled property investments | | 295,919 | |
| 1,365,648 | | Unitised insurance policies | | 1,844,181 | |
| 598,057 | | Unit trusts | | 606,178 | |
| 131,052 | | Private Equity | | 116,026 | |
| 605,223 | | Other managed funds | | 685,216 | |
| 1,709 | | Derivative contracts | 9 | 16 | |
| 67,496 | | Cash deposits | | 101,564 | |
| 4,006 | | Other investment balances | | 13,501 | |
| | **4,208,283** | **Total investment assets** | 8a | | **4,477,710** |
| (6) | | Derivative contracts | 9 | (676) | |
| (125) | | Other investment balances | | (5,854) | |
| | **(132)** | **Total investment liabilities** | | | **(6,530)** |
| | **4,208,151** | **Total investment assets and liabilities** | 8a | | **4,471,181** |
| 2,217 | | Long term assets | 10 | 1,478 | |
| | **2,217** | **Total non-current assets and liabilities** | | | **1,478** |
| 38,750 | | Current assets | 11 | 29,780 | |
| (5,747) | | Current liabilities | 12 | (3,422) | |
| | **33,002** | **Total current assets and liabilities** | | | **26,358** |
| | **4,243,371** | **Net assets of the Scheme available to fund benefits as at 31 March** | | | **4,499,017** |

**Owen Mapley**
**Director of Resources**

## 3. Statement of Accounting Policies

### Basis of Preparation

The accounts have been prepared in accordance with the provisions of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards, as amended for the UK public sector.

The accounts summarise the transactions for the 2017/18 financial year and net assets of the Pension Fund as at 31 March 2018. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits at the Net Assets Statement date is detailed in Note 16.

### Valuation of Assets

Financial assets are included in the net asset statement on a fair value basis as at the reporting date. A financial asset or liability is recognised in the net asset statement on the date the Pension Fund becomes party to the contractual acquisition of the asset or to the liability. From this date, any gains or losses arising from changes in the fair value of the asset or liability are recognised in the Fund Account. The values of investments as shown in the net asset statement have been determined at fair value in accordance with the regulation of the code and IFRS13. The values on investments as shown in the net assets statement have been determined as follows:

- Market-quoted securities, for which there is a readily available market price, are valued at bid price at the close of business on the net asset date.
- Fixed interest securities are recorded at net market value based on their current yields.
- Pooled investment vehicles are valued at the closing bid price if both bid and offer prices are quoted by the respective Investment Managers. If only a single price is quoted, investments are valued at the closing single price. In the case of pooled investment vehicles that are accumulation funds, the change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- Unquoted investments for which market quotations are not readily available are valued having regard to the latest dealings, professional valuations, asset values and other appropriate financial information.
- Indirect private equity investments are interests in limited partnerships and are stated at the partnership's estimate of fair value. Investments are valued based on the Pension Fund's share of the net assets of the private equity fund. For private equity limited partnerships there is usually a time delay in receiving information from the private equity Investment Managers. The valuations shown in the Net Assets Statement for these investments are the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date.
- Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract.
- Investment assets and liabilities include cash balances held by the Investment Managers and debtor and creditor balances in respect of investment activities as these form part of the net assets available for investment.
- Rights issues are processed on ex-date. If the value of the rights on ex-date is 15% or more of the value of the underlying security, cost is allocated from the parent to the rights. If the value is less than 15%, the rights are allocated at zero cost.

### Cash and Cash Equivalents

Cash is cash in hand and deposits with any financial institution, repayable without penalty and on notice of not more than 24 hours. Cash equivalents comprise investments that are held to meet short-term liabilities rather than for investment or other purposes. These are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value. Bank overdrafts, repayable on demand and which form an integral part of the County Council's treasury management function, are also included as a component of cash and cash equivalents.

### Foreign Currency Translation

All investments are shown in sterling. Dividends, interest, purchases and sales of investments in foreign currencies have been accounted for at the spot market rate at the date of transaction. End of year spot market exchange rates are used to value foreign currency cash balances, market values of overseas investments and purchases and sales outstanding at the net asset date.

Gains and losses on exchange arising from foreign currency investment and cash balances are included within the Fund Account for the year.

### Management Expenses

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, allows the Administering Authority to charge directly to the Pension Fund any costs or expenses incurred in administering it. Management expenses are accounted for on an accruals basis and disclosed in accordance with the 2016 CIPFA guidance 'Accounting for Local Government Pension Scheme Management expenses' and analysed between administrative costs, oversight and governance costs and investment management expenses.

Fees of the external Investment Managers are agreed in the respective mandates governing their appointment. Fees are based on the market value of the portfolio under management. Where an Investment Manager's fee note has not been received for the final period, an estimate based on the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2017/18, £56,579 was based on such estimates.

Investment management expenses include transaction costs relating to the purchase and sale of investments.

### VAT

The Pension Fund is exempt from VAT and is therefore able to recover such deductions. Investment management and administrative expenses are therefore recognised net of any recoverable VAT.

### Benefits Payable

Pension and lump sum benefits payable include all amounts known to be due as 31 March 2018. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

### Contributions

Normal contributions, both from members and employers, are accounted for on an accruals basis, at the percentage rate certified by the Pension Fund Actuary in the payroll period to which they relate. Employer deficit funding contributions are accounted for on an accruals basis in accordance with the period to which they relate or are due, or on a cash basis if the payment is an additional contribution in excess of the minimum required by the Pension Fund Actuary and set out in the Rates and Adjustments Certificate.

Pension strain contributions and employers' augmentation contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

### Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have joined or left the Pension Fund during the financial year and are calculated in accordance with Scheme regulations. Transfer values are treated on a cash basis when they are paid or received, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are accounted for on a receipts basis and are included in transfers in. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### Investment Income

Investment income earned by the Pension Fund on its investments is recognised as follows:

- Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement under other investment balances.
- Investment income earned on pooled investment vehicles that are accumulation funds, where income is retained and automatically reinvested, are shown as changes in the value of investments in the Fund Account.
- Income from private equity investments are reported on the quarterly valuations provided by the private equity Investment Managers. Income is recognised in the period in which the valuation is received.

- Distributions from other pooled investment vehicles are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Asset Statement under other investment balances.
- Changes in the value of investment income are accounted for as income and comprise all realised and unrealised profits and losses during the year.

### Taxation

The Pension Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such, is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Tax is deducted from dividends paid on UK equities, which is not recoverable. Income from overseas investments suffers a withholding tax in the country of origin, unless exemption is permitted. Provision is made for the estimated sums to be recovered and income grossed up accordingly. Irrecoverable tax is accounted for as a Pension Fund expense as it arises.

### Security Lending

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended) permit the Pension Fund to lend up to 35% of its securities from its portfolio of stocks to third parties in return for collateral. The Pension Fund has set a limit of 20% of the total Fund value. The securities on loan are included in the Net Assets Statement to reflect the Pension Fund's continuing economic interest of a proprietorial nature in these securities.

### Additional Voluntary Contribution Investments

The County Council has arrangements with the Standard Life Assurance Company and the Equitable Life Assurance Society to enable employees to make Additional Voluntary Contributions (AVCs) to enhance their pension benefits. AVCs are invested separately from the Pension Fund's main assets and the assets purchased are specifically allocated to provide additional benefits for members making AVCs. As these contributions do not form part of the Pension Fund's investments, the value of AVC investments are excluded from the Pension Fund's Net Assets Statement in accordance with regulation 4(2)(c) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

### Prior period adjustments

There were no material prior period adjustments in 2017/18 that require disclosure.

### Events after the Net Asset Date

There were no material post balance sheet events after 2017/18 that require disclosure.

### Critical judgements in applying accounting policies and significant estimation techniques

In applying the accounting policies set out above, the Pension Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the accounts are:

- **Valuation of private equity investments:** Unquoted private equities are valued by the Investment Managers using the International Private Equity and Venture Capital Valuation Guidelines. These are inherently based on forward looking estimates and judgements involving many factors.

- **Pension fund liability:** The Pension Fund liability is calculated every three years by the Pension Fund Actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

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

Preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the net asset date and the amounts reported for revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that actual outcomes could differ from those assumptions and estimates. The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- **Valuation of private equity investments:** The valuations for private equity investments shown in the Net Assets Statement are based on the latest valuations provided to the Pension Fund, adjusted for cash movements between the valuation date and the net asset date. This may result in a variance between the valuation included in the Financial Statements and the actual value of the Pension Fund's investments as at 31 March 2018 issued by each of the private equity Investment Managers. At 31 March 2018 private equity investments totalled £181.3 million (including private equity investments held within the Global Alternatives Fund).

- **Contractual commitments:** Commitments to the private equity funds are made in local currency (sterling, euros and US dollars). The total remaining commitment to each private equity fund at 31 March 2018 has been converted to base currency, based on exchange rates applicable at the net asset date. The exact timing and amounts of when the Pension Fund's commitment will be drawn down is uncertain and therefore the actual payments made by the Pension Fund may be different from the estimates.

- **Actuarial present value of promised retirement benefits:** Estimation of the liability to pay retirement benefits depends on a number of complex judgements relating to the discount rate used to value the liabilities, the rate at which salaries increase, and changes in retirement ages and mortality rates. The consulting actuary to the Pension Fund, Hymans Robertson, is engaged to provide the Pension Fund with expert advice about the assumptions to be applied. Further information about the key assumptions used to calculate the actuarial present value of promised retirement benefits and the effect on the pensions liability of changes in individual assumptions are shown in Note 16.

- **Provision for doubtful debt:** In 2017/18 a provision for doubtful debt was made of £95,291. The provision was created for all invoiced debt at 31 March 2018 of £460,143. The provision is based on the County Council's Income Collection and Debt Management Policy for providing for doubtful debt as follows:

| Age of debt at 31 March 2018 | Provision created |
|---|---|
| 0 – 274 days | 0% |
| 275 – 456 days | 35% |
| 457 – 639 days | 50% |
| Over 639 days | 100% |

# Notes to the Local Government Pension Fund Accounts

# Notes to the Local Government Pension Fund Accounts

## Note 1: Contributions Receivable

| 2016/17 £000s | 2016/17 £000s | | 2017/18 £000s | 2017/18 £000s |
|---|---|---|---|---|
| | | Members | | |
| 34,013 | | Normal | 35,088 | |
| 346 | | Additional | 294 | |
| | **34,359** | **Total members** | | **35,382** |
| | | Employers | | |
| 99,835 | | Normal | 119,709 | |
| 29,307 | | Deficit funding | 14,932 | |
| 2,057 | | Augmentation and early retirement strain costs | 1,737 | |
| | **131,199** | **Total employers** | | **136,379** |
| | **165,559** | **Total contributions receivable** | | **171,761** |

Members' additional contributions represent contributions from members to purchase additional years of membership or pension in the Scheme.

Employers' normal contributions represent the ongoing contributions paid into the Pension Fund by employers in accordance with the Rates and Adjustments Certificate, issued by the Pension Fund Actuary. These reflect the cost of benefits accrued by current members over the year.

Employers' deficit funding includes:

- £13,399,237 (£25,716,071 in 2016/17) past service adjustment which represents the additional contributions required from employers towards the deficit where an employer's funding level is less than 100%, as per the Rates and Adjustments Certificate. The deficit recovery period varies depending on the individual circumstances of each employer. For statutory bodies, the Pension Fund normally targets the recovery of any deficit over a period not exceeding 20 years. For Transferee Admission Bodies the deficit recovery period would be the shorter of the end of the employer's service contract or the expected future working lifetime of the remaining Scheme members. Further information can be found in the Pension Fund's Funding Strategy Statement accessible from https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx.

- £1,532,960 (£3,089,442 in 2016/17) paid by employers in excess of the minimum contribution levels required by the Pension Fund Actuary in the Rates and Adjustments Certificate.

- £nil (£501,000 in 2016/17) termination payments where an employer had ceased to be a participating employer in the Pension Fund.

Contributions received are further analysed in the table below by type of employer.

| 2016/17 Employee £000s | 2016/17 Employer £000s | | 2017/18 Employee £000s | 2017/18 Employer £000s |
|---|---|---|---|---|
| 15,214 | 55,661 | Administering Authority | 15,292 | 56,111 |
| 16,567 | 64,675 | Other Scheduled Bodies | 17,824 | 69,058 |
| 2,578 | 10,862 | Admitted Bodies | 2,265 | 11,210 |
| **34,360** | **131,199** | **Total contributions receivable** | **35,382** | **136,379** |

# Notes to the Local Government Pension Fund Accounts

## Note 2: Transfers In from Other Schemes

The Pension Fund received £17,635,234 (£14,491,951 in 2016/17) in relation to individual members' transfers of benefits into the Pension Fund. No amounts were received during the year for group transfers from other schemes.

Transfers are shown on a cash basis, in accordance with the accounting policy.

## Note 3: Benefits Payable

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 64,208 | Administering Authority | 65,256 |
| 67,605 | Other Scheduled Bodies | 68,694 |
| 14,274 | Admitted Bodies | 14,152 |
| **146,087** | **Total benefits payable** | **148,102** |

## Note 4: Transfers Out to Other Schemes

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 8,556 | Individual transfers | 13,190 |
| 484 | Bulk transfers | 0 |
| **9,041** | **Total Transfers out to other schemes** | **13,190** |

## Note 5: Management Expenses

### Investment management expenses

The Pension Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of assets under management or as a fixed annual fee. Some Investment Managers also have a performance related fee, payable where performance exceeds the performance target. Performance targets are detailed within the Investment Strategy Statement , which is included in the main Pension Fund Annual Report 2017/18, available from the pension fund's website (https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx).

Investment management expenses include transaction costs associated with the acquisition, issue or disposal of Pension Fund assets and associated financial instruments. In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments set out in Note 7.

The Pension Fund's assets are held in custody by an independent custodian. The custodian is responsible for the safekeeping of the Pension Fund's financial assets, the settlement of transactions, income collection, tax reclamation and other administrative actions in relation to the Pension Fund's investments.

# Notes to the Local Government Pension Fund Accounts

The Pension Fund's performance measurement service is provided by BNY Mellon. A detailed analysis of the Pension Fund's performance is shown in the Investment Performance Report contained within the main Pension Fund Annual Report, available from the Pension Fund's website listed above.

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 11,015 | Management fees | 11,430 |
| 963 | Transaction costs | 397 |
| 213 | Custody fees | 145 |
| **12,190** | **Total investment management expenses** | **11,972** |

An analysis of transaction costs by asset class is shown in the following table;

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 912 | Equities | 395 |
| 47 | Property | 2 |
| 4 | Alternatives | 1 |
| **963** | **Total Transaction costs** | **397** |

## Note 6: Investment Income

### Analysis of investment income

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| - | Income from fixed interest securities | (2) |
| 31,602 | Dividends from equities | 29,403 |
| - | Income from bonds | - |
| | Income from pooled investment vehicles: | |
| 6,845 | Pooled property investments | 7,457 |
| 1,318 | Other pooled investments | 1,513 |
| 157 | Interest on cash deposits | 861 |
| 421 | Other investment income | 423 |
| **40,343** | **Total investment income** | **39,655** |

An analysis of investment income accrued during 2016/17 and 2017/18 is shown in the following table.

| 2016/17 | | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| UK £000s | Overseas £000s | Global £000s | Total £000s | | UK £000s | Overseas £000s | Global £000s | Total £000s |
| 21,596 | 10,006 | - | 31,602 | Equities | 22,710 | 6,694 | - | **29,403** |
| - | - | - | - | Bonds | - | (2) | - | **(2)** |
| 6,230 | 1,318 | 615 | 8,163 | Alternatives | 7,358 | 1,513 | 99 | **8,970** |
| 182 | (25) | - | 157 | Cash and cash equivalents | 209 | 652 | - | **861** |
| 273 | 147 | - | 421 | Other | 226 | 196 | - | **423** |
| **28,282** | **11,446** | **615** | **40,343** | **Total investment income** | **30,503** | **9,053** | **99** | **39,655** |

# Notes to the Local Government Pension Fund Accounts

## Securities lending

The Pension Fund has an arrangement with its Custodian to lend securities from within its portfolio of stocks to third parties in return for collateral. Collateralised lending generated income of £252,855 for 2017/18 (£231,134 for 2016/17). This is included within investment income in the Fund Account.

The Pension Fund obtains collateral at 102% of the market value of securities loaned for collateral denominated in the same currency as that of the loans, or 105% in the case of cross-currency collateral. The market value of securities on loan and collateral held at 31 March 2018 and 2017 is shown in the following table, analysed by collateral type.

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| Market value of securities on loan £000s | Collateral held £000s | | Market value of securities on loan £000s | Collateral held £000s |
| 20,721 | 21,390 | Government debt and supranationals | 22,407 | 23,590 |
| - | - | UK Equity DBV | - | - |
| 62,888 | 66,756 | G10 debt | 25,926 | 27,339 |
| **83,610** | **88,146** | **Total** | **48,333** | **50,929** |

## Note 7: Profit and Losses on the Disposal of Investments and Changes in the Value of Investments

An analysis of investment transactions in 2017/18 is shown in the following table.

| Value at 31 March 2017 £000s | | Purchases at cost and derivative payments £000s | Sale proceeds and derivative receipts £000s | Profits and losses on disposals and change in value of investments £000s | Value at 31 March 2018 £000s |
|---|---|---|---|---|---|
| | Equities | | | | |
| 729,797 | UK | 434,170 | (754,799) | 18,277 | 427,445 |
| 418,921 | Overseas | 60,786 | (131,474) | 39,433 | 387,666 |
| | Pooled investment vehicles | | | | |
| 286,375 | Pooled property investments | 17,110 | (16,348) | 8,783 | 295,919 |
| 1,365,648 | Unitised insurance policies | 2,177,391 | (1,751,123) | 52,265 | 1,844,181 |
| 598,057 | Unit trusts | 182,742 | (190,898) | 16,277 | 606,178 |
| 131,052 | Private equity | 27,942 | (51,527) | 8,560 | 116,026 |
| 605,223 | Other managed funds | 30,001 | (2,756) | 52,749 | 685,216 |
| 1,702 | Derivative contracts (net)* | 4,505 | (15,122) | 8,255 | (660) |
| 67,496 | Cash deposits | 0 | 35,423 | (1,356) | 101,564 |
| **4,204,271** | **Subtotal** | **2,934,647** | **(2,878,625)** | **203,241** | **4,463,534** |
| **3,881** | **Net other investment balances**** | **-** | **3,716** | **-** | **7,647** |
| **4,208,151** | **Total investments assets / (liabilities)** | **2,934,647** | **(2,874,909)** | **203,241** | **4,471,181** |

* Net forward foreign exchange assets/liabilities (see note 8a)
** Net other investment balances assets/liabilities (see note 8a)

# Notes to the Local Government Pension Fund Accounts

An analysis of investment transactions in 2016/17 is shown in the following table.

| Value at 31 March 2016 £000s | | Purchases at cost and derivative payments £000s | Sale proceeds and derivative receipts £000s | Profits and losses on disposals and change in value of investments £000s | Value at 31 March 2017 £000s |
|---|---|---|---|---|---|
| | Equities | | | | |
| 635,030 | UK | 111,394 | (103,827) | 87,199 | 729,797 |
| 456,887 | Overseas | 199,752 | (376,461) | 138,744 | 418,921 |
| | Pooled investment vehicles | | | | |
| 269,692 | Pooled property investments | 199,052 | (200,956) | 18,586 | 286,375 |
| 1,094,728 | Unitised insurance policies | 69 | - | 270,850 | 1,365,648 |
| 544,296 | Unit trusts | 13,215 | (2,953) | 43,499 | 598,057 |
| 115,942 | Private equity | 23,276 | (33,072) | 24,905 | 131,052 |
| 383,660 | Other managed funds | 183,175 | (1,990) | 40,378 | 605,223 |
| 124 | Derivative contracts (net)* | 28,309 | (11,938) | (14,792) | 1,702 |
| 56,642 | Cash deposits | 10,347 | - | 508 | 67,496 |
| **3,557,001** | **Subtotal** | **768,588** | **(731,197)** | **609,877** | **4,204,271** |
| **9,929** | **Net other investment balances**** | | | | **3,881** |
| **3,566,930** | **Total investments assets / (liabilities)** | | | | **4,208,152** |

* Net forward foreign exchange assets/liabilities (see note 8a)
** Net other investment balances assets/liabilities (see note 8a)

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at year end and profits and losses realised on the sale of investments during the year. Derivative receipts and payments correspond to the sterling equivalent amount of forward foreign exchange settled during the year. The sale proceeds for cash deposits represent the net movement in cash held by the Investment Managers during the year. The change in market value of cash results from gains and losses on foreign currency cash transactions.

# Notes to the Local Government Pension Fund Accounts

## Note 8: Investment Analysis

### a) Analysis of investment assets at market value

| 2016/17 | | | 2017/18 | |
|---|---|---|---|---|
| £000s | £000s | | £000s | £000s |
| | | **Investment assets** | | |
| | | Equities | | |
| 729,797 | | UK quoted | 427,445 | |
| 418,921 | | Overseas quoted | 387,666 | |
| | **1,148,718** | **Total equities** | | **815,111** |
| 135,690 | | UK property | 149,040 | |
| 764 | | Overseas property | 44 | |
| 149,921 | | Global property | 146,835 | |
| | **286,375** | **Pooled property investments** | | **295,919** |
| 136,949 | | UK equity funds | 139,027 | |
| 743,353 | | Overseas equity funds | 778,607 | |
| 485,345 | | UK Index Linked Gilts Fund | 926,546 | |
| | **1,365,648** | **Total unitised insurance policies** | | **1,844,181** |
| 7,851 | | UK equity unit trusts | - | |
| 409,726 | | Global Core Plus Bond Fund | 606,178 | |
| 180,480 | | Global Absolute Return Bond Fund | - | |
| | **598,057** | **Total unit trusts** | | **606,178** |
| 131,052 | | UK private equity | 116,026 | |
| | **131,052** | **Total private equity** | | **116,026** |
| 16,485 | | UK equity | 17,233 | |
| 192,944 | | Overseas equity | 242,207 | |
| 395,794 | | Global Alternatives Fund | 425,776 | |
| | **605,223** | **Other managed funds** | | **685,216** |
| 1,709 | | Forward foreign exchange | 16 | |
| | **1,709** | **Total derivatives** | | **16** |
| 67,496 | | Cash deposits | 101,564 | |
| | **67,496** | **Total Cash** | | **101,564** |
| - | | Amounts receivable from the sale of investments | - | |
| 4,006 | | Investment income due | 13,501 | |
| | **4,006** | **Total other investment balances** | | **13,501** |
| | **4,208,283** | **Total investment assets** | | **4,477,710** |

**Table continues overleaf**

| 2016/17 £000s | 2016/17 £000s | | 2017/18 £000s | 2017/18 £000s |
|---|---|---|---|---|
| | | **Investment liabilities** | | |
| (6) | | Forward foreign exchange contracts | (676) | |
| | **(6)** | **Total derivatives contracts** | | **(676)** |
| (111) | | Amounts payable for the purchase of investments | (5,854) | |
| (14) | | Non recoverable tax payable | - | |
| | **(125)** | **Total other investment balances** | | **(5,854)** |
| | **(131)** | **Total investment liabilities** | | **(6,530)** |
| | **4,208,151** | **Total investment assets and liabilities at market value** | | **4,471,181** |

Six pooled holdings exceeded 5% of the total investment assets and liabilities available to fund benefits and 5% of their asset class at 31 March 2018; the Baillie Gifford Long Term Global Growth Fund, the UBS Over 5yr Index Linked Gilts Fund, the Legal & General Over 5yr Index Linked Gilts Fund, the Royal London Core Plus Bond Fund, the UBS North America Equity Index Fund, and the Crown HCC Segregated Portfolio (LGT Capital Alternatives). Cash deposits (including cash and cash instruments) and other investment balances (including accrued dividend entitlements) are accounted for as investment assets as these form part of the net assets available for investment within the investment portfolio.

Investment assets and liabilities at the Net Asset date are further analysed by asset class in the following table.

| 2016/17 | | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| UK £000s | Overseas £000s | Global £000s | Total £000s | | UK £000s | Overseas £000s | Global £000s | Total £000s |
| 891,100 | 1,355,199 | - | 2,246,299 | Equities | 583,705 | 1,408,480 | - | **1,992,185** |
| 895,072 | - | 180,480 | 1,075,552 | Bonds | 1,532,724 | - | - | **1,532,724** |
| 135,690 | 131,816 | 545,715 | 813,221 | Alternatives | 149,040 | 116,070 | 572,612 | **837,722** |
| 60,137 | 7,359 | - | 67,496 | Cash and cash equivalents | 89,311 | 12,260 | (7) | **101,564** |
| 2,431 | 1,449 | 1,702 | 5,583 | Other | 730 | 6,917 | (660) | **6,987** |
| **1,984,430** | **1,495,823** | **727,898** | **4,208,151** | **Total assets and liabilities** | **2,355,509** | **1,543,727** | **571,944** | **4,471,181** |

# Notes to the Local Government Pension Fund Accounts

## b) Analysis by Investment Manager

The value of investments held by each Investment Manager on 31 March were:

| 31 March 2017 £000s | 31 March 2017 % | | 31 March 2018 £000s | 31 March 2018 % |
|---|---|---|---|---|
| 471,377 | 11.2 | Allianz Global Investors Europe GmbH | 440,145 | 9.8 |
| 591,968 | 14.1 | Baillie Gifford & Co. | 666,792 | 14.9 |
| 304,631 | 7.3 | CBRE Global Collective Investors (UK) Ltd. | 330,382 | 7.4 |
| 99,001 | 2.4 | Harbour Vest Partners, LLC | 89,447 | 2.0 |
| 180,480 | 4.3 | Henderson Global Investors Ltd. | - | 0.0 |
| 369 | 0.0 | JP Morgan Asset Management (UK) Ltd. | - | 0.0 |
| 341,777 | 8.1 | Jupiter Asset Management Ltd. | 375 | 0.0 |
| 1,365,648 | 32.5 | Legal & General Assurance (Pensions Management) Limited | 369,123 | 8.3 |
| 395,794 | 9.4 | LGT Capital Partners (Ireland) Ltd | 425,776 | 9.5 |
| 7,144 | 0.2 | Pantheon Ventures | 17,537 | 0.4 |
| 687 | 0.0 | Permira Advisers LLP | 690 | 0.0 |
| 409,910 | 9.7 | Royal London Asset Management Ltd. | 606,361 | 13.6 |
| 38,882 | 0.9 | Standard Life Investments Ltd. | 44,284 | 1.0 |
| - | 0.0 | TTP Venture Managers Ltd. | - | 0.0 |
| - | 0.0 | UBS Group AG | 1,479,949 | 33.1 |
| 483 | 0.0 | Residual funds from previous portfolios | 319 | 0.0 |
| **4,208,151** | **100** | **Funds externally managed** | **4,471,181** | **100** |
| **35,219** | | **Funds held at Hertfordshire County Council and non-investment balances** | **27,836** | |
| **4,243,371** | | **Net Assets of the Scheme** | **4,499,017** | |

The market values in table Note 8(b) include the value of investments, cash and net current assets held by each Investment Manager at 31 March. The funds held by Hertfordshire County Council include net current assets, long term assets and cash required to manage the cash flow associated with the payment of benefits and collection of contributions.

Residual funds from previous portfolios represent residual cash and investment income still due to the portfolios previously run by outgoing Investment Managers following the review of the Pension Fund's Investment Strategy.

## c) Encumbrance of Assets

The Custodian has a lien over the Pension Fund's assets in order to recover any outstanding debts. This is held for the protection of the Custodian and has never been invoked.

# Notes to the Local Government Pension Fund Accounts

## Note 9: Derivatives

The Pension Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Pension Fund does not hold derivatives for speculative purposes.

### Forward foreign exchange contracts

Forward foreign exchange contracts are over the counter contracts with non-exchange counterparties and are used to hedge against foreign currency movements. Forward foreign exchange contracts are disclosed in the accounts at fair value, which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date.

The counterparties at 31 March 2017 and 31 March 2018 were UK and overseas investment banks and the contracts held with these investment banks are analysed in the following table by duration.

| 2016/17 | | | | Duration | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| Currency Payable | Currency Receivable | Fair Value Asset | Fair Value Liability | | Currency Payable | Currency Receivable | Fair Value Asset | Fair Value Liability |
| £000s | £000s | £000s | £000s | | £'000 | £000s | £000s | £000s |
| - | - | - | - | Within 1 month | (1,299) | 1,297 | - | (2) |
| - | - | - | - | 0-3 months | - | - | - | - |
| (137,087) | 138,790 | 1,709 | (6) | 3-6 months | (135,320) | 134,662 | 16 | (673) |
| **(137,087)** | **138,790** | **1,709** | **(6)** | **Total** | **(136,619)** | **135,959** | **16** | **(676)** |

## Note 10: Long Term Assets

Long term assets of £1,478,000 in the Net Assets Statement (£2,217,000 for 2016/17) relates to the bulk transfer of Magistrates Court staff to the civil service pension scheme in 2005 in accordance with the terms of transfer agreement.

## Note 11: Current Assets

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 13,514 | Contributions due from employers | 13,831 |
| 8,516 | Cash and cash equivalents | 15,087 |
| 440 | VAT due from HMRC | 379 |
| 16,391 | Other debtors and prepayments | 577 |
| (112) | Provision for doubtful debt | (95) |
| **38,750** | **Total current assets** | **29,780** |

Cash and cash equivalents represent investments in money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours.

Current assets are further analysed by type of debtor organisation.

| 2016/17 £000s | 2016/17 £000s | | 2017/18 £000s | 2017/18 £000s |
|---|---|---|---|---|
| 2,930 | | Central government bodies | 3,321 | |
| 8,304 | | Other local authorities | 9,358 | |
| 5 | | NHS bodies | 5 | |
| 19,107 | | Other entities and individuals | 2,103 | |
| | **30,345** | **Total debtors** | | **14,788** |
| (112) | | Provision for doubtful debt | (95) | |
| 8,516 | | Cash and cash equivalents | 15,087 | |
| | **8,404** | **Total cash balances** | | **14,992** |
| | **38,750** | **Total current assets** | | **29,780** |

### Note 12: Current Liabilities

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 2,385 | Tax payable to HMRC | 1,301 |
| 1,085 | Investment management fees | 868 |
| 449 | Other creditors | 396 |
| 1,552 | Unpaid benefits | 354 |
| 278 | Cash and cash equivalents | 502 |
| **5,747** | **Total current liabilities** | **3,422** |

Cash balances in the table above include cash balances less cash in transit in the form of unpresented cheques and payments committed by BACs at the net asset date.

Current liabilities are further analysed by type of creditor organisation.

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 2,385 | Central government bodies | 1,301 |
| - | Other local authorities | - |
| 3,085 | Other entities and individuals | 1,619 |
| 278 | Cash and cash equivalents | 502 |
| **5,747** | **Total Current Liabilities** | **3,422** |

# Notes to the Local Government Pension Fund Accounts

## Note 13: Fair Value – Basis of Valuation

The basis of the valuation of each classes of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset | Valuation Hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| **Equities quoted** | Level 1 | Published bid market price ruling on the final day of accounting period | N/A | N/A |
| **Other managed funds – equities** | Level 2 | Closing single price | NAV based pricing set on a forward pricing basis | N/A |
| **Pooled property investments** | Level 2 | Closing bid price where bid and offer prices are published.<br>Closing single price where single price is published. | NAV based pricing set on a forward pricing basis | N/A |
| **Unitised insurance contracts – equities** | Level 2 | Price of a recent transaction for an identical asset | Inputs other than quoted prices that are observable, either directly or indirectly | N/A |
| **Unitised insurance contracts – bonds** | Level 2 | Price of a recent transaction for an identical asset | Inputs other than quoted prices that are observable, either directly or indirectly | N/A |
| **Unit trusts – equities** | Level 2 | Average of broker prices | Evaluated price feeds | N/A |
| **Unit trusts – bonds** | Level 2 | Closing bid, mid and offer prices are published | NAV based pricing set on a forward pricing basis | N/A |
| **Global Alternatives fund** | Level 3 | Closing single price | NAV based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |
| **Private equity** | Level 3 | At fair value as determined by the General Partner in accordance with the terms of the Partnership Agreement and GAAP | Manager's cash flow projections, estimates of growth expectations and profitability, profit margin expectations, adjustments to current prices for similar properties, valuation techniques | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes to expected cash flows, earning multiples and discount rates used in the discounted cash flow analysis |

# Notes to the Local Government Pension Fund Accounts

## Note 14: Financial Instruments

### a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured and how income and expenses, including fair value gains and losses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and Net Assets Statement heading.

All financial instruments are carried in the balance sheet at their fair value. The Pension Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

| 31 March 2017 | | | | 31 March 2018 | | |
|---|---|---|---|---|---|---|
| Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | | Fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
| £000s | £000s | £000s | | £000s | £000s | £000s |
| 1,148,718 | - | - | Equities | 815,111 | | |
| 286,375 | - | - | Pooled property investments | 295,919 | | |
| 1,365,648 | - | - | Unitised insurance policies | 1,844,181 | | |
| 598,057 | - | - | Unit trusts | 606,178 | | |
| 131,052 | - | - | Private equity | 116,026 | | |
| 605,223 | - | - | Other managed funds | 685,216 | | |
| 1,709 | - | - | Derivative contracts | 16 | | |
| - | 67,496 | - | Cash deposits | - | 101,564 | |
| 4,006 | - | - | Other investment balances | 13,501 | - | |
| - | 2,217 | - | Long term assets | - | 1,478 | |
| - | 38,750 | - | Current assets | - | 29,780 | |
| **4,140,787** | **108,463** | **-** | **Total financial assets** | **4,376,147** | **132,821** | |
| (6) | - | - | Derivative contracts | (676) | | |
| (125) | - | - | Other investment balances | (5,854) | | |
| - | - | (5,747) | Current liabilities | - | | (3,422) |
| **(132)** | **-** | **(5,747)** | **Total financial liabilities** | **(6,530)** | | **(3,422)** |
| **4,140,655** | **108,463** | **(5,747)** | **Total** | **4,369,617** | **132,821** | **(3,422)** |

# Notes to the Local Government Pension Fund Accounts

## b) Net gains and losses on financial instruments

| 2016/17 £000s | | 2017/18 £000s |
|---|---|---|
| 609,370 | Fair value through profit and loss | 204,612 |
| 508 | Loans and receivables | (1,356) |
| **609,877** | **Total gains and losses** | **203,256** |

## c) Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1:** Financial instruments where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities, quoted index linked securities and unit trusts. Listed securities are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**Level 2:** Financial instruments where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3:** Financial instruments where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following tables provide an analysis of the financial assets and liabilities of the Pension Fund analysed across levels 1 to 3, based on the level at which the fair value is observable, along with comparative figures for 2017.

| | 31 March 2018 | | | |
|---|---|---|---|---|
| | Level 1 £000s | Level 2 £000s | Level 3 £000s | Total £000s |
| Financial assets | | | | |
| Fair value through profit and loss | 828,611 | 3,005,733 | 541,802 | 4,376,147 |
| Loans and receivables | 132,821 | - | - | 132,821 |
| Financial liabilities | | | | |
| Fair value through profit and loss | (5,854) | (676) | - | (6,530) |
| Financial liabilities at amortised cost | (3,422) | - | - | (3,422) |
| **Net financial assets** | **952,157** | **3,005,057** | **541,802** | **4,499,017** |

# Notes to the Local Government Pension Fund Accounts

| | 31 March 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | £000s | £000s | £000s | £000s |
| Financial assets | | | | |
| Fair value through profit and loss | 1,341,055 | 2,272,886 | 526,846 | 4,140,787 |
| Loans and receivables | 108,463 | - | - | 108,463 |
| Financial liabilities | | | | |
| Fair value through profit and loss | (125) | (6) | - | (132) |
| Financial liabilities at amortised cost | (5,747) | - | - | (5,747) |
| **Net financial assets** | **1,443,645** | **2,272,880** | **526,846** | **4,243,371** |

## d) Transfers between Levels 1 and 2

There were no transfers of investments between levels 1 and 2.

## e) Reconciliation of fair value measurements within level 3

| Value at 31 March 2017 | | Transfers into Level 3 | Transfers out of Level 3 | Purchases at cost and derivative payments | Sale proceeds and derivative receipts | Unrealised gains/ (losses) | Realised gains/ (losses) | Value at 31 March 2018 |
|---|---|---|---|---|---|---|---|---|
| £000s | | | | £000s | £000s | | £000s | £000s |
| 131,052 | Private Equity | - | - | 27,942 | (51,527) | (11,156) | 19,716 | 116,026 |
| 395,794 | Global Alternatives Fund - LGT | - | - | 30,000 | 0 | (18) | 0 | 425,776 |
| **526,846** | | **-** | **-** | **57,942** | **(51,527)** | **(11,174)** | **19,716** | **541,802** |

## f) Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation method described above is likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

| Asset Class | Value as at 31 March 2018 | Assessed valuation range (+/-) | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000s | % | £000s | £000s |
| Private Equity | 116,026 | 15% | 133,430 | 98,622 |
| Global Alternatives Fund (LGT) | 425,776 | 15% | 489,643 | 361,910 |
| | 541,802 | | 623,073 | 460,532 |

## Note 15: Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

### a) Overall procedures for managing risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) and require an administering authority to invest any pension fund money that is not needed immediately to make payments from the pension fund. These regulations require the Pension Fund to formulate a policy for the investment of its Fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund has prepared an Investment Strategy Statement which sets out the Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. This statement is included in the main Pension Fund Annual Report 2017/18, which is available from the Pension Fund's website: https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx.

Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's treasury management strategy and lending policy ("Treasury Management Strategy"), prepared in accordance with the CIPFA Prudential Code, CIPFA Treasury Management in the Public Services Code of Practice and the legal framework and investment guidance set out and issued through the Local Government Act 2003. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Pension Fund's financial instrument exposure.

Investment performance by external Investment Managers and the Administering Authority is reported to the Pensions Committee and Board quarterly. Performance of Pension Fund investments managed by external Investment Managers is compared to benchmark returns. For Pension Fund cash held by the Administering Authority, performance of the treasury function is assessed against treasury management performance measures modelled on the CIPFA Treasury Management Code of Practice which has been adopted by the County Council.

### b) Credit risk and counterparty risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Pension Fund's financial assets and liabilities. Therefore credit risk on investments is reflected in the market risk, in the other price risk figures given in section d) Market Risk.

In addition, the Pension Fund reviews its exposure to credit and counterparty risk on its investments through its external Investment Managers by the review of the Investment Managers' annual internal control reports. This is to ensure that Investment Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers. The Investment Management Agreements for the Pension Fund's bond managers prescribes the investment restrictions on the securities they can invest in, including the minimum acceptance criteria for investments.

Credit risk also arises through the Pension Fund's deposits with banks and financial instruments. For cash managed by the Administering Authority, the Pension Fund's Treasury Management Strategy for 2017/18 sets out the type and minimum acceptable criteria for investments by reference to credit ratings from Fitch, Moody's and Standard & Poor's and outlines the process to be followed for credit rating downgrades.

The credit ratings and amounts held in money market funds, call accounts and cash/current accounts at 31 March 2017 and 2018 are shown in the table overleaf.

| 2016/17 £000s | 2016/17 Credit rating | | 2017/18 £000s | 2017/18 Credit rating |
|---|---|---|---|---|
| | | **Cash managed by Administering Authority** | | |
| (248)[1] | A- | Bank current account | (501)[1] | A- |
| 1,931 | A- | Call accounts | 1,497 | A |
| 6,556 | AAA | Money market funds | 13,589 | AAA |
| | | **Cash managed by Custodian and Investment Managers** | | |
| 7,841 | A+ to AA- | Bank current account | 13,783 | A to AA- |
| 67,082 | AAA | Money Market Funds | 97,998 | AAA |
| **83,162** | | **Total cash and cash equivalents** | **126,366** | |

[1] Cash balances include cash balances less cash in transit in the form of unpresented cheques and payments committed by BACs at the Net Asset date.

## c) Liquidity risk

Liquidity risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. To manage this, the Pension Fund has a cashflow management system that seeks to ensure that cash is available when needed. The Pension Fund also manages its liquidity risk by having access to money market funds and call accounts where funds are repayable without penalty and on notice of not more than 24 hours. At 31 March 2018, £14,585,053 (100%) of the cash and cash equivalents held by the Administering Authority was held in money market funds, call accounts and bank current accounts.

The Pension Fund has set a cap of £42 million on the amount of cash held by the Administering Authority to balance the need for the Pension Fund to be as fully invested as possible whilst maintaining liquidity to avoid the need to sell assets at inopportune times. Where there are surplus funds in excess of the cap, these funds are distributed to Investment Managers, after taking advice from the Pension Fund's Investment Consultant.

External Investment Managers have substantial discretionary powers over their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable. The Pension Fund defines liquid assets as assets which can be converted into sterling cash within three months. At 31 March 2018 the value of illiquid assets was £477,221,021 (10.7% of total fund assets).

## d) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in line with the anticipated returns underpinning the valuation of its liabilities over the long term. The change in the market value of its investments during the year was £203,241,431.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investments it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended). Details of these can be found in the Pension Fund's Statement of Investment Principles included in the main Pension Fund Annual Report 2017/18.

The Pension Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure that the agreed limit on maximum exposure to any one issuer or class of asset is not breached.

For cash managed by the Administering Authority, the Pension Fund has set institution and group limits to diversify the Pension Fund's investment across a range of individual holdings, sectors and countries.

### e) Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether these changes are caused by factors specific to the individual instrument or issuer or factors affecting all such instruments in the market.

The Pension Fund is exposed to changes in equity and bond prices, as the future price is uncertain. All securities investments present a risk of loss of capital. This risk is mitigated using diversification and policies on selecting investments as discussed above.

The one year expected volatility in market prices are shown in the following table, along with the changes in the value of the Pension Fund's investment assets and liabilities if the market price of investments increase or decrease in line with these movements. The total fund volatility takes into account the expected interactions between the different asset classes, based on the underlying volatilities and correlations of the assets in line with mean variance portfolio theory.

| Asset Class | Value as at 31 March 2018 | Change | Value on Increase | Value on Decrease |
|---|---|---|---|---|
| | £000s | % | £000s | £000s |
| UK Equities, Unit Trusts and Pooled Funds | 583,705 | 16.80 | 681,767 | 485,642 |
| Global equities, Unit Trusts and Pooled Funds (ex UK) | 1,431,376 | 17.90 | 1,687,592 | 1,175,159 |
| Property | 295,919 | 14.30 | 338,236 | 253,603 |
| Corporate Bonds (medium term) | 606,178 | 10.20 | 668,008 | 544,348 |
| Index-Linked gilts (medium term) | 926,546 | 7.20 | 993,258 | 859,835 |
| Private Equity | 181,302 | 28.30 | 232,610 | 129,993 |
| Commodities | - | - | - | - |
| High yield debt/convertible bonds/insurance linked securities | 112,428 | 6.70 | 119,961 | 104,895 |
| Private Debt | 1,835 | 7.00 | 1,964 | 1,707 |
| Emerging Market Debt | 34,996 | 12.20 | 39,265 | 30,726 |
| Infrastructure equity | 10,724 | 20.10 | 12,879 | 8,568 |
| Absolute Return Bonds | - | - | - | - |
| Absolute return/Diversified Growth | 167,429 | 12.60 | 188,525 | 146,333 |
| Cash, other investment balances and forward foreign exchange contracts | 118,744 | 0.50 | 119,337 | 118,150 |
| **Total Fund** | **4,471,181** | | **5,083,402** | **3,858,960** |

| Asset Class | Value as at 31 March 2017 £000s | Change % | Value on Increase £000s | Value on Decrease £000s |
|---|---|---|---|---|
| UK Equities, Unit Trusts and Pooled Funds | 901,747 | 15.8 | 1,044,223 | 759,271 |
| Global equities, Unit Trusts and Pooled Funds (ex UK) | 1,376,555 | 18.4 | 1,629,841 | 1,123,269 |
| Property | 281,922 | 14.2 | 321,955 | 241,889 |
| Corporate Bonds (medium term) | 409,726 | 10.1 | 451,109 | 368,344 |
| Index-Linked gilts (medium term) | 485,345 | 7.1 | 519,805 | 450,886 |
| Private Equity | 186,750 | 28.5 | 239,974 | 133,526 |
| Commodities | - | - | - | - |
| High yield debt/convertible bonds/insurance linked securities | 98,131 | 7.0 | 105,000 | 91,262 |
| Emerging Market Debt | 32,591 | 12.4 | 36,632 | 28,549 |
| Infrastructure equity | 9,973 | 20.4 | 12,007 | 7,938 |
| Absolute Return Bonds | 180,480 | 2.9 | 185,714 | 175,246 |
| Absolute return/Diversified Growth | 160,726 | 12.5 | 180,816 | 140,635 |
| Cash, other investment balances and forward foreign exchange contracts | 84,205 | 0.0 | 84,205 | 84,205 |
| **Total Fund** | **4,208,151** | | **4,811,281** | **3,605,020** |

## f) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Pension Fund recognises that interest rates can vary and can affect both income to the Pension Fund and the value of the net assets available to pay benefits. A 100 basis points (BPS) movement in interest rates has been advised by the Pension Fund Actuary, as a sensible level to indicate interest rate sensitivity.

The analysis in the following table assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits, of a +/- 100 BPS change in interest rates. Movement in bond values have been calculated to include the impact of modified duration. Modified duration expresses the measurable change in the value of a security in response to a change in interest rates.

| Value at 31 March 2017 £000s | Potential change +/- 100 BPS £000s | Value on Increase £000s | Value on Decrease £000s | Asset class exposed to interest rate risk | Value at 31 March 2018 £000s | Potential change +/- 100 BPS £000s | Value on Increase £000s | Value on Decrease £000s |
|---|---|---|---|---|---|---|---|---|
| 74,923 | - | 74,923 | 74,923 | Cash at Custodian and Investment Managers | 111,781 | - | 111,781 | 111,781 |
| 8,239 | - | 8,239 | 8,239 | Cash held by Administering Authority | 14,585 | - | 14,585 | 14,585 |
| 1,151,861 | 161,912 | 989,949 | 1,313,773 | Bond (pooled funds) | 1,618,033 | 287,458 | 1,330,575 | 1,905,490 |
| **1,235,022** | **161,912** | **1,073,111** | **1,396,935** | **Total** | **1,744,399** | **287,057** | **1,456,941** | **2,031,856** |

| Value at 31 March 2017 £000s | Potential change +/- 100 BPS £000s | Value on Increase £000s | Value on Decrease £000s | Income source exposed to interest rate risk | Value at 31 March 2018 £000s | Potential change +/- 100 BPS £000s | Value on Increase £000s | Value on Decrease £000s |
|---|---|---|---|---|---|---|---|---|
| 107 | 1 | 108 | 106 | Cash at Custodian and Investment Managers | 808 | 8 | 816 | 800 |
| 51 | 1 | 52 | 50 | Cash held by Administering Authority | 53 | 5 | 58 | 48 |
| **157** | **2** | **160** | **156** | **Total** | **861** | **13** | **874** | **848** |

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. Changes in interest rates do not impact on the value of cash but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

The Pension Fund's bond holdings are held in accumulation funds where income is retained and automatically reinvested rather than being distributed to the Pension Fund. Income earned from these funds is therefore excluded from the analysis above.

### g) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2018, the Pension Fund had overseas investments (excluding forward foreign exchange contracts) of £2,231,488,786 and £12,259,817 cash denominated in currencies other than sterling.

The Pension Fund Actuary has advised that the one year expected standard deviation for an individual currency at the 31 March 2018 is 10% (10% at 31 March 2017). This assumes no diversification, and in particular, that interest rates remain constant. An analysis of the impact this would have on the Pension Fund is given in the following table together with the prior year comparator.

| Asset Class | Value as at 31 March 2018 £000s | Potential market movement +/-10% £000s | Value on Increase £000s | Value on Decrease £000s |
|---|---|---|---|---|
| Overseas Equity | 387,666 | 38,767 | 426,433 | 348,900 |
| Overseas property | 142,738 | 14,274 | 157,012 | 128,464 |
| Overseas unit trusts | 917,058 | 91,706 | 1,008,764 | 825,353 |
| Overseas managed funds | 784,026 | 78,403 | 862,429 | 705,623 |
| Foreign currencies | 12,260 | 1,226 | 13,486 | 11,034 |
| **Total** | **2,243,749** | **224,375** | **2,468,123** | **2,019,374** |

| Asset Class | Value as at 31 March 2017 £000s | Potential market movement +/-10% £000s | Value on Increase £000s | Value of Decrease £000s |
|---|---|---|---|---|
| Overseas Equity | 418,921 | 41,892 | 460,813 | 377,029 |
| Overseas property | 141,689 | 14,169 | 155,858 | 127,520 |
| Overseas unit trusts | 922,210 | 92,221 | 1,014,431 | 829,989 |
| Overseas managed funds | 711,739 | 71,174 | 782,913 | 640,565 |
| Foreign currencies | 7,359 | 736 | 8,095 | 6,623 |

| | | | | |
|---|---|---|---|---|
| **Total** | **2,201,918** | **220,192** | **2,422,110** | **1,981,726** |

External Investment Managers manage this risk through the use of forward foreign exchange contracts and futures, to hedge currency exposures back to the base currency. See Note 9 for further information.

The Treasury Management Strategy does not permit the Administering Authority to invest in foreign currency denominated deposits.

## Note 16: Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Pension Fund at 31 March 2018 and 31 March 2017 are set out in the following table. This is the underlying commitment of the Pension Fund in the long term to pay retirement benefits to its active (employee members), deferred and pensioner members.

| 31 March 2017 £m | | 31 March 2018 £m |
|---|---|---|
| 5,473 | Present value of promised retirement benefits | 5,576 |

Liabilities have been projected using a roll forward approximation from the latest formal valuation as at 31 March 2016 and therefore do not take account of any changes in membership since the valuation date. The liability at 31 March 2018 is estimated to comprise of £2,358 million with respect to employee members, £1,300 million with respect to deferred members and £1,918 million with respect to pensioners. The principal assumptions used by the Pension Fund Actuary were:

| 31 March 2017 | | 31 March 2018 |
|---|---|---|
| | **Financial assumptions** | |
| 2.4% per annum | Inflation/pension increase rate | 2.4% per annum |
| 2.5% per annum | Salary increase rate | 2.5% per annum |
| 2.6% per annum | Discount rate | 2.7% per annum |
| | **Mortality assumptions** | |
| | Longevity at 65 for current pensioners: | |
| 22.5 | • Men | 22.5 |
| 24.9 | • Women | 24.9 |
| | Longevity at 65 for future pensioners: | |
| 24.1 | • Men | 24.1 |
| 26.7 | • Women | 26.7 |

Allowance has been made for future pensioners to elect to exchange 50% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post April 2008 service.

The actuarial present value of promised retirement benefits is sensitive to changes in actuarial assumptions. The significant changes and their impact on the value of the Pension Fund's liabilities between 31 March 2017 and 31 March 2018 were:

| Change in assumptions for the year ended 31 March 2018 | £m | % |
|---|---|---|
| 0.5% decrease in discount rate | 445 | 8 |
| 0.5% increase in salary increase rate | 67 | 1 |
| 0.5% increase in pensions increase rate | 541 | 10 |
| **Total increase in liabilities due to changes in assumptions** | **1,053** | **19** |

The assumptions used by the Pension Fund Actuary to calculate the present value of promised retirement benefits are those required by the Code of Practice on Local Authority Accounting 2017/18. The liability set out in the table above is used for statutory accounting purposes and should not be compared against the value of liabilities calculated on a funding basis, which is used to determine contribution rates payable by employers in the Pension Fund. Further information on the Pension Fund's policy for funding its liabilities is set out in Note 17.

## Note 17: Funding Policy

The Pension Fund's approach to funding its liabilities is set out in its Funding Strategy Statement. The statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions and prudence in the funding basis.

The Pension Fund Actuary is required to report on the "solvency" of the Pension Fund at least every three years. The last actuarial valuation of the Pension Fund was carried out as at 31 March 2016 to determine contribution rates for the financial years 2017/18 to 2019/20, with the new rates effective from 1 April 2017. A copy of the 2016 Valuation Report is accessible from the Pension Fund website: www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

The market value of the Pension Fund's assets at the valuation date was £3,584 million and represented 91% of the Pension Fund's accrued liabilities, allowing for future pay increases.

In accordance with the Scheme regulations, employer contribution rates were set to meet 100% of the Pension Fund's existing and prospective liabilities.

The main actuarial assumptions were as follows:

| | |
|---|---|
| **Discount rate** | **4.0%** |
| **Salary increases** | **2.2%** |
| **Price inflation/pension increases** | **2.1%** |

Further information can be found in the Funding Strategy Statement and the 2016 Valuation Report available on the Pension Fund's website: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx.

## Note 18: Additional Voluntary Contributions (AVCs)

Scheme members have the option to make AVCs to enhance their pension benefits. These contributions are invested separately from the Pension Fund's assets, with either the Standard Life Assurance Company or the Equitable Life Assurance Society.

| 2016/17 | | | | | | | 2017/18 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Standard Life | | Equitable Life | | Total AVCs | | | Standard Life | | Equitable Life | | Total AVCs | |
| £000s | £000s | £000s | £000s | £000s | £000s | | £000s | £000s | £000s | £000s | £000s | £000s |
| | **4,961** | | **1,366** | | **6,327** | **Value at 1 April** | | **4,811** | | **1,337** | | **6,147** |
| | | | | | | Income | | | | | | |
| 295 | | 6 | | 301 | | Contributions received | 315 | | 5 | | 321 | |
| - | | - | | - | | Transfer values received | 6 | | - | | 6 | |
| | **295** | | **6** | | **301** | **Total Income** | | **322** | | **5** | | **327** |
| | | | | | | Expenditure | | | | | | |
| (1,000) | | (101) | | (1,101) | | Retirement benefits | (745) | | (85) | | (830) | |
| (82) | | (52) | | (134) | | Transfer values paid | (2) | | (20) | | (22) | |
| - | | - | | - | | Lump sum death benefit | (4) | | - | | (4) | |
| | **(1,082)** | | **(153)** | | **(1,235)** | **Total Expenditure** | | **(750)** | | **(106)** | | **(856)** |
| | **636** | | **118** | | **754** | **Change in market value** | | **111** | | **28** | | **139** |
| | **4,811** | | **1,337** | | **6,147** | **Value at 31 March** | | **4,493** | | **1,264** | | **5,757** |

## Note 19: Related Parties

### a) Hertfordshire County Council

The County Council incurred costs of £439,524 in relation to the management of the Pension Fund and was subsequently reimbursed by the Pension Fund for these expenses. The County Council also contributed £51,514,441 to the Pension Fund in 2017/18.

### b) Pensions Committee

No members of the County Council Pensions Committee were councillor members of the Hertfordshire Local Government Pension Scheme during 2017/18. Each member of the Pensions Committee is required to declare their interests at each meeting.

### c) Key Management Personnel

The Administering Authority disclosure of senior officer remuneration includes the S151 Officer who has responsibility for the proper financial administration of the Pension Fund under the Local Government Act 1972.

This Officer was employed by the Administering Authority and spent a proportion of time on the financial management of the Pension Fund. These costs comprise an element of the remuneration from the Pension Fund to the County Council in 2017/18 of £439,524.

The remuneration paid by Hertfordshire County Council to key management personnel of the Pension Fund, apportioned for the proportion of time on the financial management of the Pension Fund, were:

| Position | Year | Apportioned salary £ | Apportioned pension contributions £ | Total apportioned remuneration £ |
|---|---|---|---|---|
| Director of Resources | 2017/18 | 9,684 | 1,765 | **11,449** |
| | 2016/17 | 12,741 | 2,323 | **15,064** |

## Note 20: Contingent Liabilities and Contractual Commitments

The Pension Fund had no contingent liabilities.

At 31 March 2018, the Pension Fund had a contractual commitment of a further £271.0 million (£136.9 million at 31 March 2017) to private equity limited partnerships and private equity funds within the Global Alternatives Fund, based on exchange rates applicable at the balance sheet date.

# Notes to the Local Government Pension Fund Accounts

## Note 21: Contingent Assets

### a) Withholding tax reclaims

The Pension Fund has entered into a process to reclaim withholding tax made by other European Union (EU) countries, based on precedent cases in some EU countries that tax has been withheld unfairly under EU law. Claims have been submitted in France and Germany.

The Pension Fund's claims are set out in the following table in both euros and sterling (calculated using exchange rates as at 31 March 2018). The claims are subject to legal processes but based on precedent and legal advice, the Pension Fund expects to be successful in these claims. Therefore the amounts below are contingent assets for the Pension Fund.

| Country | Euro Value at 31 March 2018 | Sterling Value at 31 March 2018 |
|---|---|---|
| | € 000s | £ 000s |
| Germany | 148 | 130 |
| France | 191 | 167 |
| **Total** | **339** | **297** |

### b) Bonds

28 admitted bodies in the Pension Fund held bonds as surety to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

## Note 22: Investment Strategy Statement

Regulation 7 of the Local Government Pension Fund Regulations 2016 (Management and Investment of Funds) set out a requirement for funds to formulate and publish a new Investment Strategy Statement (ISS) no later than 1st April 2017. The Hertfordshire Pension Fund published its ISS on 31st March 2017, and it can be found on the Fund's website: http://www.yourpension.org.uk/Hertfordshire/Fund-information/Policy-statements.aspx

# Firefighters’ Pension Fund Accounts

# Firefighter’s Pension Fund

## Fund account for year ended 31 March 2018

| 2016/17 £000 | | | Note | 2017/18 £000 | |
|---|---|---|---|---|---|
| | | Contributions receivable | | | |
| | | From employer: | | | |
| (2,673) | | - contributions in relation to pensionable pay | | (2,733) | |
| (61) | | - ill health early retirements | | (41) | |
| | | From members: | | | |
| (2,077) | | - Firefighters’ contributions | | (2,168) | |
| | **(4,811)** | **Total - Contributions receivable** | 3 | | **(4,942)** |
| | | Transfers in | | | |
| (3) | | - from other authorities | 4 | (49) | |
| | **(3)** | **Total - Transfers in** | | | **(49)** |
| | | Benefits payable | | | |
| 9,971 | | - pensions | | 10,304 | |
| 1,950 | | - commutations and lump sum retirement benefits | | 2,610 | |
| - | | - lump sum death benefits | | - | |
| 333 | | - other (GAD vs Milne) | | - | |
| | **12,254** | **Total - Benefits payable** | | | **12,914** |
| | | Payments to and on account of leavers | | | |
| - | | - refunds of contributions | | - | |
| 1 | | - transfers out to other authorities | 4 | - | |
| | **1** | **Total - Payments to and on account of leavers** | | | **-** |
| | 7,441 | Deficit for the year before top-up grant receivable from central Government | | | 7,923 |
| | (7,441) | Top-up grant payable by central Government | 5 | | (7,923) |

## Net assets statement as at 31 March 2018

| 2016/17 £000 | | | 2017/18 £000 | |
|---|---|---|---|---|
| | | **Current assets** | | |
| 1,803 | | Top-up grant receivable from central Government | 1,536 | |
| | 1,803 | | | 1,536 |
| | | **Current liabilities** | | |
| (1,803) | | Amount owing to the General Fund | (1,536) | |
| | (1,803) | | | (1,536) |
| | - | **Net Assets** | | - |

**Owen Mapley**
**Director of Resources**
**Date: May 2018**

# Firefighter’s Pension Fund

## Summary of the Firefighters’ Pension Fund Operations

The Firefighters’ Pension Fund was established under the Firefighters’ Pension Scheme (Amendment) Order 2006.

Until the end of March 2006 the Council was responsible for paying the pensions of its former firefighting employees on a ‘pay-as-you-go’ basis. This meant that employees’ contributions were paid into the Council’s accounts from which pensions awards were made and the Council received funding from central government as part of general Formula Grant to support payments of pensions.

From 1 April 2011, the Council has continued, through its scheme administrator, London Pensions Partnership (LPP) (previously London Pensions Fund Authority (LPFA)), to administer and discharge its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the new and existing pension schemes.

Regular firefighters employed before 6 April 2006 were eligible for membership of the 1992 Firefighters' Pension Scheme. When this scheme closed a new 2006 Firefighters’ Pension Scheme was introduced for regular and retained firefighters employed since 6 April 2006. On 1st April 2015, a new 2015 Firefighters’ Pension Scheme came into effect. The two previous Schemes (Firefighters' Pension Scheme 1992 and Firefighters' Pension Scheme 2006) continue in force for firefighters who were serving before that date and who are eligible to remain members of their earlier Scheme.

In 2015, the Modified Retained Pension Scheme was also introduced which gave retained firefighters employed between 1 July 2000 and 5 April 2006 inclusive the opportunity to pay historic contributions and buy back their service for this period. The Modified Retained scheme does not constitute a scheme on its own but rather a modified section of the 2006 scheme with different benefits.
The new financial arrangements are for the 1992, 2006 and 2015 Firefighters’ Pension Schemes and have no impact on the terms and conditions of either scheme.

The Firefighters’ Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The financing of pension payments was taken out of the Formula Grant from April 2006 which instead now takes into account the funding needed to support the cost of the employer contributions and lump sum payments in respect of ill-health early retirements.

## Accounting Policies

The accounts have been prepared in accordance with the 2012 Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS and summarise the transactions and net assets of the Firefighters’ Pension Fund and do not take account of liabilities to pay pensions and other benefits after 31 March 2018.

# Firefighter's Pension Fund

## Contributions Receivable

### Employer and Employee Contributions

Employees' and employer's contribution levels are set nationally by central government and are subject to triennial revaluation by the central Government Actuary's Department.

The purpose of the employee and employer contribution rates under the new arrangements is to meet the accruing pension liabilities of currently serving firefighters. This means the Council must meet the full cost of employing firefighters, including the cost of future pension liabilities, at the time of employing them.

Separate contribution rates, as a percentage of pensionable pay, apply to the 1992 Firefighters' Pension Scheme, the 2006 Firefighters' Pension Scheme and the 2015 Firefighters' Pension Scheme, as shown below.

| | Employer % | Employee % |
|---|---|---|
| **1992 Firefighters' Pension Scheme Pensionable Pay Band** | | |
| Up to and including £15,454 | 21.7 | 11.0 |
| More than £15,454 and up to and including £21,636 | 21.7 | 12.2 |
| More than £21,636 and up to and including £30,909 | 21.7 | 14.2 |
| More than £30,909 and up to and including £41,212 | 21.7 | 14.7 |
| More than £41,212 and up to and including £51,515 | 21.7 | 15.2 |
| More than £51,515 and up to and including £61,818 | 21.7 | 15.5 |
| More than £61,818 and up to and including £103,030 | 21.7 | 16.0 |
| More than £103,030 and up to and including £123,636 | 21.7 | 16.5 |
| More than £123,636 | 21.7 | 17.0 |
| **2006 Firefighters' Pension Scheme Pensionable Pay Band** | | |
| Up to and including £15,454 | 11.9 | 8.5 |
| More than £15,454 and up to and including £21,636 | 11.9 | 9.4 |
| More than £21,636 and up to and including £30,909 | 11.9 | 10.4 |
| More than £30,909 and up to and including £41,212 | 11.9 | 10.9 |
| More than £41,212 and up to and including £51,515 | 11.9 | 11.2 |
| More than £51,515 and up to and including £61,818 | 11.9 | 11.3 |
| More than £61,818 and up to and including £103,030 | 11.9 | 11.7 |
| More than £103,030 and up to and including £123,636 | 11.9 | 12.1 |
| More than £123,636 | 11.9 | 12.5 |
| **2015 Firefighters' Pension Scheme Pensionable Pay Band** | | |
| Up to and including £27,543 | 14.3 | 10.5 |
| More than £27,544 and up to and including £51,005 | 14.3 | 12.7 |
| More than £51,006 and up to and including £142,500 | 14.3 | 13.5 |
| More than £142,501 | 14.3 | 14.5 |

# Firefighter's Pension Fund

Contributions received by the Fund are analysed below.

| | Employer | | Employee | |
|---|---|---|---|---|
| | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 |
| **1992 Firefighters' Pension Scheme** | 1,200 | 1,115 | 816 | 735 |
| **2006 Firefighters' Pension Scheme** | 27 | 33 | 23 | 28 |
| **2015 Firefighters' Pension Scheme** | 1,446 | 1,585 | 1,236 | 1,396 |
| **Modified Retained – Service Buy Back** | - | - | 1 | 9 |
| | **2,673** | **2,733** | **2,076** | **2,168** |

## Ill-Health Early Retirements

Early retirements due to ill-health could, with effect from 1 April 2006, have required the Council to make a lump sum payment into the pension fund of 4× average pensionable pay in respect of all higher tier ill-health retirements and 2× average pensionable pay in respect of all lower tier ill-health retirements, reintroducing some in-year financial volatility, as the number of firefighters who retire on grounds of ill-health will vary from year to year.

However, to deal with this volatility, authorities are required to spread the charges credited to the pension fund equally over a period of three years. The initial payment tranche being made at the time of retirement and subsequent tranches made, without the addition of interest, on 1 April each financial year.

Other approved early retirements have a real cost, which must be covered by employers. These costs will be actuarially calculated for each individual, using a table of factors, and the Council will be required to make a payment into the pension fund.

Contributions received by the Fund are analysed below.

| | Employer | |
|---|---|---|
| | 2016/17 £000 | 2017/18 £000 |
| **1992 Firefighters' Pension Scheme** | 61 | 41 |
| | **61** | **41** |

Ill health charges in 2017-18 consist of £41k in higher tier. Charges in 2016-17 consist of £41k in higher tier and £20k in lower tier retirements.

## Transfers to or from other schemes

Where a firefighter transfers to or from another Fire and Rescue Authority within England there is no need for a cash transfer. A firefighter who transfers out of the Firefighters' Pension Scheme to another pension scheme, or to the Firefighters' Pension Scheme in Scotland, Wales or Northern Ireland, is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme.

This would be paid from the Firefighters' Pension Fund and similarly an inward Transfer Value should be paid into the fund.

## Top-up Grant

Since 1 April 2006, where employer and employee contributions paid into the Firefighters' Pension Fund are not sufficient to meet pension payments for the year, the deficit has been met by a Central Government top-up grant paid by the Home Office from 1st April 2016 (previously Department for Communities and Local Government). Any surplus in the fund must be paid back to central Government as the party that brings the account back to a nil balance at the end of each year.

## Liabilities after year end

The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2018, which are disclosed separately in Note 37 of the main HCC accounts.

# Glossary

# Glossary

This glossary is intended to provide the reader with a clear and concise explanation of the technical terms used in this report.

**Accounting Policies**
Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements.

**Accrual Accounting**
The inclusion of income and expenditure within the accounts for the financial year in which they are earned or incurred, not when the money is received or paid.

**Actuarial Gains and Losses**
For defined benefit pension schemes, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

**Agency Services**
Services that are performed by or for another Authority or Public Body, where the principal, the authority responsible for the service, reimburses the agent, the authority carrying out the work, for the cost of the work carried out.

**Amortised Cost Using the Effective Interest Rate Method**
The amortised cost using the effective interest rate method applies to both financial assets and liabilities carried at amortised cost. It is a method of determining, from the expected cash flows, the balance sheet carrying amount of such assets and liabilities and the periodic charges or credits to the Income and Expenditure Account of a financial instrument.

**Asset**
An item that has value owned by the Council. Examples would be land, buildings and stocks.

**Balance Sheet**
This provides a summary of all the assets and liabilities of the Council, bringing together all the accounts of the Council except the Pension Fund and various Trust Funds whose assets are not at the disposal of the Council.

**Billing Authority**
The local authority responsible for collecting the Council Tax from residential properties in their area. In Hertfordshire this is the responsibility of the Borough and District Councils.

**Budget**
A statement of the Council's policy expressed in financial terms. This includes both revenue and capital expenditure.

**Capital Adjustment Account**
The opening balance on this account represents the combined total of the Fixed Asset Restatement Account and the Capital Financing Account which were replaced at 1 April 2007. From 2007/08 the movements on the Capital Adjustment Account reflects financing of capital expenditure from revenue and capital resources, together with the reversal of amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year.

**Capital Expenditure**
Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

**Capital Financing Requirement**
The amount of money the Council would need to borrow to finance its capital expenditure. The Minimum Revenue Provision in relation to this debt is calculated with reference to estimated life of the asset for which borrowing is undertaken at the end of the preceding financial year.

# Glossary

**Capital Receipts**
The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay outstanding debt on fixed assets or finance capital expenditure within rules set down by government. Capital receipts however cannot be used to finance revenue expenditure.

**Capital Receipts Reserve**
Contains the proceeds from the sale of fixed assets that are available to either finance capital expenditure or repay debt.

**Carry Forwards**
These are underspends at the year-end which Members and officers, under delegated powers, have agreed to carry forward to the next year to support that year's expenditure plans.

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

**Code of Practice on Local Authority Accounting**
The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance.

**Collection Fund**
A fund administered by each billing authority. Council Tax monies are paid into the fund whilst part of the net revenue expenditure of the Council is met from the Collection Fund.

**Component Accounting**
Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge. In practice this can be achieved by only separately accounting for significant components that have different useful lives and/or depreciation methods.

**Comprehensive Income & Expenditure Account**
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; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

**Constructive Obligation**
An obligation that derives from a Council's actions, where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Council has indicated to other parties that it will accept certain responsibilities, and as a result, the Council has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Contingent Liability**
A potential liability at the balance sheet date, the outcome of which is uncertain, as it is dependent on a future event.

**Corporate and Democratic Core**
Comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The costs of these activities are thus over and above those that would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

# Glossary

**Council Tax**
A property based tax that is administered by District, Borough and Unitary Councils.

**Creditors**
Amounts owed by the Council at the balance sheet date for goods and services supplied. This will include receipts in advance that have not been applied at the balance sheet date.

**Current Asset**
An asset that is realisable or disposable within one year.

**Current Liability**
Amounts that are due to be settled within one year.

**Current Service Cost (Pensions)**
The increase in the present value of a defined benefit scheme's liability expected to arise from employee service in the current period.

**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 employee's services earlier than expected; and
- 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.

**Debtors**
Amounts due to the Council at the balance sheet date.

**Deferred Credits**
Capital income potentially due to be received in future periods.

**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 un-funded (including notionally funded).

**Defined Contribution Scheme**
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.

**Depreciated Replacement Cost**
The method employed in valuing land and buildings where a market value basis is not readily available.

**Depreciation**
The measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a fixed asset whether arising from use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

**Discretionary Benefits**
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the Council's discretionary powers such as The Local Government (Discretionary Payments) Regulations 2006.

**Doubtful Debts**
A provision made by the Council based on age and particular circumstances relating to amounts owed to the Council.

# Glossary

**Earmarked Reserves**
Sums set aside to meet revenue or capital expenditure needs in the future. Reserves offer the scope for greater flexibility in financing future expenditure.

**Emoluments**
Amounts paid to employees, including expenses or non-monetary benefits that are taxable.

**Estimation Techniques**
The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

**Exceptional Items**
Material items which derive from events or transactions that fall within the ordinary activities of the Council, and which need to be disclosed separately by virtue of their size or incidence in order to give fair presentation of the accounts.

**Exit Packages**
All relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

**Extraordinary Items**
Material abnormal items which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur.

**Fair Value**
The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Fees and Charges**
Income raised by charging users of services for the facilities. For example, the supply of school meals and home help.

**Financial Asset**
A financial asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

**Financial Instrument**
A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

**Finance Lease**
Arrangements whereby the lessee is treated as owner of the leased asset and is required to include such assets within fixed assets on the balance sheet.

**Financial Liability**
A financial liability is an obligation to transfer economic benefits controlled by the Council, either by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

**Formula Grant**
Central Government provides funding to local authorities through a general grant known as Formula Grant, made up of Revenue Support Grant and Re-distributed Business Rates, in support of its general revenue expenditure.

**Foundation School**
A school that receives funding from the Council but owns its land and buildings.

**General Fund Balance**
The excess to date of income over expenditure in the Income and Expenditure Account.

# Glossary

**Going Concern**
The concept that the Council will remain in operational existence for the foreseeable future. Income and expenditure accounts and the balance sheet are produced on the basis that there is no intention to curtail significantly the scale of operations.

**Government Grants**
Assistance by government and inter-government agencies and similar bodies. When applied, revenue grants are credited to the appropriate service revenue account.

**Heritage Assets**
An asset with historical, artistic, scientific, technological, geophysical or environmental qualities, that is held and maintained principally for its contribution to knowledge and culture.

**Historical Cost**
The value of capital expenditure originally incurred.

**International Financial Reporting Standards**
The Code of Practice is the first to be based on International Financial Reporting Standards and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

**Impairment**
A reduction in the value of a fixed asset below its carrying amount on the balance sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

**Infrastructure Assets**
Assets such as highways, footpaths and railways, whose value is through continued use i.e. there is no prospect of sale or alternative use.

**Intangible Assets**
Non-monetary assets that do not have physical substance and which provide future economic benefits or service potential.

**Investments (Non-Pensions Fund)**
A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments, other than those in relation to the Pension Fund, that do not meet this criterion are classified as current assets.

**Investments (Pensions Fund)**
The investments of the Pension Fund will be accounted for in the statements of that Fund. FRS17 Retirement Benefits requires authorities to disclose their attributed share of pension scheme assets.

**LASAAC**
Local Authority (Scotland) Accounts Advisory Committee

**Liquid Resources**
Current asset investments that are readily disposable by the Council without disrupting its business and are readily convertible to known amounts of cash.

**Long Term Borrowing**
Loans repayable more than one year after the balance sheet date.

**Long Term Contracts**
A contract entered into for the provision of a service where the time taken to complete the contract is such that the contract falls into different accounting periods.

**Long Term Debtors**
Amounts due to the Council more than one year after the balance sheet date.

**Minimum Revenue Provision**
An amount that the Council is required to charge to the general fund, to provide for the repayment of debt related to capital expenditure.

# Glossary

**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 local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

**National Non-Domestic Rates**
A rate in the pound, set by Central Government at a standard countrywide rate, applied to the rateable value of each premise not being used for domestic purposes.

**Net Book Value**
The amount at which fixed assets are included in the balance sheet. This would be either the asset's historic cost or current value less the cumulative amount provided for depreciation.

**Net Current Replacement Cost**
The cost of replacing an asset in its existing condition and its existing use.

**Net Debt**
For cash flow statement presentation purposes, net debt comprises the Council's borrowings plus bank overdrawn positions less positive bank and cash balances, short and long term investments.

**Non Distributed Costs**
Costs that cannot be directly attributed to services.

**Net Interest on the Net Defined Liability**
The change during the period in the net defined benefit liability (asset) that arises from the passage of time. The net interest on the net defined liability (asset) comprises the interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling

**Operating Lease**
An arrangement whereby the risks and rewards of ownership of the leased asset remain with the lessor.

**Overhanging Discounts and Premiums**
Discounts or premiums occurring as a result of debt restructuring that cannot be linked with the replacement loan.

**Past Service Cost**
For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Pension Fund**
An employees' pension fund maintained by a Council, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

**Post Balance Sheet Events**
Events both favourable and unfavourable that occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

**Precept**
The levy made by precepting authorities on billing authorities, requiring the latter to collect income from Council Tax and Business Rates payers on their behalf.

**Precepting Authorities**
Those authorities which are not billing authorities (i.e. do not collect Council Tax and Business Rates). County Councils, Police Authorities and Joint Authorities are 'major precepting authorities' and Parish, Community and Town Councils are 'local precepting authorities'.

**Prior Period Adjustments**
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

# Glossary

**Private Finance Initiative**
The private finance initiative provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. In return the private sector receives payment linked to performance in meeting agreed standards of provision.

**Projected Unit Method**
An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

**Provisions**
Sums set aside to meet future expenditure where a specific liability is known to exist but that cannot be measured accurately.

**Prudence**
The concept that revenue is not anticipated but is recognised only when realised in the form of either cash or of other assets, the ultimate realisation of which can be assessed with reasonable certainty.

**Public Works Loan Board**
A government agency established to provide long-term loans to local authorities to finance part of their capital expenditure.

**Rateable Value**
Rateable value of a property is based on an assessment of the annual rental value for non-domestic property. Rateable value multiplied by the rate in the £ levied equals the rate payments for the year.

**Related Parties**
For a relationship to be treated as a related party relationship there has to be some element of control or influence by one party over another, or by a third party over the two parties.

**Related Party Transaction**
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.

**Resources and Performance**
A directorate of the Council which contains the services organised on a corporate basis that support the delivery of services to the public.

**Retirement Benefits**
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

**Return on plan assets, excluding amounts included in net interest on the net defined liability**
This is defined as interest, dividends and other income derived from the plan assets, together with realised and unrealised gains and losses on the plan assets, less:

- any costs of managing plan assets, and

- any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

**Revaluation Reserve**
Gains and losses on an individual asset basis arising from revaluations are reflected within the Revaluation Reserve.

**Revenue Contingency**
A sum set-aside for future pay and price increases.

**Revenue Contributions to Capital Outlay**
Contributions from revenue to finance capital expenditure.

**Revenue Expenditure and Income**
This is expenditure on day-to-day running costs and consists primarily of salaries and wages, premises related costs and supplies and services. Revenue income will include fees and charges and service specific grants.

**Revenue Expenditure Funded from Capital under Statute**
Expenditure which does not result in, or remain matched with, assets controlled by the Council.

**Revenue Support Grant**
A grant paid by central government in aid of local authority services in general, as opposed to specific grants, which may only be used for a specified purpose.

**Scheme Liabilities**
The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

**Settlement**
An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

**Service Reporting Code of Practice**
The Code that establishes ‘proper practices’ with regard to consistent financial reporting for services.

**Short Term Borrowing**
Loans repayable within one year of the balance sheet date.

**Short Term Investments**
Deposits with approved financial institutions which, when placed, had a maturity date of less than one year.

**Soft Loans**
Loans made for policy reasons that are interest free or at rates below prevailing market rates.

**Specific Grants**
Government grants to local authorities in aid of particular projects or services.

**Statement of Standard Accounting Practice**
A statement of accounting practice issued by the Accounting Standards Board.

**Total Cost**
The total cost of providing a service, including an appropriate share of all support services and overheads.

# Glossary

**Transfer Value**
The value of an employee's pension rights when transferring from one pension scheme to another.

**Useful Life**
The period over which the Council will derive benefits from the use of a fixed asset.

**Vested Rights**
In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses, civil partners or other dependants.

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

Agenda Item No:

**5**

**HERTFORDSHIRE COUNTY COUNCIL PENSION FUND AUDIT RESULTS REPORT**

*Report of Ernst & Young*

## 1. Purpose of the Report

1.1 The Purpose of this report is:

- to present to the Committee the Ernst and Young LLP (EY) Audit Results Report for the 2017/18 audit of the Hertfordshire County Council Pension Fund (appended as appendix 1).

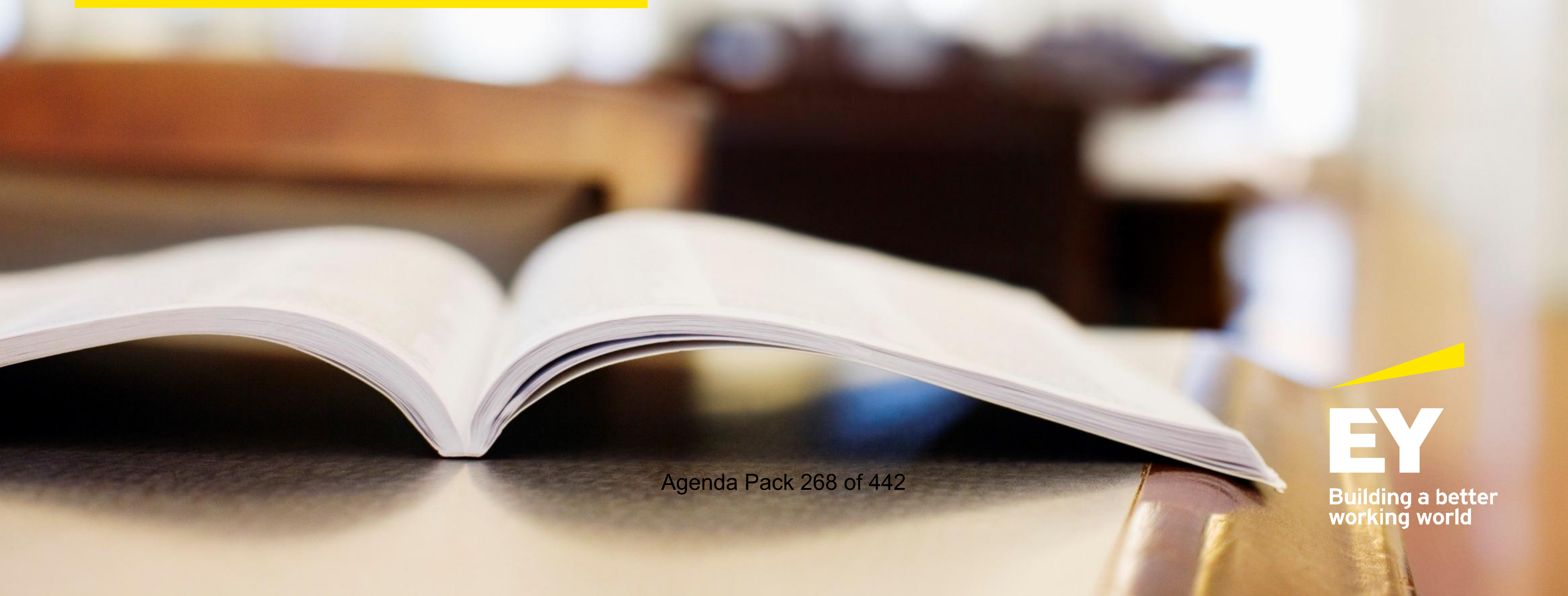
APPENDIX 1

# Hertfordshire Pension Fund

## Audit results report

Year ended 31 March 2018

29h June 2018



Private and Confidential

29th June 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Hertfordshire Pension Fund for 2017/18.

We have substantially completed our audit of Hertfordshire Pension Fund for the year ended 31 March 2018.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

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

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 18 July 2018.

Yours faithfully

Neil Harris

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents


01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Other reporting issues

06 Assessment of Control Environment

07 Data Analytics

08 Independence

09 Appendices


In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The “Terms of Appointment (updated February 2017)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Hertfordshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hertfordshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hertfordshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

# 01 Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the 15 May 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

- Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £84.8m, but that we would update this at year end. This level of materiality has increased to £89.9m based on the increase in Net Assets. The threshold for reporting misstatements that have an effect on the primary statements (fund account and net asset statement) is £4.5m.
- Changes in risks: In our Audit Committee Planning Report, we communicated our significant risk in relation to the accounts. Following receipt of the draft accounts and undertaking our work during the audit, the risks remain consistent with our initial assessment.

## Status of the audit

We have substantially completed our audit of Hertfordshire Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Pension Fund's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Review of the final version of the Annual Report
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter

# Executive Summary

## Audit differences

There are no unadjusted differences arising from our audit.

We have identified a small number of audit differences which have been adjusted by management. As can be seen in Section 4 Audit Differences, we have not felt it necessary to provide the details of these amendments.

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

## Control observations

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

We have adopted a fully substantive approach, so have not tested the operation of controls.

## Independence

Please refer to Section 10 for our update on Independence.


# 02 Areas of Audit Focus

# Significant risk

## Risk of Management Override

### What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Valuation of Complex Investments (Unquoted Investments)

The Fund's investments include unquoted pooled investment vehicles such as private equity and global alternative funds (Level 3 Investments). Judgements are taken by the Investment Managers to value those investments whose prices are not publically available.

The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

As these investments are more complex to value, we have identified the Fund's investments in private equity and global alternative funds (Level 3 investments) as a significant risk. These investments are highly material and as they are harder to value there is a risk of management manipulation in the valuation of these assets and in processing journals incorrectly.

### What did we do?

In response to the risk, we:

- Enquired of management about risks of fraud and the controls in place to address those risks;
- Considered the oversight given by those charged with governance of management's processes over fraud by direct enquiry;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias, including in respect of Level 3 investments;
- Undertook a review of reconciliations to the fund manager and custodian reports and investigated any reconciling differences;
- Re-performed the detailed investment note using the reports we acquired directly from the custodian or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports;
- Reviewed accounting estimates for evidence of management bias; and
- For level 3 investments we agreed information to source reports and the financial statements of the individual funds.

# Significant risk

## Risk of Management Override

### What judgements are we focused on?

We focused on aspects of the financial statements where management could inappropriately inflate income or understate expenditure, primarily:

- Material accounting estimates.
- Journal entries.
- Unusual transactions.

### What are our conclusions?

- We obtained the responses we requested from management and those charged with governance to our enquiries and used these to inform our understanding of fraud risks. We noted that key elements of the entity level control framework that we would expect to see, especially arrangements for internal audit, and risk management, were in place.
- Our walkthrough testing included considering what controls are in place to address significant risks. We concluded that these are in large part year end processes including management review of the draft financial statements. We confirmed that these controls were in place, although our approach was not to rely on controls.
- Our work on the testing of accounting estimates has been completed and no significant issues identified.
- We did not identify any material cut-off issues at the period end date.
- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.

Overall, our audit work has not identified any material issues, inappropriate judgements or unusual transactions which indicate that there has been any misreporting of the Authority's financial position, that revenue or expenditure has been incorrectly recorded or that management has overridden control.

# 03 Audit Report

# Draft audit report

## Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HERTFORDSHIRE COUNTY COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:
give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

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

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Director of Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

# Audit Report

## Our opinion on the financial statements

### Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

### Responsibility of the Director of Resources

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 19, the Director of Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

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

*Neil Harris (Key Audit Partner)*
*Ernst & Young LLP (Local Auditor)*
*Luton*
Date


# 04 Audit Differences

# Audit Differences

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

## Summary of adjusted differences

We highlight the following misstatements greater than £4.5m which have been corrected by management that were identified during the course of our audit.

We do not have any misstatements to report.

Some minor disclosure amendments have been made which do not need to be brought to the Committee’s attention.

There were no uncorrected misstatements.

# 05 Other reporting issues

# Other reporting issues

## Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Hertfordshire County Council accounts.

We have yet to undertake this review.

## Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the [Authority]’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no matters to report.

# 06 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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

# 07 Data Analytics

# Use of Data Analytics in the Audit

## Analytics Driven Audit

## Data analytics

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

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

In 2017/18, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

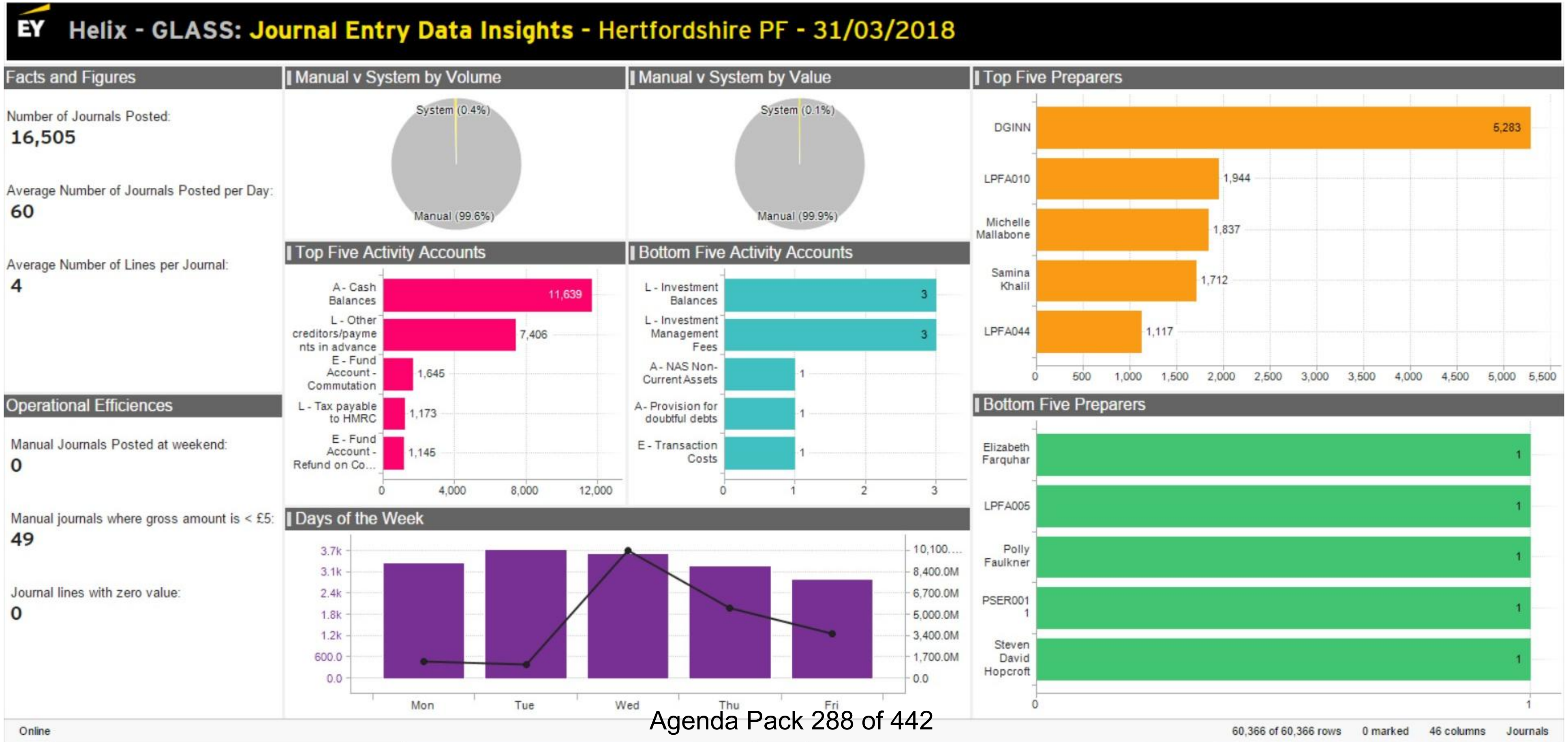
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then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

# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



# Data Analytics

## Journal Entry Testing

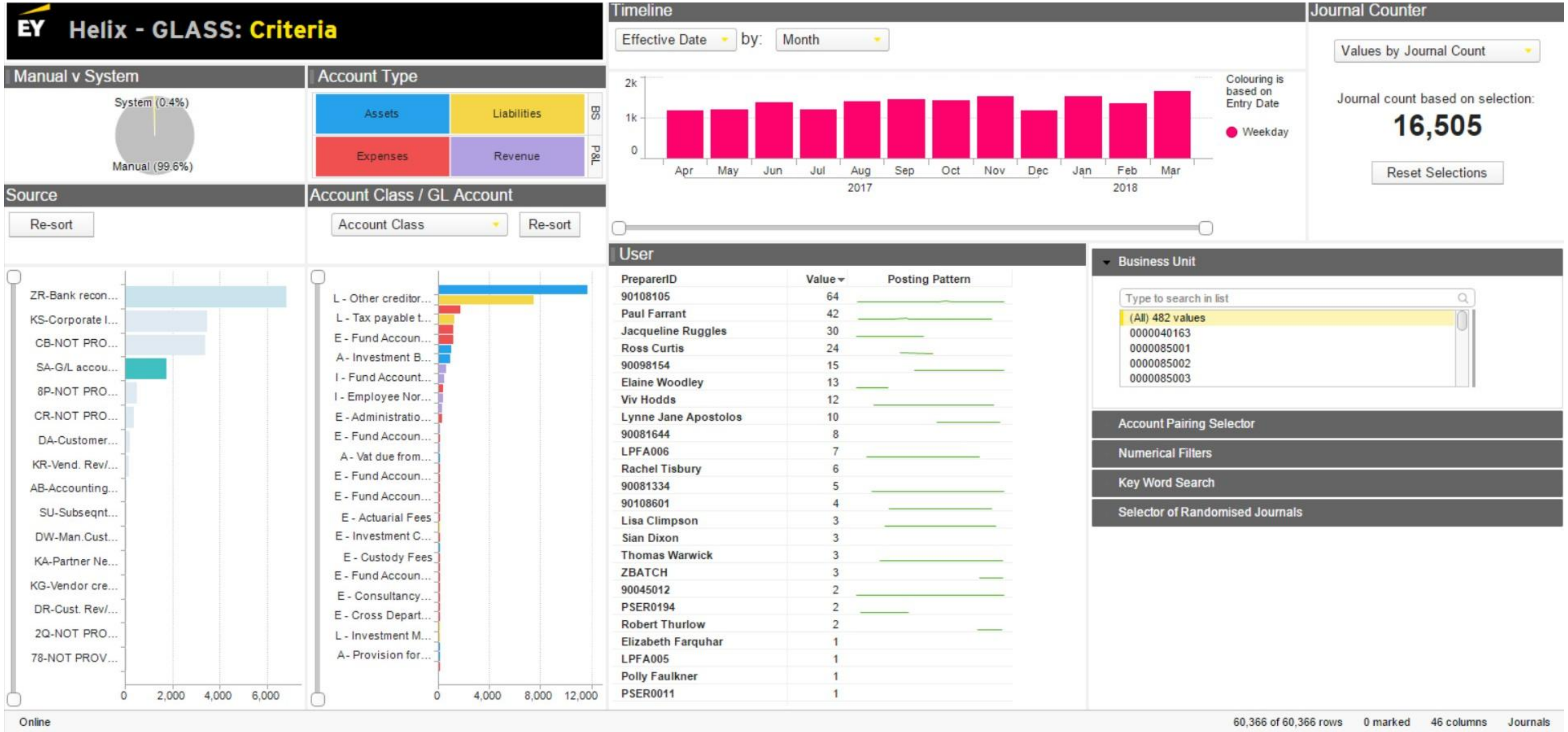
### What is the risk?

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

### What judgements are we focused on?

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

Journal entry data criteria – 31 March 2018




### What are our conclusions?

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

# 8 Independence

# Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 16 April 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 18 July 2018.

# Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

| | Final Fee 2017/18 | Planned Fee 2017/18 | Scale Fee 2017/18 | Final Fee 2016/17 |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| Total Audit Fee – Code work | 33,491 | 33,491 | 27,991 | 33,491 |

We will be charging an additional fee of £5,500 in 2017/18 to take into account the additional work required to respond to IAS19 assurance requests from scheduled bodies. This is consistent with the additional fee agreed in 2016/17. The scale fee variation is has been approved by PSAA.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment.

As we have substantially completed the audit, we expect the final fee to be £33,491.

# 9 Appendices

# Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

| Net Assets Statement category | Audit Approach in current year | Audit Approach in prior year | Explanation for change |
|---|---|---|---|
| Investment Assets and Liabilities | Substantively tested all relevant assertions | Substantively tested all relevant assertions | N/A |
| Long term assets | Immaterial - Substantively tested assertion for presentation and disclosure | Immaterial - Substantively tested assertion for presentation and disclosure | N/A |
| Current Assets (excluding cash) | Substantively tested all relevant assertions | Immaterial - Substantively tested assertion for presentation and disclosure | N/A |
| Cash | Substantively tested all relevant assertions | Substantively tested all relevant assertions | N/A |
| Current Liabilities | Immaterial - Substantively tested assertion for presentation and disclosure | Immaterial - Substantively tested assertion for presentation and disclosure | N/A |

# Appendix B

## Required communications with the Audit Committee

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

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Terms of engagement | Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies. |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit planning report<br>15 May 2018 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report<br>15 May 2018 |
| Significant findings from the audit | • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>• Significant difficulties, if any, encountered during the audit<br>• Significant matters, if any, arising from the audit that were discussed with management<br>• Written representations that we are seeking<br>• Expected modifications to the audit report<br>• Other matters if any, significant to the oversight of the financial reporting process | Audit planning report<br>15 May 2018 |

# Appendix B

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Going concern | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>• Whether the events or conditions constitute a material uncertainty<br>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>• The adequacy of related disclosures in the financial statements | Audit results report<br>18 July 2018<br>No conditions or events were identified, either individually or together to raise any doubt about Hertfordshire Pension Fund's ability to continue for the 12 months from the date of our report |
| Misstatements | • Uncorrected misstatements and their effect on our audit opinion<br>• The effect of uncorrected misstatements related to prior periods<br>• A request that any uncorrected misstatement be corrected<br>• Material misstatements corrected by management | Audit results report<br>18 July 2018 |
| Subsequent events | • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Audit results report<br>18 July 2018 |
| Fraud | • Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority<br>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>• Any other matters related to fraud, relevant to Audit Committee responsibility. | Audit results report<br>18 July 2018 |

# Appendix B

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:<br>• Non-disclosure by management<br>• Inappropriate authorisation and approval of transactions<br>• Disagreement over disclosures<br>• Non-compliance with laws and regulations<br>• Difficulty in identifying the party that ultimately controls the Authority | Audit results report<br>18 July 2018 |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>• The principal threats<br>• Safeguards adopted and their effectiveness<br>• An overall assessment of threats and safeguards<br>• Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. | Audit planning report<br>15 May 2018<br>Audit results report<br>18 July 2018 |

# Appendix B

| | | Our Reporting to you |
|---|---|---|
| Required communications | What is reported? | When and where |
| External confirmations | • Management's refusal for us to request confirmations<br>• Inability to obtain relevant and reliable audit evidence from other procedures. | Audit results report<br>18 July 2018<br>We have received all requested confirmations |
| Consideration of laws and regulations | • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>• Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | Audit results report<br>18 July 2018<br>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations |

# Appendix B

| Required communications | What is reported? | Our Reporting to you: When and where |
|---|---|---|
| Written representations we are requesting from management and/or those charged with governance | • Written representations we are requesting from management and/or those charged with governance | Audit results report<br>18 July 2018 |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | • Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | Audit results report<br>18 July 2018 |
| Auditors report | • Any circumstances identified that affect the form and content of our auditor's report | Audit results report<br>18 July 2018 |
| Fee Reporting | • Breakdown of fee information when the audit planning report is agreed<br>• Breakdown of fee information at the completion of the audit<br>• Any non-audit work | Audit planning report<br>15 May April 2018<br>Audit results report<br>18 July 2018 |

# Management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]

*[Date]*

Ernst & Young
*[Address]*

This letter of representations is provided in connection with your audit of the financial statements of Hertfordshire Pension Fund ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

# Management representation letter

## Management Rep Letter

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date [date].
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.
7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

# Management representation letter

## Management Rep Letter

7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm there are no guarantees that we have given to third parties.

E. Subsequent Events
1.There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

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

G. Independence
1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments
1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.
2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling investments, including the use of collective investment vehicles and shared services
1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation
1. The latest report of the actuary Hymans Robertson LLP as at 31 March 16 and dated 31 March 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

# Management representation letter

## Management Rep Letter

K. Use of the Work of a Specialist

We agree with the findings of the specialists that we have engaged to value the Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

*Yours faithfully*,

______________________

Director of Resources

______________________

Chairman of the Audit Committee

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**HERTFORDSHIRE COUNTY COUNCIL**

Agenda Item No:

**6**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00PM**

**RESPONSE TO THE AUDIT RESULTS REPORT 2017/18 – PENSION FUND**

*Report of the Assistant Director Finance*

Author: James Kidd, Senior Accountant (Tel: 01992 555706)

Executive Member: Ralph Sangster, Executive Member for Resources

## 1. Purpose of report

1.1 To provide the Committee with a response to Ernst & Young's draft Audit Results Report for the Pension Fund presented as a separate agenda item to this meeting.

## 2. Response to the Annual Governance Report

2.1 Ernst & Young LLP have issued a draft Audit Results Report for the Pension Fund following the audit of the 2017/18 annual report and accounts. Officers are pleased to report that there are no recommendations and the auditors are expected to confirm an unqualified opinion on the accounts. The report is in a draft form at present as we await final sign off.

2.2 The audit identified a small number of minor disclosure errors which were agreed with management for amendment. The Auditor did not consider any of these significant and therefore did not provided further detail of these amendments in their report.

## 3. Letter of Representation

3.1 It is an annual requirement (set out on Page 5 of the Auditor's draft report) for a letter of representation from management to be prepared in order to gain management's confirmation in relation to a number of matters, for which the auditor does not currently have sufficient audit evidence. A draft is attached at Appendix A to this report for members to review. This letter is to be signed by the Director of Resources and the Chairman of the Audit Committee.

## 4. Recommendation

4.1 That the response to the Audit Results Report 2017/18 for the Pension Fund is approved, and that the Letter of Representation is signed by the Director of Resources and Chairman of the Audit Committee.

Corporate Services
Director of Resources

Neil Harris
Associate Partner
Ernst & Young LLP
The Paragon
Counterslip
Bristol
BS1 6BX

**Herts Finance**
**Hertfordshire County Council**
**County Hall**
**Pegs Lane**
**Hertford SG13 8DE**

**Tel:** 01992 555601
**Fax:** 01992 555505
**Email:** owen.mapley@hertforshire.gov.uk
**Contact:** Owen Mapley

**Private & Confidential**

**Date:** 18th July 2018

Dear Mr Harris

**Letter of representation for Hertfordshire County Council Pension Fund – 2017/18 financial year**

This letter of representations is provided in connection with your audit of the financial statements of Hertfordshire Pension Fund ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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

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

## A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit

Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 that are free from material misstatement, whether due to fraud or error.

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

**B. Non-compliance with laws and regulations including fraud**

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.

5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty. We have drawn to your attention all correspondence and notes of meetings with regulators.

6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

    - Involving financial improprieties
    - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements

- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other noncompliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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

1. We have provided you with:

    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
    - Additional information that you have requested from us for the purpose of the audit.
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date - 28th February 2018.

5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

**D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and confirm that we have given no guarantees that we have given to third parties.

**E. Subsequent Events**

1. There have been no events subsequent to period end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

**F. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Report.

2. We confirm that the content contained within the other information is consistent with the financial statements.

**G. Independence**

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

**H. Derivative Financial Instruments**

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

2. Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

**I. Pooling investments, including the use of collective investment vehicles and shared services**

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

**J. Actuarial valuation**

1. The latest report of the actuary Hymans Robertson LLP as at 31 March 16 and dated 31 March 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

**K. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we have engaged to value the Fund and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Yours faithfully

________________________

Director of Resources

I confirm that this letter has been discussed and approved at the Audit Committee on 18 July 2018

________________________

Chair of Audit Committee

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

Agenda Item No:

**7**

# HERTFORDSHIRE COUNTY COUNCIL – SIAS INTERNAL AUDIT PROGRESS REPORT

*Report of the Director of Resources*

Authors: Chris Wood, SIAS Audit Manager (Tel: 01438 845513)
Darren Williams, Client Audit Manager (Tel: 01438 845513)

## 1. Purpose of Report

1.1 To provide Members of the Audit Committee with information on the delivery of the Council's Internal Audit Plan as at 29 June 2018, covering:-

a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Hertfordshire County Council Internal Audit Plan for 2018/19

b) Proposed amendments to the approved 2018/19 Audit Plan

c) 'Limited Assurance' audits issued since the last meeting of this Committee.

d) Implementation status of previously agreed:

- high priority audit recommendations and agreement to remove completed actions; and
- medium priority recommendations

e) An update on performance management information.

## 2. Background

2.1 Local government is statutorily required to have an internal audit function. The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

2.2 In addition, a council's Chief Finance Officer has a statutory duty under Section 151 of the Local Government Act 1972 to establish a clear framework for the proper administration of the authority's financial affairs. To fulfil this requirement, the S151 officer relies, amongst other sources, upon the work of internal audit.

2.3 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2.4 The 2018/19 Hertfordshire County Council Audit Plan was approved by the Audit Committee on 26 March 2018. The Audit Committee receives periodic progress updates against the Internal Audit Plan. This is the first update report for the 2018/19 financial year, appended as Appendix 1 to this report.

## 3 Summary

3.1 As at 29 June 2018, 17% of the 2018/19 Internal Audit Plan days have been delivered and 11% of the total planned projects have been completed to draft report stage (both with annual targets of 95% delivery).

3.2 The progress report includes the outcomes of seven assurance projects completed since the previous update to the Audit Committee, two of which relate to activities from the 2018/19 Internal Audit Plan.

3.3 Three in-year amendments have been proposed to the approved Internal Audit plan, these relating to Service areas of Resources, Schools and Grant Certifications. The current balance of remaining contingency time totals 107 days.

3.4 No new limited assurance opinions or high priority recommendations are included within this progress report.

3.5 In respect of the implementation status of management actions, two outstanding high priority recommendations are reported as having revised implementation dates. For the 70 outstanding medium priority recommendations, 37% are confirmed as implemented, 46% have revised implementation dates and for 17% management updates are still awaited.

3.6 Finally, Audit Committee Members are informed of revisions to the Internal Audit classifications and definitions for assurance levels and recommendation priorities, which took effect from 1 April 2018.

## 4. Recommendations

The Committee:-

a) Notes the Internal Audit Progress Report.

b) Approves the proposed in year changes to the Council's 2018/19 Internal Audit Plan.

c) Notes the progress update on the implementation status of outstanding high priority recommendations.

Shared Internal Audit Service
Hertfordshire in Partnership

# Hertfordshire County Council
# Internal Audit Progress Report
# 18 July 2018

## Contents


# 1 Introduction and Background

1.1 Purpose
1.2 Background

# 2 Audit Plan Update

2.1 Delivery of Audit Plan and Key Findings
2.10 Schools' Activity
2.16 Proposed Audit Plan Amendments
2.22 Limited Assurance Audits
2.23 High Priority Recommendations
2.32 Medium Priority Recommendations
2.34 Performance Management


## Appendices


# A Progress against the 2018/19 Audit Plan

# B Implementation Status of High Priority Recommendations

# C Definitions of Assurance and Recommendation Priorities

# 1. Introduction and Background

Purpose of Report

1.1 To provide Members of the Audit Committee with information on the position as at 29 June 2018, relating to:

a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Hertfordshire County Council Internal Audit Plan for 2018/19

b) Proposed amendments to the approved 2018/19 Audit Plan

c) ‘Limited Assurance’ audits issued since the last meeting of this Committee of which there are none in this reporting period.

d) Implementation status of previously agreed:

- high priority audit recommendations and agreement to remove completed actions; and
- medium priority recommendations

e) An update on performance management information.

Background

1.2 The 2018/19 Hertfordshire County Council Audit Plan was approved by the Audit Committee on 26 March 2018.

1.3 The Audit Committee receives periodic progress updates against the Internal Audit Plan and this is the first update report for the 2018/19 financial year.

1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

# 2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 As at 29 June 2018, 17% of the 2018/19 Internal Audit Plan days had been delivered (calculation excludes unused contingency days). Appendix A to the report provides a status update on each individual deliverable within the audit plan.

2.2 The following reports have been issued and assignments undertaken in the period since 12 March 2018 which was the cut off period for the previous report that was brought to the Committee in March 2018:

(Audit Committee Members should note that the summary below excludes any audits finalised since the last committee meeting that were included within the SIAS Annual Assurance Statement and Internal Audit Annual Report - presented to the Audit Committee on 15 May 2018)

| Audit Title | Assurance Level | Number of Recommendations |
|---|---|---|
| **2017/18 Audit Plan** | | |
| **Adult Care Services** | | |
| Adult Care Services – Data Quality Business Process Compliance | Substantial | 1 Medium<br>3 Merits Attention |
| Adult Care Services – Market Oversight Programme (consultancy review) | Not Assessed | Consultancy Review |
| **Community Protection** | | |
| Community Protection – Trading Standards - Management of Evidence | Substantial | 3 Medium<br>6 Merits Attention |
| **Children's Services** | | |
| Customer Service Centre (safeguarding enquiries) | Substantial | 1 Merits Attention |
| **Council Wide** | | |
| Conflicts of Interest | Substantial | 2 Medium<br>1 Merits Attention |

| Audit Title | Assurance Level | Number of Recommendations |
|---|---|---|
| **2018/19 Audit Plan** | | |
| **Grant Certification / Accounts / Statutory Submissions** | | |
| LEP – Growth Hub | Unqualified | N/a |
| Hertfordshire Education Foundation (HEF) | Unqualified | N/a |

2.3 In respect of the above assurance levels and recommendation classifications, Committee Members are advised that for all draft reports issued after 1 April 2018 a revised range of opinions, classifications and definitions will be used. Appendix C of this report provides a full summary of the existing and revised classifications and definitions. The five completed 2017/18 assignments, summarised in the above table, were issued in draft prior to 31 March and therefore were assessed using the 2017/18 classification levels.

2.4 In relation to the background to the above change, Committee Members are advised that the use of "Good" and "Satisfactory" to replace the former "Full", "Substantial" and "Moderate" assurance levels is intended to provide greater clarity to stakeholders, in particular allowing the opinion to be understood even in the absence of the formal definition.

2.5 In respect of recommendation priorities, a new category of "critical" has been introduced. This allows audit reports to draw a clearer distinction between matters that are "critical" to the Council as a whole, as opposed to those issues that are of priority to an individual Service or Operational team (which will continue to be assessed using the three level priority scales). Finally, the former "merits attention" priority level has been renamed to "low" priority to provide greater clarity to readers of audit reports.

2.6 As part of the process for arriving at the final classifications and definitions, Committee Members are advised that SIAS undertook a review of assurance opinions used by other Local Authorities, private sector assurance providers and professional sector guidance, prior to arriving at the final outcome.

2.7 In addition to completed projects summarised in 2.2, the following draft reports have been issued to management for comment and response:

| Service | Audit Title | Month of Issue |
|---|---|---|
| **2017/18 Audit Plan** | | |
| **Adult Care Services** | Adult Care Services – Data Security and Information Sharing | May 2018 |
| **Children's Services** | Children's Services – Financial Monitoring of Schools | May 2018 |
| **Adult Care Services** | Application of Eligibility Thresholds (OPPD / LD) | June 2018 |

| | | |
|---|---|---|
| **Cross Service Review** | Home to school / college transport (CS and Environment) | June 2018 |
| **Council Wide** | Business Continuity | June 2018 |

2.8 A total of eight audits from the 2017/18 plan were carried over into 2018/19 for the completion of fieldwork. Of the seven audits that are outstanding, three remain in fieldwork, two are in quality review stage and two draft reports have been issued to management for comment and response. Full details of each outstanding project can be found within Appendix A of this report.

2.9 In respect of the progress in delivering the 2018/19 plan, one audit is at quality review stage, three are in fieldwork and a further nine audits are at planning stage. All other audits in the plan have been allocated and will commence in line with the start dates agreed with management.

Schools' Audit Activity

2.10 The schools' audit plan for 2018/19 identified three streams of activity:

a) **Theme 1** - Assessment of the effectiveness of internal control in relation to the requirements of the Schools Financial Value Standard (SFVS) (sample of 25 schools)

b) **Theme 2** – General Data Protection Regulations – to provide assurance that the sampled schools have appropriate internal control arrangements in place to comply with the requirements of the GDPR (sample of 15 schools)

c) **Theme 3** – IR35 – to provide assurance that the sample schools have appropriate internal control arrangements in place to comply with the IR35 (off payroll working) regulations that came into force in April 2017 (sample of 15 schools)

2.11 In respect of Theme 1, visits to the 20 schools programmed for completion in the Summer Term 2018 are in progress, with one final report issued, six draft reports and the remaining 13 audits either planned, in fieldwork or at quality review stage.

2.12 In respect of theme 2 (GDPR) and theme 3 (IR35), these themes are scheduled to commence in the Autumn term 2018.

2.13 Since the previous update report to the Audit Committee, SIAS has co-ordinated the completion of the Council's School's Financial Value Standard return to the Education Skills and Funding Agency. The Council was able to report that all 408 maintained schools (including Pupil Referral Units) had submitted a completed SFVS return to the Council. In addition the return provided the Council's confirmation that a system of audit for schools is in place that provides assurance over their standards of financial management and the regularity and propriety of their spending.

2.14 To date we have not received any referrals for inclusion under the contingency allocation for schools due to become academies, or schools causing financial concern.

2.15 We continue to receive enquiries from schools regarding a range of financial matters and update the Frequently Asked Questions within the Internal Audit page on the Grid accordingly.

Proposed Audit Plan Amendments

2.16 Proposed amendments to the 2018/19 Internal Audit Plan and the reasons for these are set out below:

2.17 Resources

- At the request of the Head of Accountancy Services, a benchmarking exercise on Fees and Charges has been added to the plan. A total of 5 days have been allocated for this review.

2.18 Grants

- The allocation for the certification of the LEP grant returns to the Cities and Local Growth Unit has been increased from three to six days in order to accommodate the certification of both the Local Growth Hub funding and the Capital Grant allocation.

2.19 Schools

- In order to support the completion of the Council's Schools Financial Value Standard Return (see 2.12), additional work was required to obtain SFVS returns from schools that missed the original submission deadline. A total of 5 additional days were allocated, increasing the final budget for this project to 20 days.

2.20 In respect of the plan additions above, these have been resourced from the Council's audit plan contingency allocation, leaving a remaining contingency balance of 52 days for the Council's main plan and 55 days for the Schools audit plan.

2.21 Additional minor changes have been made to the audit plan in order to reflect changes of 3 days or less, where original planned items are no longer required, or new activities have emerged.

Limited Assurance Audits

2.22 Since the previous progress report, no Limited Assurance opinions have been provided by SIAS.

High Priority Recommendations

2.23 Audit Committee Members will be aware that a final audit report is issued when it has been agreed by management; this includes an agreement to implement the recommendations made. It is Internal Audit's responsibility to advise members of the Committee on progress of the implementation of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.

2.24 As highlighted within paragraph 2.5 of this report, SIAS have revised the classification levels for audit recommendations with effect from 1 April 2018. This progress report currently provides Committee Members with a detailed update on the progress of implementing high priority recommendations (see Appendix B), with the progress of medium recommendations limited to a numerical analysis.

2.25 Following the introduction of the new classification level of "critical", to highlight recommendations that are important to the Council as a whole, it is proposed that future progress reports will only provide detailed updates on critical recommendations. The existing numerical analysis of progress will continue to be provided for high and medium recommendations.

2.26 The above change will be implemented within the September 2018 progress report, however the Committee will continue to receive updates any current outstanding high priority recommendations or any arising from 17-18 audits assessed using the previous classification approach, until they have been fully implemented by management.

2.27 An update on progress with implementing high priority recommendations is summarised in the table below:

| **HIGH PRIORITY RECOMMENDATIONS** | | | | **Not implemented by Due Date** | |
|---|---|---|---|---|---|
| Total Number of Outstanding Recommendations at the start of this Follow Up Period | Implemented | Not Yet Due | No Longer Applicable | Partially Implemented – Revised Date Agreed | No Update Provided by Action Owner |
| 2 | 0 | 0 | 0 | 2 | 0 |
| % | 0% | 0% | 0% | 100% | 0% |

2.28 High priority recommendations relating to schools are excluded from this listing given both the volume of schools within the County and the relative risk of any single recommendation to the Authority as a whole.

2.29 Further details on the implementation status of the above management actions are provided within Appendix B of this progress report.

2.30 No new high priority recommendations have been made since our previous progress report to the Committee.

2.31 The current progress of management in implementing the above actions is reported to the committee within Appendix B of this report.

Medium Priority Recommendations

2.32 The Committee's role in respect of medium priority recommendations is to be satisfied that there is a monitoring process in place and that, in general, agreed recommendations are being implemented.

2.33 The table below details the implementation status of medium priority recommendations that were due for implementation in the period since the last progress report.

| **MEDIUM PRIORITY RECOMMENDATIONS** | | **Not implemented by Due Date** | | |
|---|---|---|---|---|
| Total Number of Recommendations Followed Up in this Period | Implemented | Partially Implemented – Revised Date Agreed | Actions not commenced – Revised date Agreed | No Update Provided by Action Owner |
| 70 | 26 | 32 | 0 | 12 |
| % | 37% | 46% | 0% | 17% |

Performance Management

2.34 Annual performance indicators and associated targets are approved by the SIAS Board on an annual basis.

2.35 The actual performance for Hertfordshire County Council against the targets that can be monitored in year is set out in the table below.

| Performance Indicator | Performance Target for 31 March 2019 | Profiled performance at 29 June 2018 | Actual performance to 29 June 2018 |
|---|---|---|---|
| **1. Planned Days** – percentage of actual billable days against planned chargeable days completed (excludes unused contingency) | 95% | 20% | 17% |
| **2. Planned Projects** * – percentage of actual completed projects to draft report stage against planned completed projects | 95% | 13% | 11% |
| **3. Client Satisfaction** – percentage of client satisfaction questionnaires returned at 'satisfactory' level | 100% | 100% | 100%** |
| **4. Number of High Priority Audit Recommendations agreed as %** | 95% | 95% | 100% |

* Based on audit plan 'deliverables' at draft, final and audit closed stage including schools audits and items carried forward from 2017/18 that were not at draft report stage by 31 March 2018 or included within the SIAS 2017/18 Annual Assurance Statement and Internal Audit Annual Report.

** No completed customer satisfaction surveys have been received during 2018/19 to date.

2.36 In addition, the performance targets listed below are annual in nature; Members will be updated on the performance against these targets within the separate Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – external audit has been able to draw assurance from the work of internal audit on relevant matters.

- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee.  If there is no March meeting then the plan should be prepared for the first meeting of the financial year.

- **7. Head of Assurance's Annual Report** – presented at the June meeting of the Audit Committee.

•

**Hertfordshire County Council Audit Plan 2018/19**

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| **Corporate** | | | | | | | | | |
| Annual Governance Statement 2017-18 | N/a | | | | | 8 | SIAS | 8 | Complete |
| Annual Governance Statement 2018-19 | N/a | | | | | 5 | SIAS | | Allocated |
| Head of Assurance Annual Opinion and Annual Report | N/a | | | | | 5 | SIAS | 5 | Complete |
| Whistleblowing - named contact and quarterly review | N/a | | | | | 5 | SIAS | 1.5 | Through Year |
| | | | | | | | | | |
| **Resources** | | | | | | | | | |
| Resources Queries < 3hrs Activities | N/a | | | | | 5 | SIAS | 2 | Through Year |
| | | | | | | | | | |
| **Resources: Hertfordshire Business Services (HBS)** | | | | | | | | | |
| Strategic and Financial Planning | | | | | | 15 | SIAS | | Allocated |
| | | | | | | | | | |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| **Resources: Finance** | | | | | | | | | |
| Pensions - Administration | | | | | | 20 | SIAS | | Allocated |
| Payroll | | | | | | 20 | SIAS | | Allocated |
| Debtors | | | | | | 20 | SIAS | | Allocated |
| Creditors | | | | | | 20 | SIAS | | Allocated |
| General Ledger | | | | | | 20 | SIAS | | Allocated |
| Treasury Management | | | | | | 15 | SIAS | | Allocated |
| Systems Access (SAP) | | | | | | 20 | SIAS | | Allocated |
| Local Enterprise Partnership (LEP) | | | | | | 15 | SIAS | | Allocated |
| | | | | | | | | | |
| **Resources: Property** | | | | | | | | | |
| Carbon Reduction Commitment | | | | | | 15 | SIAS | 2 | In Planning |
| Residential Accommodation (Use by Council / 3rd Party Staff) | | | | | | 15 | SIAS | 0.5 | In Planning |
| Property and Estate Management | | | | | | 20 | SIAS | | Allocated |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| | | | | | | | | | |
| **Resources: Technology** | | | | | | | | | |
| ICT Maintenance | | | | | | 20 | BDO | | Allocated |
| Cyber Security (follow up review) | | | | | | 10 | BDO | | Allocated |
| | | | | | | | | | |
| **Resources: Assurance Services** | | | | | | | | | |
| Risk Management | | | | | | 15 | BDO | 0.5 | In Planning |
| Health and Safety | | | | | | 15 | BDO | 0.5 | In Planning |
| | | | | | | | | | |
| **Resources: Human Resources** | | | | | | | | | |
| Sickness Management and Occupational Health | | | | | | 20 | SIAS | | Allocated |
| | | | | | | | | | |
| **Council Wide Reviews** | | | | | | | | | |
| General Data Protection Regulations (GDPR) | | | | | | 25 | SIAS | | |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| Employment Status (IR35) | | | | | | 25 | SIAS | 2.5 | In Fieldwork |
| Financial Solvency Monitoring and Business Continuity Arrangements – 3rd Party Contractors | | | | | | 20 | BDO | 0.5 | In Planning |
| Debt Management | | | | | | 25 | SIAS | | Allocated |
| Lone Working | | | | | | 20 | SIAS | 17 | In Fieldwork |
| Partnership Funding | | | | | | 20 | SIAS | | Allocated |
| | | | | | | | | | |
| **Cross Service Reviews** | | | | | | | | | |
| Complaints Management (CS and ACS) | | | | | | 20 | SIAS | | Allocated |
| Section 106 (Environment and Resources) | | | | | | 20 | SIAS | | Allocated |
| | | | | | | | | | |
| **Adult Care Services** | | | | | | | | | |
| Quality Assurance and Practice Audits | | | | | | 20 | BDO | 2 | In Planning |
| Budget Recovery and Efficiency Plans | | | | | | 20 | SIAS | | Allocated |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| ACS Workforce Strategy | | | | | | 15 | SIAS | | Allocated |
| Home Improvement Agency | | | | | | 15 | SIAS | | Allocated |
| Specialist Care at Home | | | | | | 20 | SIAS | | Allocated |
| Safeguarding | | | | | | 20 | SIAS | | Allocated |
| ACS Queries < 3hrs Activities | N/a | | | | | 5 | SIAS | 1.5 | Through Year |
| | | | | | | | | | |
| **Environment Services** | | | | | | | | | |
| Fly Tipping | | | | | | 15 | SIAS | 1.5 | In Planning |
| Tree Management | | | | | | 20 | SIAS | | Allocated |
| Enforcement | | | | | | 15 | SIAS | | Allocated |
| ECS Queries <3hrs activities | N/a | | | | | 5 | SIAS | | Through Year |
| | | | | | | | | | |
| **Children's Services** | | | | | | | | | |
| GDPR – Electronic Transfer of Sensitive Data (follow up) | | | | | | 20 | SIAS | | Allocated |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| Quality Assurance Systems (Consultancy) | | | | | | 5 | SIAS | | Allocated |
| School Admissions – Appeals Process | | | | | | 15 | SIAS | | Allocated |
| Secondary Expansion Programme | | | | | | 15 | SIAS | | Allocated |
| HfL – Standard of Commissioned Services | | | | | | 20 | SIAS | 5.5 | In Fieldwork |
| CS Queries <3hrs Activities | N/a | | | | | 5 | SIAS | | Through Year |
| | | | | | | | | | |
| **Public Health** | | | | | | | | | |
| Public Health LGA – Peer Review Challenge | | | | | | 15 | SIAS | | Allocated |
| | | | | | | | | | |
| **Community Protection** | | | | | | | | | |
| Hertfordshire Home Safety Service (HHSS) | | | | | | 15 | SIAS | 3.5 | In Planning |
| Automatic Fire Alarms (AFAs) and Unwanted Fire Signals (UFS) | | | | | | 15 | SIAS | | Allocated |
| Sickness Management (also see | | | | | | 10 | SIAS | | Allocated |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| Council Wide Review) | | | | | | | | | |
| | | | | | | | | | |
| **Shared Learning** | | | | | | | | | |
| Shared Learning Newsletters and Summary Themed Reports | N/a | | | | | 5 | SIAS | | Allocated |
| Joint Review – Topic to be determined by SIAS Board | | | | | | 5 | SIAS | | |
| | | | | | | | | | |
| **Grant Claims** | | | | | | | | | |
| Herts Chief Finance Officers Society | | | | | | 1 | SIAS | | Allocated |
| Hertfordshire Education Foundation | | | | | | 2 | SIAS | | Allocated |
| Hertfordshire Charity for Deprived Children | Unqualified | 0 | 0 | 0 | 0 | 1 | SIAS | 1 | Final Report Issued |
| Autism Grant | | | | | | 2 | SIAS | | Allocated |
| LEP – Local Growth Fund | Unqualified | 0 | 0 | 0 | 0 | 3 | SIAS | 3 | Final Report Issued |
| Integrated Structural Maintenance Grant | | | | | | 2 | SIAS | 0.5 | In Planning |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| Building Better Opportunities Grant | | | | | | 3 | SIAS | | Allocated |
| Disabled Facilities / Home Improvement Agency | | | | | | 5 | SIAS | | Allocated |
| LEP Capital Grant | | | | | | 3 | SIAS | 3 | Quality Review |
| Grants Contingency | | | | | | 12 | SIAS | | Through Year |
| **Other Chargeable** | | | | | | | | | |
| Monitoring 2018/19 Plan | N/a | | | | | 20 | SIAS | 4.5 | Through Year |
| Recommendations Follow-Up - Q1 | N/a | | | | | 5 | SIAS | 5 | Complete |
| Recommendations Follow-Up - Q2 | N/a | | | | | 5 | SIAS | | Allocated |
| Recommendations Follow-Up - Q3 | N/a | | | | | 5 | SIAS | | Allocated |
| Recommendations Follow-Up - Q4 | N/a | | | | | 5 | SIAS | | Allocated |
| Client Liaison | N/a | | | | | 15 | SIAS | 3.5 | Through Year |
| Audit Committee Matters & Attendance | N/a | | | | | 20 | SIAS | 5 | Through Year |
| Audit Planning – 2019/20 | N/a | | | | | 20 | SIAS | | Allocated |
| Performance Data | N/a | | | | | 5 | SIAS | 0.5 | Through Year |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| External Audit Liaison | N/a | | | | | 2 | SIAS | 1 | Through Year |
| Service Plan Activity | N/a | | | | | 25 | SIAS | 6.5 | Through Year |
| SIAS Board Meetings and Preparation | N/a | | | | | 12 | SIAS | 3 | Through Year |
| Assurance Services – Management Activities | N/a | | | | | 20 | SIAS | 5 | Through Year |
| Public Sector Internal Audit - Self Assessment 2018-19 | N/a | | | | | 5 | SIAS | 0.5 | Allocated |
| | | | | | | | | | |
| **17/18 Projects requiring finalisation** | | | | | | 5 | SIAS | 5 | |
| Adult Care Services – Data Security and Information Sharing | | | | | | | SIAS | | Final Draft Report Issued |
| Adult Care Services – Data Quality Business Process Compliance * | Substantial | | 0 | 1 | 3 | | BDO | | Final Report Issued |
| Adult Care Services – Market Oversight Programme (consultancy review)* | Not Assessed | | 0 | 0 | 0 | | SIAS | | Final Report Issued |
| Children’s Services – Financial Monitoring of Schools | | | | | | | SIAS | | Draft Report Issued |
| Community Protection – Trading | Substantial | | 0 | 3 | 6 | | SIAS | | Final Report Issued |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| Standards - Management of Evidence* | | | | | | | | | |
| Council Wide – Conflicts of Interest* | Substantial | | 0 | 2 | 1 | | BDO | | Final Report Issued |
| Council Wide – Business Continuity | | | | | | | SIAS | | Final Draft Report Issued |
| | | | | | | | | | |
| **17/18 Projects c/fwd to 18/19 for Completion** | | | | | | | | | |
| 0-25 Integrated Service (CS and HCS) | | | | | | 5 | BDO | 0.5 | In Fieldwork |
| Home to school / college transport (CS and Environment) | | | | | | 5 | SIAS | 5 | Draft Report Issued |
| Demography – LD & Budget monitoring LD | | | | | | 5 | BDO | 1 | In Fieldwork |
| Bus Contracts | | | | | | 7 | SIAS | 6 | Quality Review |
| Safeguarding CF1718 | | | | | | 20 | SIAS | 17 | Quality Review |
| Application of Eligibility Thresholds (OPPD / LD) | | | | | | 10 | SIAS | 10 | Draft Report Issued |
| Direct Payments | | | | | | 13 | SIAS | 5 | In Fieldwork |
| Customer Service Centre (safeguarding enquiries) * | Substantial | | 0 | 0 | 1 | 7 | SIAS | 7 | Final Report Issued |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| | | | | | | | | | |
| **HCC Plan Contingency Balance** | | | | | | **40** | | | |
| | | | | | | | | | |
| **Schools** | | | | | | | | | |
| Advice, queries and guidance for schools | N/a | | | | | 20 | SIAS | 2.5 | Through Year |
| Liaison, awareness raising and training | N/a | | | | | 15 | SIAS | 2.0 | Through Year |
| | | | | | | | | | |
| Theme 1 - SFVS (25 schools) | N/a | | | | | 95 | SIAS | 40.5 | In Fieldwork |
| Theme 2 - GDPR (15 Schools) | N/a | | | | | 65 | SIAS | | Allocated |
| Theme 3 – IR35 (15 schools) | N/a | | | | | 65 | SIAS | 1 | Allocated |
| 17-18 SFVS Returns Collection | N/a | | | | | 20 | SIAS | 20 | Complete |
| Follow up schools with high priority recs or moderate assurance | N/a | | | | | 10 | SIAS | 8 | In Fieldwork |
| Contingency - Schools Causing Concern | N/a | | | | | 15 | SIAS | | Through Year |

| AUDITABLE AREA | LEVEL OF ASSURANCE | RECS | | | | AUDIT PLAN DAYS | LEAD AUDITOR ASSIGNED | BILLABLE DAYS COMPLETED | STATUS/COMMENT |
|---|---|---|---|---|---|---|---|---|---|
| | | C | H | M | L | | | | |
| Contingency - Academy Conversions | N/a | | | | | 10 | SIAS | | Through Year |
| | | | | | | | | | |
| **Schools Plan Contingency Balance** | | | | | | **30** | | | |
| **Total** | | **0** | **0** | **6** | **11** | **1473** | | **226.5** | |

**Notes:**
*** - 2017/18 Audits that were assessed under 2017/18 Definitions of Assurance and Recommendation Priorities (see Appendix C)**
**** - 2017/18 Audits that were assessed under 2018/19 Definitions of Assurance and Recommendation Priorities (see Appendix C)**

**Key**

**C = Critical Priority**
**H = High Priority**
**M = Medium Priority**
**L = Low Priority**
**RECS = Recommendation**
**BDO = SIAS Audit Partner**
**N/a = not applicable**

## APPENDIX B IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS

| No. | Report Title / Date of Issue | Recommendation / Original Management Response | Responsible Officer / Due Date | Management Comment as at October 2017 (previous commentary added where appropriate) | Status of Progress |
|---|---|---|---|---|---|
| 1 | **GDPR – Transmission of Electronic Data (Children's Services)**<br><br>**(Final Report Issued November 2017)** | **Recommendations**<br>It was recommended that Children's Services (with the support of the Information Governance Team):-<br>• reminded staff of the requirement to complete Data Protection iLearn training<br>• positively confirm with managers that all staff have completed the training by a specified date.<br>• Undertake work to verify that all training records held are up to date and accurate, correcting any inaccuracies and implement ongoing monitoring to provide assurance that records remain accurate.<br>• Within the above reviews, include all members of the workforce, extending to areas such as Foster Care.<br><br>**Management Response**<br>• An email from Jenny Coles has been sent to all managers (July 2017) indicating that all staff must have completed the iLearn training. This will be followed up with managers in November 2017 to confirm completion.<br>• Implementation of a monthly new starters report to be reviewed to enable managers to ensure iLearn module has been completed.<br>• Information Governance Unit to discuss with HR the issues regarding accuracy of iLearn completion data.<br>• A review of DP training provided to foster carers is in progress and methods to communicate more securely with foster carers are being developed with the Corporate Technology Team.<br>• Manual records of attendance on face to face training (which is considered over and above the iLearn mandatory training) prior to SAP to be inputted onto SAP to provide an overall report | Jenny Eccles - Head of Business Infrastructure and Elaine Dunnicliffe - Information Governance and Access Unit Manager<br><br>31 January 2018 for completion of all actions (some having earlier completion dates) | **February 2018 Update –**<br>The Survey regarding completion of training by staff is the process of being issued. This is scheduled to be completed by the end of March 2018.<br><br>Discussions with HR, in relation to the new starters report and accuracy of i-Learn, are planned to be completed by the end of March 2018.<br><br>A Specific Foster Carer email system (which will allow secure communication between foster carers and HCC staff) is currently being tested.<br><br>Manual records of attendance of DP training are still to be added, with the resource required to complete this currently being identified.<br><br>**June 2018 Update –**<br>The proposed survey still remains to be undertaken and will be completed by the end of September 2018.<br><br>In relation to iLearn records this continues to be progressed with HR and the Information Governance Unit.<br><br>A secure foster carer email system is in the process of being procured. | **Partially implemented**<br><br>**Revised target date – End of September 2018** |

## APPENDIX C – DEFINITIONS OF ASSURANCE AND RECOMMENDATION PRIORITIES

### 2017/18 Definitions of Assurance and Recommendation Priorities

| Levels of assurance | |
|---|---|
| **Full Assurance** | There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified. |
| **Substantial Assurance** | Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk. |
| **Moderate Assurance** | Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk. |
| **Limited Assurance** | There are significant weaknesses in key control areas, which put the system objectives at risk. |
| **No Assurance** | Control is weak, leaving the system open to material error or abuse. |
| **Priority of recommendations** | |
| **High** | There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management. |
| **Medium** | There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management. |
| **Merits Attention** | There is no significant weakness, but the finding merits attention by management. |

### 2018/19 Definitions of Assurance Levels and Recommendation Priorities

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

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

Agenda Item No:

**8**

# HERTFORDSHIRE COUNTY COUNCIL ANTI-FRAUD REPORT 2017/18

*Report of the Director of Resources*

Author: Nick Jennings, Head of Counter Fraud (Tel: 01438 844705)

## 1. Purpose of Report

1.1 To present a report (appended as Appendix 1) that provides details of the work of the Shared Anti-Fraud Service in implementing the Council's Anti-Fraud Action plan for 2017/18.

## 2. Background

2.1 According to reports from CIPFA, the National Audit Office (NAO), the Cabinet Office, and the Private Sector; fraud risk across local government in England exceeds £2.billion each year with some more recent reports indicating levels considerably above this.

2.2 The Council is a founding member, and host authority for the Hertfordshire Shared Anti-Fraud Service (SAFS) and it is essential that to support this service the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.

2.3 In early 2017 the Audit Committee approved the 2017/2018 Anti-Fraud Action Plan for the Council and Key Performance Indicators (KPIs) for SAFS to achieve in respect of delivery of the plan.

2.4 This report sets out SAFS' performance against the Action Plan and also includes the Annual Report for the Service.

## 4. Recommendation

That the Committee note the contents of the report.

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SAFS
Shared Anti-Fraud Service
Fighting Fraud in Partnership

# Hertfordshire County Council

# 2017/18 Anti-Fraud Report

# July 2018

# Recommendation

| |
|---|
| Members are recommended to:<br><br>Note the work of the Council and the Shared Anti-Fraud Service in delivering the *Anti-Fraud Action Plan 2017/18*. |

**Contents**

Introduction

1. Background
2. Summary of SAFS Activity at HCC 2017/18
3. Reporting & Transparency Code Data

Appendix

A. HCC/SAFS Anti-Fraud Plan 2017/18
B. Reported Fraud - outcomes and values 2017/18
C. SAFS KPI Performance 2017/18
D. SAFS Partnership Annual Report 2017/18
E. County Council Benchmarking 2017/18

## Introduction

This report provides details of the work associated with implementing the Council's Anti-Fraud Action plan for 2017/2018. The Committee are asked to note this work.

A number of reports are being used by SAFS to help ensure that the Council is both: aware of its own fraud risks; and is finding ways to mitigate or manage these effectively wherever possible.

These reports include:

- *Fighting Fraud and Corruption Locally 2016–2019 Strategy* produced by CIPFA in March 2016 and supported by CLG. The new strategy estimates annual fraud losses in local government at around £2.1bn (this report is based on 2013 data).

- *UK Annual Fraud Indicator 2017* published in partnership by Crowe Clark Whitehill, Portsmouth University and Experian which estimates the risk of fraud losses for local government in excess of £8bn per annum.

- CIPFAs *Fraud and Corruption Tracker 2017* indicates that identified fraud had increased since 2016 but that counter fraud capacity within councils had reduced, and would continue to do so, placing local government at even greater risk of fraud.

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

## 1. Background

1.1 According to reports from CIPFA, the National Audit Office (NAO), the Cabinet Office, and the Private Sector; fraud risk across local government in England exceeds £2.billion each year with some more recent reports indicating levels considerably above this.

1.2 The Cabinet Office, Ministry for Housing Communities and Local Government, National Audit Office, and CIPFA have also issued advice, and best practice guidance to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for councils to be vigilant in recognising their fraud risks and to invest sufficient resources in counter fraud activities that deliver savings.

1.3 It is essential that to support this service the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.

1.4 The Council is a founding member, and host authority for the Hertfordshire Shared Anti-Fraud Service (SAFS). Members have received detailed reports about the creation of SAFS and its progress and how this service works closely with the Shared Internal Audit Service. SAFS works across the whole Council dealing with all aspects of fraud from deterrence & prevention to investigation & prosecution

## 2. SAFS Activity 2017/2018- *Delivery of the 2017/18 Anti-Fraud Plan*

Staffing

2.1 In early 2017 this Committee approved the 2017/2018 Anti-Fraud Action Plan for the Council and KPIs for SAFS to achieve in respect of delivery of the plan. See **Appendix A** for details of the 2017/2018 Plan.

2.2 For 2017/2018 the SAFS Team was composed of fourteen accredited and trained counter fraud staff based at Hertfordshire County Council's offices in Stevenage. Each SAFS Partner receives dedicated support and response from this team. SAFS allocate officers to work in each partner organisation. These officers act as the first point of contact for that partner's services, and will assist in developing relationships at a service level, delivering training, and working on local pilot projects.

2.3 In 2017/18 SAFS initially deployed 1.5 FTE Counter Fraud Officers to work at the County Council, this number increased to 2.5 by the end of the year. These officers were supported by SAFS Management and Intelligence Team also based at Stevenage.

2.4 Reviews of the Council's counter fraud policies, including Anti-Money Laundering/ Anti-Bribery & Corruption commenced in late 2017, supported by Legal Services, and all will be in place and available to staff by the end of 2018. A review of the Council's Risk Register was undertaken in March 2018, to include further controls to reduce the likelihood and impact of significant fraud.

*Fraud Awareness and Reported Fraud*

2.5 One of the key aims for the Council is to create an anti-fraud culture, that will deter fraud; encourage senior managers and Members to consider the risk of fraud when developing policies or processes to prevent fraud occurring; encourage staff and the public at large to understand the impact of fraud on the Council and to report fraud where it is suspected or identified.

2.6 The SAFS webpage – www.hertfordshire.gov.uk/reportfraud includes an online reporting tool. A confidential fraud hotline (0300 123 4033) and a secure email account are also available for reporting fraud – fraud.team@hertscc.gcsx.gov.uk . These contact details can be accessed via the Councils own website and council staff can use the same methods to report fraud or use the Council's intranet.

2.7 SAFS delivered training to a number of front line services in 2017/18 and working with the HR Learning and Development Team has delivered an E-Learning package on fraud awareness which is a mandatory requirement for all new staff and can be accessed by existing staff through the Councils I-Learn system. This training package is linked to the Council's policies and how to report suspicions of fraud to SAFS.

*Counter Fraud Activity*

2.8 During 2017/18 SAFS received 112 allegations of fraud affecting County Council services.

**Table 1. Types of fraud being reported- (112 Referrals)**

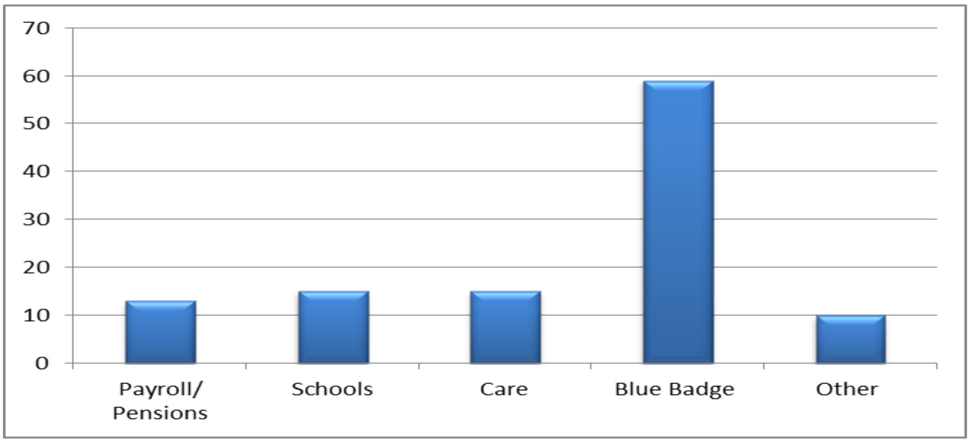
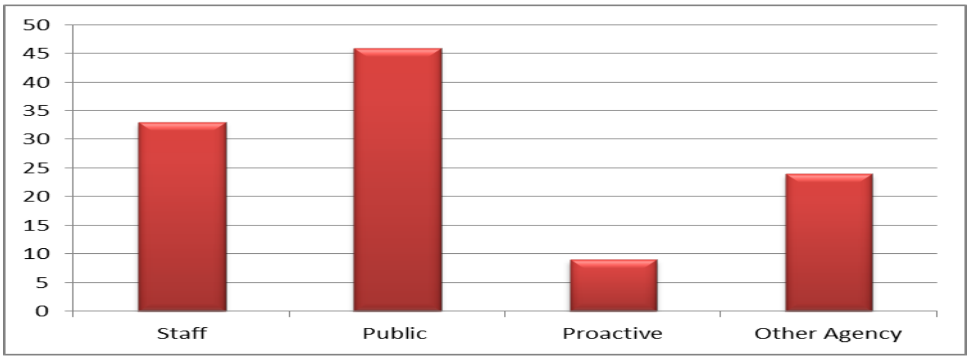



**Table 2. Who is reporting Fraud- (112 Referrals)**



2.9 At the time of this report many cases raised for investigation are still in the early stages. However, of 27 cases investigated and closed in the year fraud losses of £148,000 and fraud savings of £232,000 were identified. This is the estimated value of losses and these monies, where applicable, will then have to be recovered.
See Appendix **B** for a breakdown by service area where fraud has been identified.

2.10 As well as the financial values identified, SAFS assisted in several staff matters relating to employees of the Council and school staff. In these matters SAFS acts for the line manager assisted by HCC HR to conduct criminal and disciplinary investigations.

2.11 SAFS investigated a number of insurance claims received by the Council from third parties for damage caused to vehicles on council maintained roads. Several of those were found to be questionable and one resulted in the applicant being prosecuted.

***Case 1:*** *A resident of Welwyn Garden city reported that his son's vehicle had been involved in an accident on the public highway caused by 'road furniture' and that the Council had been aware of the fault prior to the accident occurring.*
*The Council's Insurance Team became suspicious of the claim, and the documents provided to support the claim against the Council and referred the matter to SAFS.*
*The investigation revealed that an accident had occurred as reported, but that invoices for work carried out to repair the vehicle were false. The values of the invoices for parts and labour had been inflated as the person making the claim was an employee of the garage where the work was carried out.*
*The person concerned was prosecuted in 2017 for offences contrary to the Fraud Act and ordered to pay the Council's cost. The claim against the Council was withdrawn.*

2.12 SAFS completed the delivery of a framework contract for all councils in Hertfordshire to conduct reviews of council tax discounts and exemptions to improve revenue collection and prevent fraud. These services are provided with a split in costs between Hertfordshire County Council, the Police and Crime Commissioner and Hertfordshire's District and Borough councils (apportioned as per council tax precepts).

2.13 SAFS have worked very closely with parking enforcement officers across the District and Borough Councils to bring prosecutions for persistent misuse of Blue Badges by third parties. This relationship is further enhanced by the excellent working relationship SAFS maintains with the Councils' Legal Services. This partnership approach resulted in eleven prosecutions for Blue Badge abuse in 2017/2018, across all SAFS Partners, and another eight Blue Badges being cancelled for suspected misuse.

***Case 2:*** *Following an allegation that a Stevenage woman was regularly parking her car in a disabled parking bay at a town centre carpark, officers from SAFS identified the person as part of a routine inspection.*
*The woman claimed that the Blue Badge displayed belonged to her grandmother although her grandmother was not with her at the time.*
*Further enquiries, which included speaking to the grandmother, revealed that misuse of the Blue Badge had been going on for some time, without the badge holder's knowledge or permission.*
*The woman appeared at Stevenage Magistrates in early 2018 where she pleaded guilty to misusing a Blue Badge and was fined and ordered to pay the Council's costs in full.*

2.14 SAFS ensured the Council's compliance with the requirements of the National Fraud Initiative (NFI) 2016/17. The NFI is a national anti-fraud data sharing exercise, conducted by the Cabinet Office every two years, across local and central government to identify potential fraud. This included assisting the Council's Customer Service with more than 20,000 NFI matches for Blue Badge and Concessionary Bus Passes held by deceased people. The outcome of this work was the removal of nearly 5,000 records from the County Council's systems and reporting to the Cabinet Office of savings in excess of £1.7m.

2.15 SAFS have arranged specialist free training events for staff, covering areas including ID fraud and application fraud. SAFS continues to work with front-line staff and issues alerts and warnings of new and emerging fraud threats.

> ***Case 3:*** *In early 2018 the Council received invoices from a regular supplier for sums in excess of £64k. The invoices were received through the normal channels, from an email address the officer dealing with them recognised, the invoices were for work that had been authorised and carried out.*
> *The invoices did, however, show different bank account details to those held for that supplier. An email to the supplier confirmed they had recently changed bank details and payments should be made to the new account. Still suspicious the officer referred the matter to SAFS for investigation.*
> *The investigation revealed that the invoices had been intercepted & edited by a fraudster between the supplier, their internet service provider and HCC. The interception included changes to the bank details (the account belonging to an innocent 3rd party) and the embedding of an email redirection into the emails header.*
> *The supplier was contacted and confirmed they had issued invoices but had not changed their bank details.*
> *The interception of an email and editing of an embedded pdf document was reported to Action Fraud, the Councils IT security department and an alert issued to all SAFS Partners.*

2.16 A large part of the SAFS team's work with District partners involves the investigation of false claims for council tax discounts and exemptions. In 2017/18 these investigations revealed more than £211k of fraudulently claimed discounts across Hertfordshire. As the County Council is the major preceptor for council tax this work will create an estimated £168k in new revenue to the Council. These figures are not reflected in SAFS KPI performance reports for Hertfordshire County Council.

2.17 A recent exercise conducted by councils in the South East of England to benchmark their counter fraud work and outcomes shows that the County Council appears to be performing well with the resources it commits to this area. The outcome of the exercise needs to be treated with some caution, however, as the councils submitting data are as diverse in their size, geography and demographics as they are in their location and budgets. A summary of this exercise can be found at Appendix E.

## 3. Transparency Code- Fraud Data

3.1 The Department for Communities and Local Government (DCLG) published a revised Transparency Code in February 2015, which specifies what open data local authorities must publish.

3.2 The Code also recommends that local authorities follow guidance provided in the following reports/documents:

CIPFA: *Fighting Fraud Locally Strategy* (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118508/strategy-document.pdf).
The National Fraud Strategy: *Fighting Fraud Together* (https://www.gov.uk/government/publications/nfa-fighting-fraud-together)
CIPFA Red Book 2 – *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption* (http://www.cipfa.org/-/media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf)

**3.3** The Code requires that Local Authorities publish the following data in relation to Fraud. The response for Hertfordshire County Council for 2017/18 is in **Bold**:

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

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

2 Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud - **1.5 FTE**

3 Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists - **1 .5 FTE**

4 Total amount spent by the authority on the investigation and prosecution of fraud - **£110,000**

**5** Total number of fraud cases investigated - **27 Cases investigated and closed in year**

3.4 In addition, the Code recommends that local authorities publish the following

- Total number of cases of irregularity investigated-

  **See 5 above**

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

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

  **£148,000 of fraud losses & £232,000 of fraud savings/prevention. A further £1.7m in savings resulted from NFI 2017.**

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

  **Not recorded.**

# Hertfordshire County Council
# Anti-Fraud Plan
# in partnership with
# Hertfordshire Shared Anti-Fraud Service
# 2017/2018

## Contents

Introduction…………………………………………………… 13

The National Context …………………………………………. 14

Action Plan 2017/2018……………………..…………..….. 15

SAFS Resources for HCC 2017/18…………………………. 16

SAFS KPI for HCC 2017/18……………………….……… 17

SAFS Standards of Service for HCC……………………….. 18

## Introduction

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

The Council's Anti-Fraud and Corruption Strategy states:

*The Primary aim of this Strategy is to make it absolutely clear to the Citizens and stakeholders of Hertfordshire County Council that, as an organisation and individuals, we are committed to honesty, openness, and propriety, in all of our dealings. Simply put,* ***fraud and corruption will not be tolerated.***

*We will do our utmost to foster a culture in which fraud and corruption can find no foothold, and any attempt to conduct illegal activity, either internal or external, against the Council will be met with a united and resolute front.*

This plan includes objectives and key performance indicators to measure the Councils effectiveness against its Strategy and meet the best practice guidance/directives from central government department such as Department for Communities and Local Government and other bodies such as National Audit Office, the Chartered Institute for Public Finance and Accountancy and The European Institute for Combatting Corruption and Fraud.

## National Context.

In its 2015 publication *‘**Code of practice on managing the risk of fraud and corruption’*** CIPFA highlights five principles outlining public bodies’ responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management
The five key principles of the code are to:

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

The Chartered Institute for Public Finance and Accountancy (CIPFA) ***Local Government Counter Fraud and Corruption Strategy (2016-2019)*** included a summary of fraud losses across councils in England.

- Actual fraud losses reported by local government in 2013 totalled £207m (this excludes housing benefit)
- Hidden fraud loss for local government was estimated at £1.9bn.
- As admitted previously by the National Fraud Authority in 2013 the scale of fraud against local government is large, but difficult to quantify with precision.
- The strategic response to fraud threats contains three main principles ‘Acknowledge/ Prevent/ Pursue’.

The Anti-Fraud Action plan for Hertfordshire County Council adheres to these three principles

# SAFS/ HCC Anti-Fraud Action Plan 2017 2018

| Mission | Objectives | Goals | Strategies | Measures/Success Criteria | Responsibility |
|---|---|---|---|---|---|
| ACKNOWLEDGE | **ACKNOWLDGEMENT** The risk of fraud and the Councils responsibility to prevent and investigate fraud | Show the Councills Willingnss to Combat Fraud | Anti- Fraud Strategy | Have in place an Anti-Fraud and Corruption Strategy & Develop and Fraud Risk Assessment Tool for HCC and individual services | Head of Assurance |
| | | | Membership of SAFS | Retaining Board Membership of SAFS | S.151 Officer |
| | | | Internal Audit | Have in place an effective IA Plan and Audit Committee | Audit Manager |
| | | | Member Support | Policies to deal with Money Laundering/ Bribery/ Whistleblowing/ Sanctions | Head of Legal |
| | **FRAUD AWARENESS** Promote an effective anti fraud culture within the Council | Enhance the level of fraud awareness internally and externally | Local News Media | Issue a press release for every successful prosecution in 2017/2018 | SAFS/Comms |
| | | | Promote Fraud Team | Promotion of internet fraud pages (SAFS) and local media exposure | SAFS/Comms |
| | | | Fraud Awareness Training | Deliver ten fraud training awareness trainging sessions to Council Staff, or tailored training as requested by services | SAFS |
| | | | Internal Awareness | Conduct an E-Survey of fraud awareness across officers | SAFS |
| PREVENT | **CUSTOMER SERVICE** Service performance is managed to the highest standards so that agreed level's of service are met | Ensure customers and staff are informed about counter fraud work | Customer Service | Issue customers with information leaflets when attending interviews | SAFS |
| | | | Work across all Services | HCC S.151 and Head of Assurance Review SAFS Activity | s.151/ Head of Assurance |
| | | | SAFS and SIAS | SAFS and SIAS Mgrs Meetings and SAFS Mgr with Head of Assurance | SAFS/Audit Managers |
| | | | Reports to Audit Comms | 2 Reports to Audit Committee | SAFS |
| | **PERFORMANCE** Maximize performance through robust risk assessment and quality investigation work. | Be recognised as a high performing and successful fraud team. | Quality Fraud Referrals | 100% risk assessment on all fraud referrals received | SAFS |
| | | | Individual Targets | SAFS CFO- Set PMDS Targets to match HCC KPIs | SAFS |
| | | | Data Matching | NFI Data Matches 2017 to be reviewed in year | SAFS |
| | | | Fraud Referrals | Monitor source of fraud referrals each quarter | SAFS |
| | | | Performance Report | Issue a performance report in April 2018 | SAFS |
| PURSUE | **QUALITY INVESTIGATIONS** Undertake high quality investigations maximizing all investigative resources and achieving value for money | Ensure that investigations comply with the law and are beyond reproach | Interview Under Caution | SAFS management checks on all sanctions issued | SAFS |
| | | | Sanction Files | File management checks on live caseload | SAFS |
| | | | Witness Statements | 100% check on witness statements used in prosecution cases | SAFS |
| | | | Legal Services | Develop relationship wth HCC Legal and High Street Solicitors for best service to SAFS and HCC | SAFS/ Head of Legal |
| | **SANCTIONS/PROSECUTIONS** Instigate legal sanctions to counter criminal behaviour | Ensure the 'prosecution' of fraud and dishonesty in appropriate cases | Prosecutions/ Sanctions | Ensure all cases suitable for sanction are reviewed in line with Policy | SAFS |
| | | | Disciplinary/Professional | Ensure that where fraud/corruption/bribery involves HCC staff this is dealt with in line with all relevant Policies | SAFS/Head of HR |
| | | | Civil Recovery | Ensure that where HCC suffers a loss this is recorded and services encouragd to recover this from the debtor | SAFS/S.151 |
| | | | Legal Service Liaison | Continue to work with Legal and maximise recovery of costs and compensation to HCC | SAFS/ Head of Legal |

## SAFS Resources 2017/2018

### Budget

In December 2016 the SAFS Board accepted a report from the SAFS Manager to restructure and reorganise the Service from April 2017/2018. This restructure would result in an increase in fees for all Partners. The Board agreed that the annual fee for Hertfordshire County Council would be fixed to £110,000 +VAT. The Board also received assurance from financial modelling that the service would be sustainable, in its current form for 5 years with an increase in fees each year at 1% from 2019 onwards.

It has been agreed that the service would be allowed to build up a small operating reserve but should this be exhausted all Partners agree to meet any shortfall in Budgets equally.

### Staffing

The full complement of SAFS now stands at 14.5 FTE’s; 1 Manager, 2 Assistant Managers, 8 Investigators and 2 Intelligence Officers. The Team is also supported by 1 FTE Data-Analyst and 0.5 FTE Business Support who are funded from SAFS Budgets.

For staffing – Hertfordshire County Council will have exclusive access to 1 FTE Investigator, access to intelligence functions of the service, all data-matching services being offered through the local data-warehouse and call on the SAFS Manager & Assistant Manager for quarterly liaison meetings, management meetings and two Audit Committees reports per annum. SAFS also have access to an Accredited Financial Investigator (AFI) and criminal litigation services. SAFS will also work alongside specialist teams such as HR, Communication's, Litigation and Commercial Law and Trading Standards.

## SAFS

## KPIs for HCC 2017/18

| KPI | Measure | 2017/2018 Target | Quarterly Target | SAFS Project Aims |
|---|---|---|---|---|
| 1 | Provide an Investigation Service | 1 FTE on call at the Council (supported by SAFS Intelligence/ Management).<br>Membership of NAFN<br>Membership of CIPFA Counter Fraud Centre<br>Access to Case Management System (CMS)<br>Local Data Hub<br>Fraud training events for staff | 100% of all | Ensure ongoing effectiveness and resilience of anti-fraud arrangements.<br><br>Deliver a return on investment for the Council's financial contribution to SAFS. |
| 2 | Identified Value of<br>Fraud prevented/detected. Based on the Methodology agreed by SAFS Board | £300k<br>From fraud identified and savings/prevention | £75k | Deliver financial benefits in terms of cost savings or increased revenue. |
| 3 | Allegations of fraud Received. From all sources. | 100<br>Fraud referrals from all sources to SAFS | 25 | Improve the reach into the areas of non-benefit and corporate fraud within the county. |
| 4 | Success rates for cases investigated. This will ensure that quality investigations are undertaken. | 60% | 60% | Create a recognised centre of excellence able to disseminate alerts and share best practice nationally. |
| 5 | Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining. | Data-Hub for local data matching. Access to NFI output.<br>County wide Council Tax Review Framework. | 100% | Create a data hub for Hertfordshire. |

## SAFS - Standards of Service.

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

1. Access to a managed fraud hotline and webpage for public reporting.
2. Process and document for SAFS Partner staff to report suspected fraud to SAFS.
3. Assistance in the design of Council policies processes and documents to deter/prevent fraud.
4. SAFS will design shared/common anti-fraud strategies and policies or templates to be adopted by the Council.
5. SAFS will provide a proactive data-matching solution (data-warehouse) to identify fraud and prevent fraud occurring.
    - The data-warehouse will be funded by SAFS and located in accordance with Data Protection Act requirements.
    - The data-warehouse will be secure and accessible only by named SAFS Staff. Data will be collected and loaded in a secure manner.
    - SAFS will design and maintain a data-sharing protocol for SAFS Partners to review and agree to as they choose. The protocol will clearly outline security provisions and include a Privacy Impact Assessment.
    - SAFS will work with nominated officers in the SAFS Partners to access data-sets to load into the data-warehouse and determine the frequency of these.
    - SAFS will work with Partners to determine the most appropriate data-matching for each of them and the frequency of such data-matching.
6. All SAFS Staff will be qualified, fully trained and/or accredited to undertake their duties lawfully, or be working towards such qualifications.
7. All SAFS investigations will comply with legislation including DPA, PACE, CPIA, HRA, RIPA* and all relevant policies of the Council.
8. Reactive fraud investigations.
    - All reported fraud will be actioned by SAFS within 10 days.
    - The Council will be informed of all reported fraud and how SAFS are going to deal with this.
    - SAFS will allocate an officer to each investigation.
    - SAFS officers will liaise with nominated officers at the Council to access data/systems/accommodation required to undertake their investigations.
    - SAFS Officers will provide updates on cases and a report with summary of facts and supporting evidence on conclusion of the investigation for the Council to review and make any decisions.
    - Where a decision indicates an offence SAFS Officers will draft a report for the nominated officers of the Council to make a decision on any further sanctions/prosecutions.
9. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal based on the Code for Crown Prosecutors and the Council's published policies. Decisions on imposition of any sanction will lay with the Council but the issue of any penalty will be resolved locally on a case by case basis.
10. SAFS will provide reports through the SAFS Board on progress and to the Council's Audit Committee.
11. SAFS will provide Alerts to Hertfordshire County Council, of suspected fraud trends or reports/guidance from government and public organisations to assist in the prevention of fraud.

**Data Protection Act, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act.*

## Appendix B- Reported fraud/ outcomes and values 2017/18

### Hertfordshire County Council

***FRAUD REFERRALS***

**REFERRAL SOURCES**

| TOTAL | Staff | Public | Proactive | Other Agency |
|---|---|---|---|---|
| **112** | 33 | 46 | 9 | 24 |

**REFERRAL TYPES**

| TOTAL | Payroll | Pensions | Schools | Care Services | Blue Badge | Insurance | Finance/ Mandate | Other |
|---|---|---|---|---|---|---|---|---|
| **112** | 8 | 5 | 15 | 15 | 59 | 4 | 4 | 2 |

***CASES CLOSED***

**ALL CASES CLOSED**

| TOTAL | Positive | Rejected | Intervened | Not Proved | % Positive |
|---|---|---|---|---|---|
| **114** | 22 | 52 | 35 | 5 | 81% |

**POSITIVE CASES CLOSED**

| Total | Sanctioned | Prosecuted | Blue Badge's Cancelled | Employee disciplined | Employee Dismissed | Proved No Sanction |
|---|---|---|---|---|---|---|
| **22** | 0 | 2 | 6 | 2 | 1 | 11 |

***FINANCIALS***

**FRAUD LOSSES**

| TOTAL | Blue Badge | Staff | Contract | Pensions | Care | Insurance | Other |
|---|---|---|---|---|---|---|---|
| **£ 148,403** | £ - | £ 8,459 | £ - | £ 63,614 | £ 75,713 | £ 617 | £ - |

**FRAUD SAVINGS/ FUTURE REVENUE**

| TOTAL | Blue Badge | Staff | Contract | Pensions | Care | Insurance | Other |
|---|---|---|---|---|---|---|---|
| **£ 232,300** | £ 8,000 | £ 6,260 | £ - | £ 56,385 | £ 97,008 | £ 9,090 | £ 55,557 |

## Appendix B- Reported fraud/ outcomes and values 2017/18

## Appendix C- SAFS KPI Performance 2017/18

| KPI | Measure | Target | Achieved in Year | SAFS Project Aims |
|---|---|---|---|---|
| 1 | Provide an Investigation Service | • 1 FTE on call at the Council (supported by SAFS Intelligence/ Management).<br>• Membership of NAFN<br>• Membership of CIPFA Counter Fraud Centre<br>• Access to Case Management System (CMS)<br>• Local Data Hub<br>• Fraud training events for staff | • 1.5 FTE on site (rising to 2.5 FTW by April 2018).<br>• Training delivered, including new I-Learn Counter Fraud package for all staff<br>• CMS and Data-Hub operational<br>**Membership of** :<br>• CIPFA *Counter Fraud Centre*,<br>• National Anti-Fraud Network<br>• County Council CF Network<br>• London Fraud Forum & LBFIG | Ensure ongoing effectiveness and resilience of anti-fraud arrangements.<br><br>Deliver a return on investment for the Council's financial contribution to SAFS. |
| 2 | Identified Value of Fraud prevented/ detected.<br>Based on the Methodology agreed by SAFS Board 2017 | £300k<br>From fraud identified and savings/prevention | • £148,000 Fraud losses<br>• £232,000 of fraud savings<br>**In addition SAFS also identified :**<br>• £211,000 new Council Tax Revenue (£168k to HCC)<br>• £1.7m Savings resulting from National Fraud Initiative (NFI) 2017 | Deliver financial benefits in terms of cost savings or increased revenue. |
| 3 | Allegations of fraud Received.<br>From all sources. | 100 | 112 Allegations Received | Improve the reach into the areas of non-benefit and corporate fraud within the county. |
| 4 | Success rates for cases investigated. To ensure focus on quality investigations | 60% | 81%<br>(22 Cases proved from 27 investigated).<br>SAFS also 'reviewed or provided direct advice in 35 other matters. | Create a recognised centre of excellence able to disseminate alerts and share best practice nationally. |
| 5 | Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining. | Data-Hub for local data matching.<br>Access to NFI output.<br>County wide Council Tax Review Framework. | • SAFS Data Sharing Agreement reviewed 2018.<br>• SAFS undertook NFI 2016/17 process for the Council.<br>• SAFS worked closely with the Councils CSC to remove more than 4,000 Blue Badge/Bus Pass records through the use of data-analytics.<br>• SAFS delivered the County wide Council Tax Review Framework- predicted to identify £5m of new review by 2021. | Create a data hub for Hertfordshire. |

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

# The Hertfordshire

# Shared Anti-Fraud Service (SAFS)

# Annual Report

# 2017/18

# Annual Report Contents


| | |
|---|---|
| Introduction & Highlights | 3 |
| Levels of Delivery | 4 |
| Performance - Outcomes | 5 |
| Performance- Financials | 7 |
| Added Value & Shared Learning | 8 |
| Data Hub | 9 |
| A Center of Excellence | 9 |
| Future Developments | 10 |
| SAFS Budget and Finances | 10 |
| SAFS Board Members | 11 |
| SAFS Team | 12 |

## Introduction and Highlights

Welcome to the annual report covering the activity of the Shared Anti-Fraud Service in the 2017/18 financial year.

Established in 2015, SAFS is now recognised as a centre of best practice (CIPFA 2017) and has been nominated on three occasions for the Governments *Counter Fraud Awards*. The commitment and dedication of the team, the support of our partners and our Board, allows the service to develop and adapt to address the growing risk of fraud to local government.

2017/18 brought a number of positive changes with new partners and clients joining the service: however, the service also dealt with a number of challenges associated with resourcing and a restructure. Despite this, the service was still able to ensure that all Key Performance Indicators (KPIs) for 2017/2018 were met, or exceeded, and this was due to the hard work of staff within the service and our partner councils.

With the current financial climate in Local Government forcing SAFS partners to consider their investment in counter-fraud work, there is a need for the service to ensure that it continues to provide its services in the most cost effective manner. The service evidenced this 2017/18 implementing a major restructure whilst continuing to deliver high quality services to its clients

I am very proud of the work of the team and delighted to be able to share some of the highlights of our working year in this report.

**Nick Jennings**

**Head of Counter Fraud for the Shared Anti-Fraud Service**

**June 2018**

## Levels of Delivery

Despite the service facing some resourcing challenges during the year arising from staff sickness, unplanned absences and vacancies, as well as recruiting to several new posts, it achieved or exceeded all of its KPIs in 2017/2018.

The *Anti-Fraud Actions Plans* for all SAFS partners were delivered, either having been achieved in full or very close to completion, with a number of important local KPI targets also being exceeded. Reports for individual partner Audit Committees detail the local performance of SAFS in that Council.

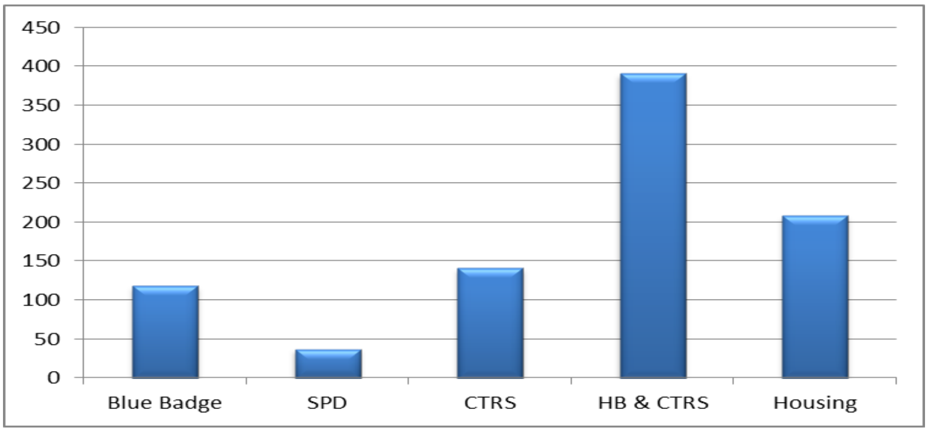
### Figure 1: SAFS KPI Performance 2017/18

| KPI | Measure | 2017/2018 Target | 2017/2018 Performance | Notes |
|---|---|---|---|---|
| 1 | Deliver effective counter fraud services to each partner | Deliver each partners Anti-Fraud Action Plan for 2017/2018 | All Partner Plans & KPIs met or exceeded | **Ongoing effectiveness and resilience of anti-fraud arrangements** |
| 2 | Identified value of fraud losses and savings in year.<br><br>Added Value | £1.5m<br><br>None Financial (reported to Board and Partners) | £4m<br>Recovered 19 Council Properties.<br>Seized 8 Blue Badges and cancelled 4,000+.<br>Generated fines and awards of costs in excess of £30k. | **Deliver financial benefits in terms of cost savings or increased revenue.** |
| 3 | Allegations of fraud received | 800 | 976 | **Improve the reach into the areas of corporate fraud across Partners.** |
| 4 | Success rates on outcomes<br><br>Sanction Cases | 50%<br><br>60 | 58%<br>(141 cases proved/ 101 not proved)<br><br>62<br>(includes 21 prosecutions) | **Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.** |
| 5 | Create Data-Hub and Conduct Data-Matching | 'Data Hub' operating and further activity on data-sharing | Data-warehouse operational. NFI for Partners. Partner Specific data-matching | **Create a data hub for Hertfordshire.** |
| 6 | Identify new areas of business | Add one new client/Partner to SAFS in year | Aldwyck Housing Ltd and Watford Housing Trust joined SAFS in 2017/2018 | **Develop services which can be marketed to external bodies** |

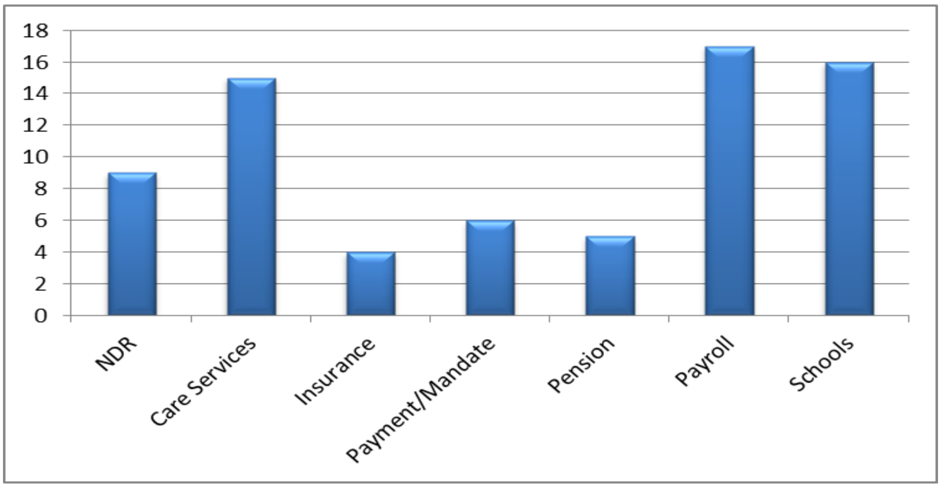
## Performance - Outcomes

Across all SAFS Partners 976 allegations of fraud (Referrals) were received in 2017/18. These varied from numerous low value matters such as blue badge abuse reported by members of the public and housing benefit/council tax fraud identified by revenues teams, to high value or high risk cases involving internal fraud, social care or housing/tenancy fraud. High value cases are mostly reported by staff.

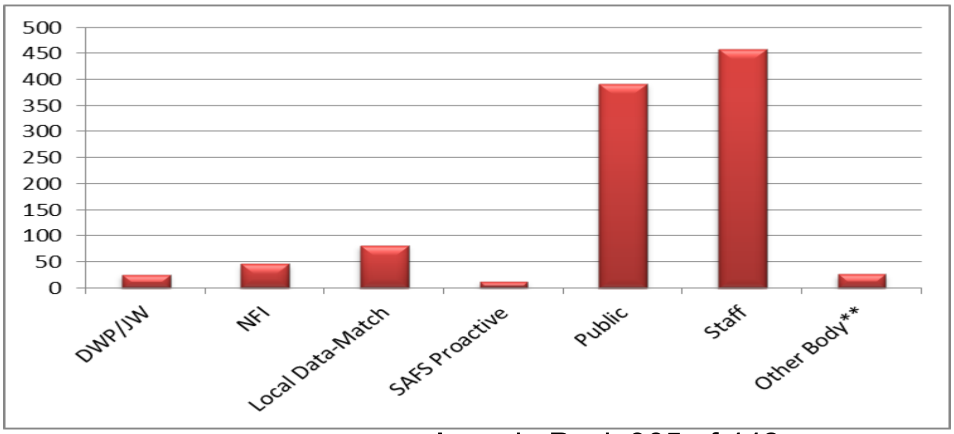
### Figure 2a: Fraud Referrals by type (High Volume)



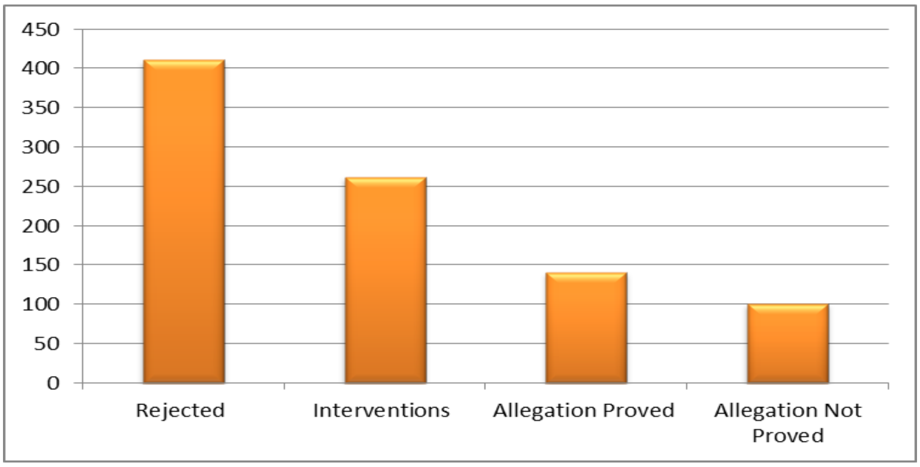

### Figure 2b: Fraud Referrals by type (High Value/Risk)




### Figure 2c: Fraud Referrals by source



### Figure 2d. Cases Closed in Year




- *Rejected **(411)** - Where no action was taken with the allegation. This may be due to the quality of the report, that it did not fall into SAFS remit or the value of the alleged fraud can be dealt with administratively without need for further investigation.*

- *Interventions **(262)** - Where the allegation suggests the fraud risk is low. In these cases we may issue: a warning letter to the subject to remind them of their responsibility; or a review form asking the subject to confirm their current circumstances.*

- *Allegation Proved **(141)** - Where the allegation has been substantially proved and resulted in a fraud being prevented, an ongoing loss stopped or a historic loss identified. It could also include a sanction such as a civil penalty or prosecution being applied.*

- *Allegation Not Proved **(101)** - Where an investigation has been conducted but the allegation has not been proved to either a civil or criminal standard.*

As well as closing **242** investigations in the year (**141** with a positive outcomes, and **101** where fraud could not be proved), SAFS also conducted **119** Council Tax Discount and **45** Right to Buy reviews.

Of the **141** cases where fraud was established, and the case closed in year, SAFS assisted or dealt with the following outcomes:

- 19 social properties recovered
- 19 successful prosecutions
- 3 formal cautions issued
- 3 staff disciplinary outcomes
- 34 financial penalties applied

SAFS carried forward into 2018/2019 396 live cases, which include 39 cases pending prosecution, 12 cases where social housing is awaiting recovery, and more than 30 cases pending disposal by way of financial penalty.

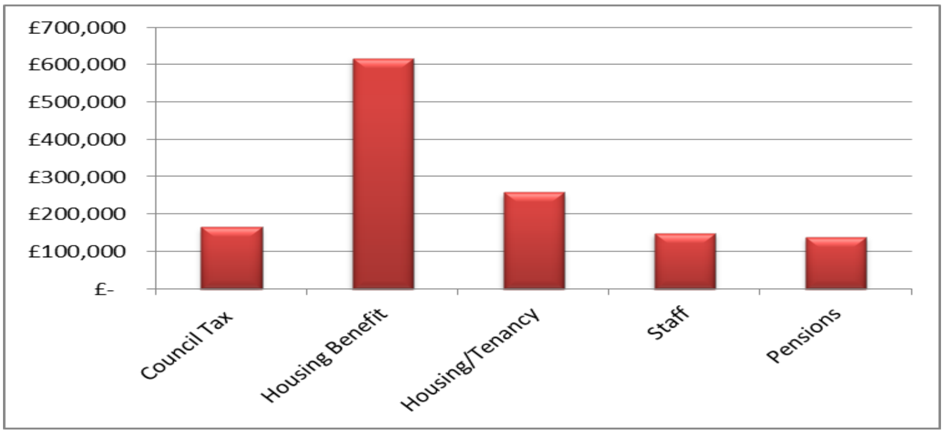
# Performance – Financials

One of key objectives for SAFS is to be self-funding by identifying savings and new revenue for its partners through the investigation of alleged fraud and recovery of fraud losses. The SAFS Board received a paper in 2017 defining how the Service would record the value of savings/revenue identified from the work it undertook.

In 2017/18 the Service recorded *Fraud Losses* of £1.3m and *Fraud Savings* of £1.1m. Through SAFS work reviewing NFI Reports a further £1.6m in *Fraud Savings* was reported to the Cabinet Office, which is not included in the tables below.

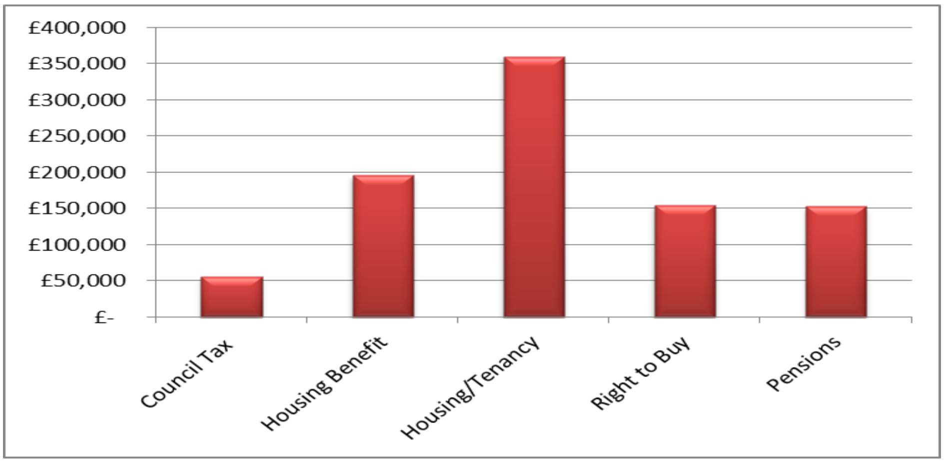
*'Fraud Loss' is where a fraud has occurred resulting in a debt that can be recovered through civil/statutory routes. 'Fraud Savings' reflect attempted frauds that have been prevented or an ongoing 'Loss' that has been stopped.*

**Figure 3a: Fraud Losses identified in year.**




This chart represents the service areas where substantial losses have occurred. Some of these may be recoverable others may not be. A further £20,000 in losses was recorded in other areas due to fraud. Housing Benefit fraud is a notoriously difficult debt to recover, but to the £618,000 HB fraud losses identified can be added £247,000 in subsidy that will be claimed by those councils administering the HB scheme.

**Figure 3b: Fraud Savings identified in year.**




The figures above represent the service areas where substantial future savings have been identified, or in the case of Council Tax new revenue generated. An additional £100,000 of savings was identified through prevention in areas such as cyber enabled frauds, fraudulent insurance claims, staff fraud/theft or blue badge misuse.

# Added Value & Shared Learning

In addition to the reactive and proactive investigations conducted, the SAFS Team is tasked with delivering activity across partners to raise awareness of the risk of fraud and assist with the prevention and deterrence of fraud.

- SAFS provided training to front line staff in many partners last year including general fraud awareness and service specific training. SAFS have developed an E-Learning training package, with assistance from HCC's Learning and Development Team, which will be rolled out to all Partners in 2018. This package includes modules on bribery and money laundering as well as fraud and corruption.

- Through SAFS fees each partner has free access to the services provided by the National Anti-Fraud Network (NAFN) and training in the use of this, on-line service, has been delivered to a number of debt recovery and housing teams.

- SAFS continues to provide guidance and advice files to partners where specific, new or emerging fraud matters come to light, or changes in legislation require a review of existing policies.

- In 2017/2018 SAFS communicated 21 fraud-alerts to partners from NAFN, National Fraud Intelligence Bureau, Hertfordshire Constabulary, CIPFA and the London Fraud Forum through its membership/ subscription to each of these agencies.

- SAFS assisted all partners with the National Fraud Initiative 2017 and, for several, undertook the whole exercise, including data upload and results, acting as the SPOC for those Councils. SAFS assisted the County Council's Customer Service with more than 20,000 NFI matches for Blue Badge and Concessionary Bus Passes. The outcome of this work was the removal of 5,000 records from the County Council's systems and reporting to the Cabinet Office of savings in excess of £1.6m.

- In April 2017 SAFS, working in partnership with officers from the County Council, East Herts Council & St Albans City Council, delivered the final version of a framework contract for all the district and borough councils in Hertfordshire to conduct council tax reviews using a variety of call-off contracts with a number of specialist providers.

- In the summer of 2017 the DWP, MHCLG and the LGA approved the national roll-out of joint working between local councils and the DWP, following the success of six pilot sites across the UK. Three of those sites were North Hertfordshire, East Herts and Stevenage Councils. Staff from those SAFS partners, the SAFS team and DWP worked together to identify more than £350k in social security fraud.

*"I've been the Project Implementation Manager working with SAFS and the DWP Investigation Team to make sure that Joint Working operated smoothly and that both teams had the tools they needed to work effectively and efficiently within the law. It's been a pleasure as both teams were open to the new way of working and enthusiastically embraced the opportunity to test the processes and help us evaluate what we'd put in place. It hasn't all been smooth as you would expect with a test but thanks to a 'can do' attitude Joint Working is now effectively business as usual."*

***Susan Baker***
***Joint Working Support Team | Fraud, Error & Debt Programme | Department for Work and Pensions***

## Data Hub

SAFS has reviewed all data-sharing agreements, contracts, MOUs, and security protocols in preparation for GDPR and DPA 2018 compliance, and continues to collect a wide a variety of data from each partner council on a monthly cycle which allows for proactive data-matching.

This has enabled SAFS to match third party data to data from partners such as the Charity Commission, Cabinet Office, Google-Maps and credit reference agencies. This helped to provide tailored data-matching to Broxbourne Council for Business Rates; Hertsmere Council for Housing Applications; and the County Council for employees and pensions as well as bulk data-matching to identify tenancy fraud for Stevenage and Luton Councils.

*"We see many counter fraud initiatives at the Counter Fraud Centre we also see many 'hubs'. This is a really good and rare example of cross public sector real joint working on a data hub whilst linking with national agencies and that has produced clear results. They aren't just saying it – they are doing it. "*

***Rachael Tiffen***
***Head of Counter Fraud, CIPFA.***

## A Centre of Excellence

Two key objectives for SAFS was to create a 'centre of excellence' and deliver a service that could be marketed to other bodies. SAFS was a finalist in the Government's 2016 Counter Fraud Awards. In 2017 the Service was again nominated for awards by CIPFA and the DWP. SAFS officers have been invited to speak at a number of forums and conferences including the national *Fraud Error and Debt Conference, Tenancy Fraud Conference, CIPFA Best Practice Workshops* and *the Fighting Fraud and Eliminating Error Summit.* SAFS was highlighted in CIPFAs publication *Counter Fraud Report 2017* as an example of best practice in delivering a counter fraud partnership.

SAFS have assisted a number of Councils who are considering developing similar partnerships or simply developing an effective anti-fraud service.

In 2017 Luton Borough Council joined SAFS and three housing providers, Aldwyck Housing, B3Living and Watford Housing Trust all became clients with retainer contracts. As well as enhancing the scope and work of SAFS these new organisations provide additional resilience for the Service as a whole.

SAFS works with a number of Councils and private sector companies who provide specialist IT, surveillance, financial, forensics and data-analytic skills enabling it to improve the quality and depth of its investigations to better support SAFS Partners.

## Future Developments

The SAFS *Service Plan 2018/19* includes four core pieces of work as well as increased KPIs for the Service:

1. Developing the Data-Hub. SAFS are trialing the Cabinet Office/NFI *Fraud Hub* in 2018/2019. If this trial is successful the intention is to replace the existing data-warehouse contract by April 2019.

2. Fraud in adult care has been identified by CIPFA as one of the largest growth areas of fraud risk. The County Council's Director for Adult Care has invested additional finances and management support into SAFS for 2018/19 to see how this threat can be best dealt with.

3. Roll out of Joint Working with DWP. The trial of joint working with DWP from 2016 has been a huge success and SAFS will work with all District Partners to ensure the smooth roll-out of the national programme in late 2018.

4. Case Management System (CMS). The current CMS contract is due to be re-tendered by March 2019. The Service will be looking for a contract that provides a 21st century solution to the specific needs of the Service, with a contract of up to 4 years in length and a value in the region of £60k.

SAFS will continue to deliver its existing services to all partners and clients and continually look for ways to improve the Service and react to new and emerging fraud threats. It will work with other bodies, across all sectors, working in partnership, sharing best practice, knowledge and experience.

## SAFS Budgets and Finances

The Budget for 2017/18 included an anticipated draw on reserve of £83k but savings made in legal costs, a rebate on the case management system and reduced staff costs, due to vacancies and unplanned absences, the actual draw on reserve was reduced to £12k.

The reserve carried into 2018/19 was £84k.

| SAFS Budget against Out-turn 2017/18 | | Budget | Actual Spend | Variance | Notes |
|---|---|---|---|---|---|
| | | £ | £ | £ | |
| Salaries & Salary Related | SALARIES | £ 614,176 | £ 572,372 | -£ 41,804 | Variance due to long term vacancies or absence |
| Transport Related | TRANSPORT | £ 8,000 | £ 7,113 | -£ 887 | |
| Supplies & Services | SUPPLIES | £ 90,000 | £ 69,834 | -£ 20,166 | variance due to savings on legal costs and recuction in license fee for CMS |
| Third Party Payments | 3RD PARTY | £ 45,668 | £ 32,548 | -£ 13,120 | Variance due lower use of 3rd party data-matching than anticipated |
| Movement from Reserve | RESERVES | -£ 83,844 | -£ 12,701 | -£ 71,143 | |
| Fees and Charges | INCOME | -£ 674,000 | -£ 669,166 | £ 4,834 | |
| Result | | 0 | 0 | | |

## SAFS Board Members

The SAFS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.

| | | |
|---|---|---|
| **Steven Pilsworth** | Hertfordshire County Council | Assistant Director - Finance |
| **Terry Barnett** | Hertfordshire County Council | Head of Assurance |
| **Sajida Bijle** | Hertsmere Borough Council | Corporate Director |
| **Ian Couper** | North Hertfordshire District Council | Director Finance, Policy & Governance |
| **Sarah Marsh** | Borough of Broxbourne Council | Head of Internal Audit |
| **Isabel Brittain** | East Herts Council | Head of Strategic Finance & Property |
| **Clare Fletcher** | Stevenage Borough Council | Assistant Director (Finance and Estates) |
| **Dev Gopal** | Luton Borough Council | Service Director, Finance & Audit |

## SAFS Team

All team members are fully accredited or working towards their professional accreditation relevant to their role within the service.

| | |
|---|---|
| **Nick Jennings** | Head of Service |
| **Paula Hornsby** | Manager South Team |
| **Darren Bowler** | Manager North Team |
| **Stephen Everett** | Data- Analyst |
| **Halina Nawrocka** | Senior Counter Fraud Officer |
| **Hilary Williams** | Counter Fraud Officer |
| **Faith Taggart** | Counter Fraud Officer |
| **Natalie Nelson** | Counter Fraud Officer |
| **Phil Juhasz** | Senior Counter Fraud Officer |
| **Hayley Fraser** | Counter Fraud Officer |
| **Gill Nichol** | Counter Fraud Officer |
| **Rob Fleming** | Counter Fraud Officer |
| **Bhavna Tailor** | Counter Fraud Officer |
| **Toni Gubby** | Tenancy Fraud Officer (SBC) |
| **Raul Avram** | Counter Fraud Intern |
| **Paula Staniford** | Counter Fraud Intelligence Officer |
| **Marina King** | Counter Fraud Intelligence Officer |
| **Sam Deards** | Counter Fraud Intelligence Officer |

**Benchmarking - South East Fraud Hub**

APPENDIX E

| Authority: | Hertfordshire | Essex | Kent | Hants | Suffolk | West Sussex | AVERAGE |
|---|---|---|---|---|---|---|---|
| **Staffing:** | | | | | | | |
| Number of fraud investigators | 1.5 fte | 2.6fte | 2.8fte | 3fte | 1fte | 1fte | 2.1 |
| **Proactive Work** | | | | | | | |
| Number of fraud awareness / training sessions completed | 11 | 6 | 15 | 10 | 7 | 0 | 8 |
| **Referrals:** | | | | | | | |
| **Number of referrals during 2017/2018** | | | | | | | |
| Type: | Number | | | | | | |
| Blue Badge | 70 | 170 | 80 | unk | 1 | 6 | **55** |
| Social Care | 18 | 66 | 19 | 2 | 2 | 4 | **19** |
| Grants | 0 | 1 | 2 | 0 | 2 | 0 | **1** |
| Bank Mandate | 4 | 0 | 13 | 0 | 0 | 5 | **4** |
| Schools | 16 | 2 | 0 | 6 | 0 | 4 | **5** |
| Payroll | 7 | 0 | 3 | 0 | 0 | 1 | **2** |
| Insurance | 0 | 1 | 0 | 0 | 0 | 0 | **0** |
| Procurement | 0 | 4 | 0 | 0 | 4 | 0 | **1** |
| Pensions | 5 | 0 | 0 | 0 | 0 | 0 | **1** |
| Expenses | 0 | 5 | 2 | 0 | 1 | 3 | **2** |
| Other | 2 | 3 | 41 | 3 | 5 | 4 | **10** |
| TOTAL | **122** | **252** | **160** | **11** | **15** | **27** | **98** |
| **Outcomes:** | | | | | | | |
| Number of cases closed during 2017/2018 | 76 | 261 | 100 | 11 | 13 | unknown | 92 |
| **Sanctions:** | | | | | | | |
| Prosecutions | 9 | 1 | 0 | 0 | 0 | 4 | 2 |
| Disciplinary action - Dismissal | 1 | 1 | 0 | 0 | 0 | 1 | 1 |
| Disciplnary action - written warning / management advice etc | 2 | 3 | 1 | 1 | 1 | 2 | 2 |
| Debt generated / invoice generated | 9 | 22 | 8 | 0 | 0 | 0 | 7 |
| Mis-use letter sent (Blue Badge) | 40 | 54 | 36 | 0 | 71 | 30 | 39 |
| Blue Badge seized | 6 | 28 | 0 | 0 | 63 | 86 | 31 |
| Other | 0 | 41 | 0 | 0 | 0 | 0 | 7 |
| No Fraud Established | 6 | 108 | 31 | 0 | 0 | 0 | 24 |
| Forwarded to other agency | 9 | 3 | 0 | 3 | 0 | 1 | 3 |
| **Financial Recovery** | | | | | | | |
| | £ | | | | | | |
| Monies recovered (Non NFI) | 0 | 89,504 | 0 | 0 | | 36,420.00 | 20,987 |
| Monies in recovery (Non NFI) | 148,000 | 157,405 | 83,462 | 0 | 3,200 | 90,700.00 | 80,461 |
| NFI Reported outcome | 1,800,000 | 440,493 | 912,500 | 481000 | 431,000 | 160,000.00 | 704,166 |

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 2.00 PM**

**Agenda item no:**
**9**

# RISK MANAGEMENT QUARTERLY UPDATE

*Report of the Head of Assurance*

Author: Fiona Timms, Risk and Insurance Manager (Tel: 01438 843565)

## 1. Purpose of Report

1.1. This report is a regular item on Risk Management activity since the last meeting. The Audit Committee's Terms of Reference state it is to "advise the Executive on relevant audit matters, including: (a) the risk management system and risk related issues".

## 2. Summary

2.1. The following items are included in this report:

- The current Corporate Risk Register position
- Details of key risk movements since the last report to Audit Committee
- The latest position on risks considered key due to the proximity of likely events and/or that have been receiving considerable public attention recently.

2.2. Corporate risk appendices accompany this report:

- A risk movement report at Appendix A details the risks with changes since the last report to Audit Committee.
- A risk movement report at Appendix B details the most up to date position of those risks considered key at the moment due to the proximity of likely events and the associated media and public interest recently.
- A risk status report at Appendix C summarises the latest risk scores and the risk scores at each of the last 3 Audit Committee meetings.
- The organisational risk matrix is included in Annex A to this paper.

## 3. Recommendations

- That the changes in the Corporate Risks since the last report to the Committee be noted
- That the Risk Management summary report be noted.
- That the Committee identifies a risk (or risks) to be reviewed at its meeting in September 2018.

## 4. Corporate Risk Register

4.1. The latest review of the Corporate Risk Register took place during April 2018. Please see Section 7 for an icon that links to a copy of the full Corporate Risk Register.

4.2. The following table summarises the movement changes in risks since the previous report that was presented to the Committee in March 2018. The table below shows the risk movements broken down by risk classification

| | As at March 2018 Audit Committee | Latest position (June -2018) |
|---|---|---|
| Red | 13 | 12 (-1) |
| Amber | 20 | 21 (+1) |
| Yellow | 1 | 1 |
| Green | | |
| Total | 34 | 34 |
| Difference +/- | | |

## 5. Heat maps (matrices) of corporate and strategic risks

5.1. The Corporate Risk Register is comprised of both Strategic and Corporate risks. This categorisation is explained at Annex B to this report. These heat maps provide an overview and summary of the risk landscape for the organisation currently and an opportunity for the Audit Committee to consider risks across Services.

Key changes from the position reported to the March 2018 Audit Committee meeting are shown.

Each corporate risk has been allocated a simple risk number prefixed by appropriate letters to denote the Department owning the risk. In addition a prefix starting with an S denotes a 'Strategic' risk.

AC = Adult Care Services
CS = Children's Services
CP = Community Protection
E = Environment
PH = Public Health
R = Resources

5.2. Heat map of Strategic Risks (10) – June 2018

| Likelihood | Negligible | Low | Medium | High | Very High |
|---|---|---|---|---|---|
| **Almost Certain** | | | | **SE02<br>SE05<br>SAC01** | |
| **Likely** | | | | **SE06<br>SCP07<br>SAC08** | |
| **Possib** | | | | **SCS02<br>SE01<br>SR21<br>SR12** | |
| **Unlikel** | | | | | |
| **Rare** | | | | | |

**Impact**

Brief risk descriptions

The following table shows brief descriptions for the risks in the matrix together with dates when risk focus reports were considered, or are to be considered:

| No. and Score | Brief Risk Description | Risk Owner | Risk Ref | Date of Risk Focus Report |
|---|---|---|---|---|
| SE02<br>40 | Residual Waste Treatment Programme | Simon Aries<br>Assistant Director - Transport, Waste & Environmental Management | Strategic ENV0104 | |
| SE05<br>40 | Croxley Rail Link (MLX) cancellation | Rob Smith<br>Deputy Director Environment | Strategic ENV0148 | |
| SAC01<br>40 | Homecare workforce - Care Act 2014 non-compliance | Frances Heathcote<br>Assistant Director, Adult Care Commissioning | Strategic HCS0010 | 23/09/2016<br>01/12/2017 |

| No. and Score | Brief Risk Description | Risk Owner | Risk Ref | Date of Risk Focus Report |
|---|---|---|---|---|
| SCP07<br>32 | HFRS transfer to PCC | John Wood<br>Chief Executive | Strategic<br>CP0005 | |
| SAC08<br>32 | Insufficient budget for adult care, Better Care Fund | Helen Maneuf<br>ACS Assistant Director, Planning & Resources | Strategic<br>HCS0016 | |
| SE06<br>(previously SR02)<br>32 | Insufficient money to support infrastructure needs derived from new housing developments etc. (CIL/S106) | At April 2018:<br>Trevor Mose<br>Interim Assistant Director – Property<br><br>As at June 2018, this risk falls under Environment & Infrastructure | Strategic<br>ENV0149<br>(previously PROP0022) | 20/11/2014<br>01/03/2017 |
| SCS02<br>24 | Funding to deliver School's expansion programme and housing demand | Simon Newland<br>Assistant Director (Education Provision & Access) | Strategic<br>CSF0070 | 25/11/2015 |
| SE01<br>24 | Tree Health | Simon Aries<br>Assistant Director - Transport, Waste & Environmental Management | Strategic<br>ENV0142 | 30/11/2016 |
| SR21<br>24 | Currently being revised:<br>Establishment of HLL to maximise returns on land and assets | Mike Evans<br>Director – Herts Living Ltd | Strategic<br>PROP0023 | |
| SR12<br>24 ⬇ | Cyber-attack on HCC's ICT | Dave Mansfield<br>Head of Technology | Strategic<br>TEC0004 | 07/07/2017 |

Heat map of Corporate Risks (24) – June 2018

**Likelihood**

| | Negligible | Low | Medium | High | Very High |
|---|---|---|---|---|---|
| **Almost Certain** | | | | | |
| **Likely** | | | **R08** | **AC04** | **AC03** |
| **Possib** | | | **R18**<br>**R15** | **CP02** **R07**<br>**CP03** **R01**<br>**CS03** **R13**<br>**CS04** **R05**<br>**R17** | **CP01** |
| **Unlikel** | | | | **E04**<br>**CP06** | **CP05**<br>**CS01**<br>**AC10** |
| **Rare** | | | | **E03** | **CP04**<br>**R03**<br>**PH01** |

**Impact**

Brief risk descriptions (Corporate risks)

The following are brief descriptions for the risks in the matrix together with dates when risk focus reports were considered, or are to be considered:

| No. and Score | Brief Risk Description | Risk Owner | Risk Ref | Date of Risk Focus Report |
|---|---|---|---|---|
| AC03<br>64 | Failure of care providers - Inadequate care | Frances Heathcote<br>Assistant Director, Adult Care Commissioning | Corporate HCSCP0001 | 29/09/2011 |
| CP01<br>48 | Unplanned incidents | From June 2018:<br>Gus Cuthbert<br>Assistant Chief Fire Officer | Corporate HFRS0007 | 22/11/2012<br>23/03/2016 |

| No. and Score | Brief Risk Description | Risk Owner | Risk Ref | Date of Risk Focus Report |
|---|---|---|---|---|
| CP05 32 ⇧ | HCC business continuity plans - BCP | From June 2018: Gus Cuthbert Assistant Chief Fire Officer | Corporate CPRES0002 | 24/11/2011 23/09/2015 |
| CS01 32 | Possible death of a child or young person. | Jenny Coles Director of Children's Services | Corporate CSF0055 | 30/06/2011 27/03/2014 |
| AC10 32 | Safeguarding Vulnerable Adults | Sue Darker Operations Director, Learning Disabilities and Mental Health | Corporate HCSLD0005 | |
| AC04 32 | DOLS - Deprivation of Liberty Safeguards | Sue Darker Operations Director, Learning Disabilities and Mental Health | Corporate HCSMH0002 | 16/09/2014 |
| CP02 24 | Radicalisation - Prevent | Guy Pratt Deputy Director of Community Protection | Corporate CP0004 | 11/09/2017 |
| CP03 24 | Extreme Weather | From June 2018: Gus Cuthbert Assistant Chief Fire Officer | Corporate CPRES0009 | |
| CS03 24 | Partnership funding for Children's Services | Jenny Coles Director of Children's Services | Corporate CSF0082 | |
| CS04 24 | Welfare, reform and immigration arrangements | Sue Williams Director of Family Safeguarding | Corporate CSF0083 | |
| R17 24 | Failure to develop sufficient timely proposals to deal with the ongoing reductions in funding/resources and subsequent impact on services/reserves. | Steven Pilsworth Assistant Director Finance | Corporate CSHF0016 | |
| R07 24 | Failure to educate / train employees | Sally Hopper Assistant Director, Human Resources | Corporate HR0018 | |

| No. and Score | Brief Risk Description | Risk Owner | Risk Ref | Date of Risk Focus Report |
|---|---|---|---|---|
| R01<br>**24** | Failure to retain, attract and recruit the right people and right skills | Sally Hopper<br>Assistant Director, Human Resources | Corporate HR0021 | 21/11/2013<br>26/03/2018 |
| R13<br>**24** | Loss/inappropriate acquisition/ disclosure of sensitive personal or commercial data | Anna Morrison<br>Assistant Director - Improvement and Technology | Corporate IMP0001 | |
| R05<br>**24** | Insufficient skills in commissioning / contract management and competencies | Steven Pilsworth<br>Assistant Director Finance | Corporate SP0005 | **18/07/2018** |
| R08<br>**16** | The Council experiences significant fraud | Terry Barnett<br>Head of Assurance | Corporate AUDIT0001 | 20/06/2012 |
| CP04<br>**16** | Failure of Local Resilience Forum - LRF - inadequate inter agency plans | From June 2018:<br>Gus Cuthbert<br>Assistant Chief Fire Officer | Corporate CPRES0001 | 24/11/2011<br>23/09/2015 |
| R03<br>**16** | HCC's pension fund level may not improve sufficiently to cover accrued pension costs | Steven Pilsworth<br>Assistant Director Finance | Corporate CSHF0002 | |
| E04<br>**16** | Road maintenance investment | Rob Smith<br>Deputy Director Environment | Corporate ENV0033 | |
| CP06<br>**16** | HFRS meeting national training requirements | Steve Tant<br>Assistant Chief Fire Officer | Corporate HFRS0004 | |
| PH01<br>**16** | Health Protection emergency | Joel Bonnet<br>Deputy Director of Public Health | Corporate PHD0014 | 21/06/2016 |
| R18<br>**12** | Risk of not offsetting the Apprenticeship Levy | Sally Hopper<br>Assistant Director, Human Resources | Corporate HR0023 | |
| R15<br>**12** | Land owned by the Council and no longer required for the purpose for which it was bought may | Mike Evans<br>Head of Estate and Asset Management | Corporate PROP0018 | |

| No. and Score | Brief Risk Description | Risk Owner | Risk Ref | Date of Risk Focus Report |
|---|---|---|---|---|
| | not have an active management regime in place | | | |
| E03 8 | Failure of road inspection procedures impacting on the condition of our roads | Rob Smith Deputy Director Environment | Corporate ENV0030 | 20/09/2013 |

**6. Update on Training for Audit Committee Members May 2018**

6.1. As requested by Audit Committee in March 2018, officers ran a training session on Risk Scoring in Practice in Hertfordshire County Council directly prior to the Audit Committee meeting of 15 May 2018.

6.2. The session was well attended by members of the Audit Committee and the slides used have subsequently been circulated to all members of the Committee.

**7. Full Corporate Risk Register – Movement report since March 2018 Audit Committee**

The full register is embedded here.

**8. Corporate Risk Register changes/Key Updates since the report to March 2018 Audit Committee**

8.1. **Risks with changed current scores.**
These are included in full in Appendix A. The following summarises these four risks with changes.

8.1.1. AC03 (Ref. HCSCP0001, Appendix A, Page 13) - "In the event of a Hertfordshire Care Provider becoming inadequate or failing, there is a risk that this may result in poor care to clients or a safeguarding issue."

8.1.2. CP05 (Ref. CPRES0002, Appendix A, Page 15) **-** In the event of a failure to prepare adequate corporate and departmental generic Business Continuity Plans (BCP), there is a risk that, should a major incident take place (to building, technology & people), there may be insufficient back up arrangements in place, which could result in a higher level of disruption than anticipated causing increased disruption to key resources. (Formerly SERMU0002)

8.1.3. R01 (Ref. HR0021, Appendix A, Page 17)- If we fail to retain, attract and recruit the right people (managers, officers and volunteers) and right skills and maintain engagement at all levels, there may be a significant impact on service delivery and major cost implications. [Formerly CSCE0007]

8.1.4. SR12 (Ref. TEC0004, Appendix A, Page 20)- In the event of failing to maintain and ensure the use of our security systems, technical protocols and change management processes, there is a risk of a cyber-attack (virus, penetration or malicious internal action) on HCC's ICT environments causing significant service disruption and possible data loss.

8.2. **Latest position on additional risks specifically identified due to the proximity of likely events and public interest.**

The latest update on these risks is presented in full in Appendix B. The following summarises these risks.

8.2.1. SE02 (Ref. ENV0104, Appendix B, Page 22) – "In the event of the Residual Waste Treatment Programme being impacted by one of the following scenarios:
- The Energy Recovery Facility (ERF) at Rye House does not proceed or is delayed
- Unable to secure suitable, cost effective, alternatives for waste disposal should the contract with Veolia (VES) be terminated.
It may result in:
- Increased costs to HCC".

8.2.2. SE05 (Ref. ENV0148, Appendix B, Page 23) – "As a result of the likely cancellation of the Metropolitan Line Extension (Croxley Rail Link scheme), there is a risk of claims to the Council (liability is capped at £3m), difficulties in re-claiming Hertfordshire County Council investment sunk into the scheme and reputational loss. This will also have a significant impact on future growth in the area".

8.2.3. SCP07 (Ref. CP0005, Appendix B, Page 25) - [Risk of HFRS transfer to PCC]: "The Policing and Crime Act 2017 places a duty on police, fire and ambulance services to work together and enables police and crime commissioners to take on responsibility for fire and rescue services. In the event that the Secretary of State determines that the governance of the Hertfordshire Fire & Rescue Service (HFRS) is to be transferred to the Hertfordshire Police and Crime Commissioner (PCC) as recommended in their business case, there is a risk that such a transfer may significantly and negatively impact on service delivery, particularly in relation to the support provided to vulnerable people and the County Council's prevention agenda. In addition it may create significant uncertainty, leading to staff unrest; short term damage to key relationships and budgetary impacts."

8.3. Other Risk Developments

8.3.1. Risk Focus

The following risk is the subject of a risk focus report at this meeting of the Audit Committee, 18 July 2018.

R05 (Ref. SP0005) – “A significant proportion of the Council’s expenditure is accounted for by externally commissioned services. In the event of insufficient skills in commissioning / contract management and competencies along with a lack of application of effective monitoring, governance and contract management rigour, there is a risk of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery. [Formerly IMP0002/CSCE0019]” The risk is currently scored as Amber 24 (significant).

## 9. Next Steps

9.1. Challenges and recommendations from the Audit Committee will be considered by the relevant risk owners/Services. Action taken as a result will update the corporate risk register and be reported to the appropriate cycle of risk review meetings.

**Risk Matrix** – The following chart shows where, and what category/colour the risk will fall in dependent on the scores. Red being the most severe and green being the least.

The scores within the chart are multiples of the likelihood and impact, e.g. (*Likelihood of*) **4 x** (*Impact of*) **8 =** (*Risk Score of*) **32**

## Assessing Impacts

| Impact Score | Impact Title | Example description |
|---|---|---|
| 1 | Negligible | Annoyance but does not disrupt service: Minor injury to an individual; Financial loss under £50k: Isolated service user complaints contained within unit/section; Litigation claim or fine less than £50k; Failure to achieve a core team plan objective |
| 2 | Low | Minor impact on service; Minor injuries to several people; Financial losses between £50k-100k, Isolated service user complaints contained within department; Litigation claim or fine between £50k -100k: Failure to achieve several team plan objectives including a core objective |
| 4 | Medium | Service disruption; Major injury to an individual; Financial losses between £100k-1 Million; Adverse local media coverage. Lots of service user complaints; Litigation claims or fine between £100k - £1Million; Failure to achieve one or more strategic plan objective |
| 8 | High | Significant service disruption; major/disabling injury to employee, service user or other stakeholder; financial losses between £1Million-£5Million: adverse national media coverage; litigation claim or fine between £1Million-£5Million; Failure to achieve one or more strategic objective |
| 16 | Very High | Total service loss for a significant period; fatality to employee, service user or other stakeholder; financial loss in excess of £5 Million; National publicity more than 3 days. Possible resignation of leading member or chief officer; Multiple civil or criminal suits. Litigation claim or fine above £5 Million; Failure to achieve a major corporate objective in the Corporate Plan |

| | |
|---|---|
| Severe | The Board feels most concerned about carrying this risk. The consequences will have a severe impact on the delivery of a key priority and comprehensive management action is required immediately. |
| Significant | The Board feels concerned about carrying this risk. The consequences of the risk materialising would be significant, but not severe. Some immediate action is required plus the development of an appropriate action plan. |
| Material | The Board is uneasy about carrying this risk. Consequences of the risk are not significant and can be managed through contingency plans. Action plans can be developed later to address the risk. |
| Manageable | The Board is content to carry this risk. Consequences of the risk are considered relatively unimportant. The status of the risk should be reviewed periodically. |

## Assessing Likelihood

| Scale | Description | Likelihood of Occurrence |
|---|---|---|
| 1 | Rare | • Extremely unlikely or virtually impossible<br>• Less than 5% chance of happening<br>• Unlikely to occur in a 50 year period |
| 2 | Unlikely | • Could occur at some point<br>• 6% to 20% chance of happening<br>• Unlikely to occur within a 10 year period |
| 3 | Possible | • Fairly likely to occur<br>• 21% to 50% chance of happening<br>• Likely to occur once within a 10 year period |
| 4 | Likely | • Will probably occur in most circumstances<br>• 51% to 80% chance of happening<br>• Likely to occur once within a one year period |
| 5 | Almost certain | • Expected to occur in most circumstances<br>• More than 80% chance of happening<br>• Likely to occur within 3 months |

Impacts

Likelihood

| | Negligible (1) | Low (2) | Medium (4) | High (8) | Very High (16) |
|---|---|---|---|---|---|
| Almost certain (5) | 5 | 10 | 20 | 40 | 80 |
| Likely (4) | 4 | 8 | 16 | 32 | 64 |
| Possible (3) | 3 | 6 | 12 | 24 | 48 |
| Unlikely (2) | 2 | 4 | 8 | 16 | 32 |
| Rare (1) | 1 | 2 | 4 | 8 | 16 |

## The Corporate Risk Register - Corporate and Strategic Risks

The Corporate Risk Register is comprised of both ‘Corporate’ and ‘Strategic’ risks.

Both classifications of risk will still be reported in the Corporate Risk Register and so they will be subject to the current criteria for corporate risk register risks. These risks are threats to the overall success of council objectives, the vitality and viability of the organisation and:

- May significantly impact upon the key resources of the Council (e.g. financial resources, human resources and other key assets).
- May result in significant disruption to a number of the critical services provided by the council.
- May be a significant threat of serious harm or death to service users, officers/members and/or members of the public.
- The resources needed to manage the risk and deal with the potential impacts could be beyond the capability of the relevant service.
- May result in significant attention from outside the council (e.g. general public/ Media/ Government agencies etc.) and so maintain the potential to cause considerable damage to the Council’s reputation

However, although there will be an element of judgement, the following may be used to differentiate between Strategic and Corporate risks:

### Strategic risks

- Represent, particularly, threats to current strategic drivers for the organisation, e.g. Prevention, Housing, Growth/Infrastructure, the SMART programme
- Relate to new / innovative approaches and / or changing environmental factors, e.g. legislation, so that our responses and outcomes are less clear
- Are more time-impacted, relating to a shorter and potentially known timeframe
- Are likely to reflect more volatility in terms of increases and decreases in the risk in a short to medium timeframe
- May therefore relate to key programmes / projects

### Corporate risks

- Relate to long term, ongoing service delivery
- Are usually (but do not have to be) at their ‘target score’ and if so are being accepted or tolerated at that level of risk
- Most controls will be ‘in place / embedded’

Are usually (but do not have to be) related to enabling activities and services, i.e. services or activities that enable front-line service activity, and/or the smooth running of the organisation.

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **HCSCP0001 / AC03**<br>*Opportunity to be Healthy and Safe*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Corporate*<br>In the event of a Hertfordshire Care Provider becoming inadequate or failing, there is a risk that this may result in poor care to clients or a safeguarding issue. | Frances Heathcote<br><br>Assistant Director, Adult Care Commissioning | The risk owner raised the risk score to reflect the increased uncertainty in the care provider market, specifically within the CQC Market Oversight programme. ACS and Resources have developed a cross departmental contingency plan and regular meetings are in place to review and progress this. The specific provider that is at risk of failing has had their Company Voluntary Agreement (CVA) agreed by their creditors, but we remain concerned about their longer term financial viability. The CVA is in place for 8 years and ACS are working with our Strategic Procurement group and legal colleagues to review any additional contractual measures that we can put in place to add further rigour to our contractual monitoring process.<br>Reviewed On :18/06/2018 | 17/04/2018<br>**Severe**<br>**32**<br>**Probability**<br>Unlikely<br>2<br>**Impact**<br>Very High<br>16 | ↗ | **Severe**<br>**64**<br>**Probability**<br>Likely<br>4<br>**Impact**<br>Very High<br>16 | **Severe**<br>**32**<br>**Probability**<br>Unlikely<br>2<br>**Impact**<br>Very High<br>16 |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|

**Controls:**

| Ref | Control Description | Status | Owner |
|---|---|---|---|
| HCSCP0001/007 | Learning and development of care providers | In Place / Embedded | Mark Gwynne |
| HCSCP0001/008 | Market Quality and Resilience Programme Board providing; overview of provider quality; escalate any issues to relevant agency | In Place / Embedded | Frances Heathcote |
| HCSCP0001/009 | Effective use of monitoring tools and resources to identify problems early and prevent failing quality. | In Place / Embedded | Frances Heathcote |
| HCSCP0001/010 | Multi Agency Service Quality Improvement Group, analyse data and evaluate risk monthly and take appropriate action with partners | In Place / Embedded | Frances Heathcote |
| HCSCP0001/003 | Use ACS Contract Monitoring Procedures | In Place / Embedded | Frances Heathcote |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **CPRES0002 / CP05**<br>*Delivering our Vision*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Corporate*<br>In the event of a failure to prepare adequate Corporate and departmental generic BCP plans, there is a risk that, should a major incident take place (to building, technology & people), there may be insufficient back up arrangements in place, which could result in a higher level of disruption than anticipated causing increased disruption to key resources. (Formerly SERMU0002) | Ian Parkhouse<br><br>Assistant Chief Fire Officer - Response and Resilience | Review of all BCP BIA and Response plans is now complete. The team will be working to implement updates and replacements by April 2018.<br>In April-18, there was a postponement of a timed maintenance program in relation to the power facilities at one of our main sites due to issues with the Herts Fire & Rescue System. As a result the risk of power failure at one of our main sites has increased (covered by risk PROP0004).<br>Due to these current circumstances we have raised the probability of this BCP risk from rare to unlikely. This keeps focus on this area until mitigations are in place.<br>To keep this in focus, a new control measure has been added to this risk to link it to the plant failure risk (PROP0004)<br>Reviewed On :16/04/2018 | 17/04/2018<br>Significant<br>16<br><br>**Probability**<br>Rare<br>1<br>**Impact**<br>Very High<br>16 | ↗ | Severe<br>32<br><br>**Probability**<br>Unlikely<br>2<br>**Impact**<br>Very High<br>16 | Significant<br>16<br><br>**Probability**<br>Rare<br>1<br>**Impact**<br>Very High<br>16 |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|

**Controls:**

| Ref | Control Description | Status | Owner |
|---|---|---|---|
| CPRES0002/001 | Plans in place for all departments / service areas and 4 principle office locations | In Place / Embedded | Darren McLatchey |
| CPRES0002/002 | Regular reporting to Resilience Board and SMB on plan reviews, training and exercising | In Place / Embedded | Darren McLatchey |
| CPRES0002/003 | Work programme to focus support on key areas where vulnerability is greatest | In Place / Embedded | Darren McLatchey |
| CPRES0002/006 | Monitor plant failure risk (PROP0004) for any BCP implications | Proposed | Steve Harris |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **HR0021 / R01**<br>*Delivering our Vision*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Corporate*<br>If we fail to retain, attract and recruit the right people (managers, officers and volunteers) and right skills and maintain engagement at all levels, there may be a significant impact on service delivery and major cost implications. [Formerly CSCE0007] | Sally Hopper<br><br>Assistant Director, Human Resources | Voluntary turnover for council depts. has stayed the same at 13.1% (Jan 2018) since the last quarter, though this may be impacted by improvements in private sector jobs market and potential impact of proposed 1% pay cap over next 4 years. Continued difficulties recruiting and retaining some key groups (Social Workers, Occupational Therapists, Planners & Legal). Continuing to monitor turnover and retention and ensure recruitment is targeted to relevant audiences. Careers portal continues to attract healthy website traffic to the recruitment pages. As a result of the findings of the risk focus report outlining the effectiveness of the controls to Audit Committee March 2018, this risk is being reduced from red 32 (severe) to amber 24 (significant).<br>Reviewed On :29/03/2018 | 29/03/2018<br>Severe<br>32<br>**Probability**<br>Likely<br>4<br>**Impact**<br>High<br>8 | ↘ | Significant<br>24<br>**Probability**<br>Possible<br>3<br>**Impact**<br>High<br>8 | Significant<br>16<br>**Probability**<br>Unlikely<br>2<br>**Impact**<br>High<br>8 |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|

**Controls:**

| Ref | Control Description | Status | Owner |
|---|---|---|---|
| HR0021/001 | Regular monitoring, workforce planning and forecasting - e.g. incl talent management and succession planning | In Place / Embedded | Sally Hopper |
| HR0021/007 | Ensure the ability to call upon key service providers to meet any short term in-house skills gap | In Place / Embedded | Sally Hopper |
| HR0021/008 | Regular monitoring of the employment 'package' to help ensure HCC remains an Employer of Choice | In Place / Embedded | Sally Hopper |
| HR0021/010 | Maintain and support PMDS scheme, appropriate career schemes and associated training. (replaces controls CSCE0007/003 and 004) | In Progress / Taking Effect | Sally Hopper |
| HR0021/012 | Develop, implement and embed employee comms, engagement and well-being initiatives, incl Herts Manager & Stakeholder Management | In Progress / Taking Effect | Sally Hopper |
| HR0021/013 | Develop a future focused strategy for resourcing, including young people, re deployment & re skilling as part of workforce plan | In Progress / Taking Effect | Sally Hopper |
| HR0021/014 | Proactive approach to managing demand and supply e.g. QSW's in collaboration with other LA's | In Place / Embedded | Sally Hopper |
| HR0021/015 | Target Public Health recruitment at specialist networks, journals and social media sites | In Place / Embedded | Alison Hardy |
| HR0021/016 | Monitor the external recruitment market including senior manager pay to ensure remain competitive | In Place / Embedded | Sally Hopper |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| | HR0021/017 | Talent & succession plans in place to support future organisation as part of workforce planning | | In Progress / Taking Effect | | Sally Hopper |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **TEC0004 / SR12**<br>*Delivering our Vision*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Strategic*<br>In the event of failing to maintain and ensure the use of our security systems, technical protocols and change management processes, there is a risk of a cyber-attack (virus, penetration or malicious internal action) on HCC's ICT environments causing significant service disruption and possible data loss | David Mansfield<br><br>Head of Technology | The risk owner, in conjunction with the new Assistant Director for Improvement & Technology, has reviewed this risk after considering the HCC Cyber Security measures in place. Following the risk focus report to Audit Committee in July 2017, which outlined both the current controls and the programme of work and investment planned to meet the elevated level of risk at that time, an internal audit was undertaken and recommendations were reported in October 2017. In considering the risk now, the actions undertaken, as a result of the programme of work, the audit recommendations and various industry sources to improve our overall security position, have provided assurance that we are in a good position with the controls in place and with the continual improvement. The risk score has been reduced as the likelihood is now considered as 'possible' rather than 'likely'. | 27/03/2018<br>**Severe**<br>**32**<br>**Probability**<br>Likely<br>4<br>**Impact**<br>High<br>8 | ↘ | Significant<br>24<br>**Probability**<br>Possible<br>3<br>**Impact**<br>High<br>8 | Significant<br>16<br>**Probability**<br>Unlikely<br>2<br>**Impact**<br>High<br>8 |

# Appendix A - Risk Changes

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| | | Reviewed On :18/06/2018 | | | | |

**Controls:**

| Ref | Control Description | Status | Owner |
|---|---|---|---|
| TEC0004/001 | Industry approved security measures (firewalls, desktop AV, email filtering software etc) implemented, monitored and maintained | In Progress / Taking Effect | David Mansfield |
| TEC0004/002 | Before implementing new/updated systems/apps they must conform to agreed security requirements incl successful network pen tests | In Progress / Taking Effect | David Mansfield |
| TEC0004/004 | Work to continuously develop & deliver ICT policy/security educ/awareness training for staff, managers and members | In Place / Embedded | David Mansfield |
| TEC0004/006 | Rolling program of testing existing network infrastructure including penetration testing for HCC and key 3rd party providers on | In Place / Embedded | David Mansfield |
| TEC0004/007 | Ensure ICT Service Providers adhere to security & tech standards in providing/implementing/updating systems; ICT infrastructure | In Place / Embedded | David Mansfield |

# Appendix B- Updates on Risks – proximity of events and increased media & public interest

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **ENV0104 / SE02**<br>*Delivering our Vision*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Strategic*<br>In the event of the Residual Waste Treatment Programme being impacted by one of the following scenarios:<br><br>- The Energy Recovery Facility (ERF) at Rye House does not proceed or is delayed<br>- Unable to secure suitable, cost effective, alternatives for waste disposal should the contract with Veolia (VES) be terminated.<br><br>It may result in:<br>- Increased costs to HCC | Simon Aries<br><br>Assistant Director – Transport, Waste & Environmental Management | Under the contract with Veolia (VES) a planning application for an Energy Recovery Facility (ERF) at Rye House, Hoddesdon was submitted in December 2016. Notification was received on 1st February 2018 that the Secretary of State had called-in the planning application. A public inquiry is taking place, starting on the 19th June 2018 and scheduled to conclude on the 2nd August 2018.<br>Due to the lack of transfer provision in the east of the county and the finite availability of disposal facilities capable of accepting direct deliveries (Westmill landfill and Edmonton EfW) the delay to the planning determination for Rye House increases the risk that East Herts Council and the Borough of Broxbourne may have to be directed to Waterdale transfer station, an action that would lead to increased costs for all three authorities and operational pressure on Waterdale transfer station. The risk | **Severe**<br>**40**<br><br>**Probability**<br>Almost Certain<br><br>**Impact**<br>High<br>8 | ⇔ | **Severe**<br>**40**<br><br>**Probability**<br>Almost Certain<br><br>**Impact**<br>High<br>8 | Material<br>8<br><br>**Probability**<br>Rare<br>1<br><br>**Impact**<br>High<br>8 |

# Appendix B- Updates on Risks – proximity of events and increased media & public interest

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| | | score probability is at "Almost Certain" due to the fact that the increased delay will lead to increased costs to the authority.<br>Reviewed On :15/06/2018 | | | | |

**Controls:**

| Ref | Control Description | Status | Owner |
|---|---|---|---|
| ENV0104/001 | Scenario planning | In Place / Embedded | Simon Aries |
| ENV0104/002 | Legal & financial advice | In Place / Embedded | Simon Aries |
| ENV0104/003 | Liaison with contractor | In Place / Embedded | Simon Aries |
| ENV0104/004 | Management of Political Processes | In Place / Embedded | Simon Aries |

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **ENV0148 / SE05**<br>*Delivering our Vision*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Strategic*<br>As a result of the likely cancellation of the Metropolitan Line Extension (Croxley Rail Link scheme), there is a risk of claims to the Council (liability is capped at £3m), difficulties in re claiming HCC investment sunk into the scheme and reputational loss. This will also have a significant impact on future growth in the area. | Rob Smith<br><br>Deputy Director Environment | Risk reviewed. There has been no progress on resurrecting the scheme following changes in agreement over the funding. Plans are in hand to develop an alternative scheme and repayments are being sought from TFL. HCC is currently looking at alternative transport uses - two workshops have been held to investigate the options. HCC is also seeking government support for protection of the old track bed for future transport uses.<br>Reviewed On :18/06/2018 | Severe<br>40<br>**Probability**<br>Almost Certain<br>**Impact**<br>High<br>8 | ↔ | Severe<br>40<br>**Probability**<br>Almost Certain<br>**Impact**<br>High<br>8 | Significant<br>16<br>**Probability**<br>Unlikely<br>2<br>**Impact**<br>High<br>8 |

# Appendix B- Updates on Risks – proximity of events and increased media & public interest

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|

**Controls:**

| Ref | Control Description | Status | Owner |
|---|---|---|---|
| ENV0148/001 | Briefing senior local and national politicians | In Progress / Taking Effect | Rob Smith |
| ENV0148/002 | Lobbying the London Mayor and Government | In Progress / Taking Effect | Rob Smith |
| ENV0148/004 | Monitor Success of the HIF bid to bridge the funding gap | In Progress / Taking Effect | Rob Smith |
| ENV0148/005 | Seek repayment of local funding if scheme fails | Proposed | Rob Smith |

Hertfordshire

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Notes: References highlighted Purple have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| **CP0005 / SCP07**<br>*Opportunity to be Healthy and Safe*<br>**Current Category:** *Corporate Risk Register*<br>*Current Type : Strategic*<br>The Policing and Crime Act 2017 places a duty on police, fire and ambulance services to work together and enables police and crime commissioners to take on responsibility for fire and rescue services. In the event that the Secretary of State determines that the governance of the Hertfordshire Fire & Rescue Service (HFRS) is to be transferred to the Hertfordshire Police and Crime Commissioner (PCC) as recommended in their business case, there is a risk that such a transfer may significantly and negatively impact on service delivery, particularly in relation to the support provided to vulnerable people and the County Council's prevention agenda. In addition it may create significant uncertainty, leading to staff unrest; short term damage to key relationships and budgetary impacts. | John Wood<br><br>Chief Executive | The proposal submitted by the PCC has undergone an independent review by CIPFA, which a number of HCC officers assisted with. HCC officers have sought to ensure that all necessary evidence has been submitted to support a balanced analysis of the PCC's business case with HCC and HFRS officers providing a range of professional advice and opinion. The independent assessment by CIPFA was submitted to the Secretary of State (Home Secretary) at the end of January 2018. There is no requirement to share the assessment with HCC and it was not shared. Regular communications are being maintained with HFRS staff in particular, but across the Directorate to provide appropriate information and to reassure staff. The Police and Fire Minister has written further to the PCC for Hertfordshire's proposal to take on responsibility for governance of Hertfordshire Fire and Rescue Service, stating the expectation that HCC work closely with PCC Lloyd to provide more information in relation to matters such as funding requirements, reserves and precept and impact of the proposed transfer on HCC. | Severe<br>32<br><br>**Probability**<br>Likely<br>4<br>**Impact**<br>High<br>8 | ↔ | Severe<br>32<br><br>**Probability**<br>Likely<br>4<br>**Impact**<br>High<br>8 | Significant<br>24<br><br>**Probability**<br>Possible<br>3<br>**Impact**<br>High<br>8 |

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| | | The PCC submitted an additional Addendum to the original business case on 8th June for the Home Secretary to consider. HCC Cabinet considered the PCC Addendum submission on 18th June 2018, and agreed that the County Council should not change the previously stated position of the Council in opposing the PCC's Local Business Case; and delegated to the Director of Resources, in consultation with the Leader of the Council and the Executive Member for Community Safety and Waste Management, authority to finalise a submission to the Home Office in response to the addendum. The aforesaid response was submitted to the Home Office on 22nd June 2018. The Home Office have additionally asked CIPFA to review the PCC's addendum, and are seeking their view on the proposal as a whole, and whether or not the new information provided in the | | | | |

Report Date: 18/06/2018

Date of Previous Risk Score: 02/03/2018

Hertfordshire

Notes: References highlighted **Purple** have been added since the 02/03/2018.
Old Category is shown when there has been a change of category.
Previous Risk Score shows rating, profile, probability and impact prior to the Current Risk Score

| Risk Ref<br>Risk Description<br>Corporate Priority<br>Category | Risk Owner | Progress Update | Previous Risk Score | Movement Direction | Current Risk Score | Target Risk Score |
|---|---|---|---|---|---|---|
| | | addendum alters the previous independent assessment of the proposal against the statutory test. CIPFA have indicated that they will undertake the work as quickly as possible and anticipate completing the work in July.<br>Reviewed On: 26/06/2018 | | | | |

| Controls: | Ref | Control Description | Status | Owner |
|---|---|---|---|---|
| | CP0005/002 | Support Community Protection staff through effective engagement to ensure they are kept informed on any progress in this matter | In Progress / Taking Effect | Darryl Keen |
| | CP0005/004 | Provide any support required for an independent review and develop plans for options/scenarios | In Progress / Taking Effect | Guy Pratt |

# Appendix C – Corporate Risk Register summary risk status report

| Risk Ref | Business Unit | Category Type | Details | Current Risk Rating | | | | Target |
|---|---|---|---|---|---|---|---|---|
| | | | | 08/17 | 10/17 | 02/18 | 06/18 | Score |
| HCSCP0001 | Adult Care Services Commissioning For People | **Corporate Risk Register** Corporate | In the event of a Hertfordshire Care Provider becoming inadequate or failing, there is a risk that this may result in poor care to clients or a safeguarding issue. | 32 | 32 | 32 | 64 | 32 |
| HFRS0007 | Community Protection Hertfordshire Fire & Rescue | **Corporate Risk Register** Corporate | During unplanned incidents, such as terrorist activity, civil disturbance, large scale wide area flooding, or periods of industrial action, there is a risk that HFRS may be over reliant on existing regional or national resources which may lead to reduced fire cover. | 48 | 48 | 48 | 48 | 32 |
| ENV0104 | Environment and Infrastructure | **Corporate Risk Register** Strategic | In the event of the Residual Waste Treatment Programme being impacted by one of the following scenarios:<br><br>- The Energy Recovery Facility (ERF) at Rye House does not proceed or is delayed<br>- Unable to secure suitable, cost effective, alternatives for waste disposal should the contract with Veolia (VES) be terminated.<br><br>It may result in:<br>- Increased costs to HCC | 32 | 32 | 40 | 40 | 8 |
| ENV0148 | Environment and Infrastructure | **Corporate Risk Register** Strategic | As a result of the likely cancellation of the Metropolitan Line Extension (Croxley Rail Link scheme), there is a risk of claims to the Council (liability is capped at £3m), difficulties in re claiming HCC investment sunk into the scheme and reputational loss. This will also have a significant impact on future growth in the area. | 32 | 32 | 32 | 40 | 16 |
| HCS0010 | Adult Care Services | **Corporate Risk Register** Strategic | If there is a continuing inability to attract the required number of Homecare work force in line with the Adult Care Services Workforce Strategy, there is an increasing risk of non compliance and a reduction in the ability to provide safe and appropriate care in users own homes which may lead to impacts on their health and wellbeing. | 40 | 40 | 40 | 40 | 12 |
| CP0005 | Community Protection | **Corporate Risk Register** Strategic | The Policing and Crime Act 2017 places a duty on police, fire and ambulance services to work together and enables police and crime commissioners to take on responsibility for fire and rescue services. In the event that the Secretary of State determines that the governance of the Hertfordshire Fire & Rescue Service (HFRS) is to be transferred to the Hertfordshire Police and Crime Commissioner (PCC) as recommended in their business case, there is a risk that such a transfer may significantly and negatively impact on service delivery, particularly in relation to the support provided to vulnerable people and the County Council's prevention agenda. In addition it may create significant uncertainty, leading to staff unrest; short term damage to key relationships and budgetary impacts. | 24 | 32 | 32 | 32 | 24 |

| Risk Ref | Business Unit | Category Type | Details | Current Risk Rating 08/17 | 10/17 | 02/18 | 06/18 | Target Score |
|---|---|---|---|---|---|---|---|---|
| CPRES0002 | Community Protection Resilience | **Corporate Risk Register** Corporate | In the event of a failure to prepare adequate Corporate and departmental generic BCP plans, there is a risk that, should a major incident take place (to building, technology & people), there may be insufficient back up arrangements in place, which could result in a higher level of disruption than anticipated causing increased disruption to key resources. (Formerly SERMU0002) | 16 | 16 | 16 | 32 | 16 |
| CSF0055 | Childrens Services | **Corporate Risk Register** Corporate | In the event of inappropriate care or attention there is a risk that a child or young person could die or become seriously injured. | 32 | 32 | 32 | 32 | 32 |
| ENV0149 | Environment and Infrastructure | **Corporate Risk Register** Strategic | As a result of the restrictions introduced in 2015 on the use of S106 for the pooling of developer contributions towards new infrastructure together with the introduction of the Community Infrastructure Levy (CIL), there is a risk that the uptake of CIL, which is the Government's preferred method for pooling contributions, remains slow, and due to the limited influence HCC can bring to bear over the districts on the spending priorities of CIL revenue as a non CIL charging Authority, this may result in there being insufficient money to support infrastructure needs derived from new housing. [Formerly PROP0022 & CSCE0023] | 32 | 32 | 32 | 32 | 12 |
| HCS0016 | Adult Care Services | **Corporate Risk Register** Strategic | In the event of significant unforeseen demand on health and social care services and a risk of budget overspend and ongoing uncertainty about how these will be addressed nationally, there is a risk of insufficient budget to meet future demands of services. [supersedes risks HCS0011 & HCS0012] | 32 | 32 | 32 | 32 | 24 |
| HCSLD0005 | Adult Care Services Learning Disabilities | **Corporate Risk Register** Corporate | In the event of inadequate safeguarding arrangements, a vulnerable person at risk of harm is not identified and protected appropriately. | 16 | 32 | 32 | 32 | 32 |
| HCSMH0002 | Adult Care Services Mental Health | **Corporate Risk Register** Corporate | As a result of the 2014 Supreme Court ruling around Deprivation of Liberty Safeguards (DOLS) there is a risk that an inability to conduct best interest assessments within legal timeframes could lead to unlawful detention of people and potential legal and compensation challenges to HCC. | 32 | 32 | 32 | 32 | 8 |
| CP0004 | Community Protection | **Corporate Risk Register** Corporate | As a result of disruptive factors influencing the lives of people in Hertfordshire, there is a risk that residents or staff become radicalised or drawn into terrorism, which could cause harm to themselves or the wider public and reduce community / social cohesion. | 24 | 24 | 24 | 24 | 16 |
| CPRES0009 | Community Protection Resilience | **Corporate Risk Register** Corporate | If there is insufficient preparation for increased frequency of extreme weather events resulting from climate change, then there might be negative impacts on service delivery, user access to service provision and to the reputation of the Council. | 24 | 24 | 24 | 24 | 12 |
| CSF0070 | Childrens Services | **Corporate Risk Register** Strategic | In the event of inadequate capital being made available from a number of funding streams, part of the costs of delivering the secondary expansion programme and/or schools required to meet demand in new housing developments may need to be met from the council's own resources having exhausted all other eventualities. | 24 | 24 | 24 | 24 | 16 |

| Risk Ref | Business Unit | Category Type | Details | Current Risk Rating | | | | Target |
|---|---|---|---|---|---|---|---|---|
| | | | | 08/17 | 10/17 | 02/18 | 06/18 | Score |
| CSF0082 | Childrens Services | **Corporate Risk Register** Corporate | As a result of national and local efficiencies, there is a risk that partnership funding may be withdrawn or withheld. | n/i | n/i | 24 | 24 | 12 |
| CSF0083 | Childrens Services | **Corporate Risk Register** Corporate | As a result of the new welfare, reform and immigration arrangements, there is a risk of an increase in families becoming homeless and/or requiring support from Children's Services (and other services). | n/i | n/i | 24 | 24 | 12 |
| CSHF0016 | Resources Finance | **Corporate Risk Register** Corporate | In the event that the Authority does not develop sufficient and timely proposals to deal with the ongoing or further reductions in funding/resources, there is a risk that the need to close the funding gap may result in identifying measures for unplanned reductions in service spend leading to deterioration or interruption of front line service delivery. [Formerly CSHF0005 and CSHF0015] | 24 | 24 | 24 | 24 | 16 |
| ENV0142 | Environment and Infrastructure | **Corporate Risk Register** Strategic | Hertfordshire is facing an increasing threat from tree pests and diseases, including ash dieback and Oak Processionary Moth. In this context, there is a risk that current systems and resources for tree management will not be fit for purpose. Failure to manage tree risk may result in significant unplanned costs (including liability claims), danger to the public and or/service users, and impact on landscape and ecosystem services. | 20 | 20 | 24 | 24 | 16 |
| HR0018 | Resources Human Resources | **Corporate Risk Register** Corporate | If the Council fails to educate, train and provide tools and processes for employees to effectively fulfil their roles (Including compliance with data protection, health and safety, safe staffing legislation, and role specific training) there is a risk that staff are not fully competent or productive. This could lead to service failures such as serious injury or harm, particularly to vulnerable service users (and the public) fines and/or prosecutions, and inefficiency in how work is delivered. | 24 | 24 | 24 | 24 | 16 |
| HR0021 | Resources Human Resources | **Corporate Risk Register** Corporate | If we fail to retain, attract and recruit the right people (managers, officers and volunteers) and right skills and maintain engagement at all levels, there may be a significant impact on service delivery and major cost implications. [Formerly CSCE0007] | 32 | 32 | 32 | 24 | 16 |
| IMP0001 | Resources Improvement And Technology | **Corporate Risk Register** Corporate | There is a risk<br>- of the loss/inappropriate acquisition/disclosure of sensitive personal or commercial data contrary to the requirements of the new General Data Protection Regulation (GDPR) which comes into force from 25 May 2018<br>- that we may breach the rights of data subjects; which could lead to harm to clients, impact on HCC's reputation, incur legal action and have severe financial consequences (despite applying best practice there is always the possibility of human error). [Formerly CSCE0013] | 24 | 24 | 24 | 24 | 16 |

| Risk Ref | Business Unit | Category Type | Details | Current Risk Rating 08/17 | 10/17 | 02/18 | 06/18 | Target Score |
|---|---|---|---|---|---|---|---|---|
| PROP0023 | Resources Property | **Corporate Risk Register** Strategic | HCC has established Herts Living Limited to collaborate with a Joint Venture partner to maximise returns on its land and assets. If these arrangements do not perform as anticipated, there is a risk that the financial returns do not deliver the £20m per annum receipt value in the current Integrated Plan. In addition, there may be reputational impacts to HCC (Replaces PROP0020 and PROP0021). | 24 | 24 | 24 | 24 | 16 |
| SP0005 | Resources Strategic Procurement Group | **Corporate Risk Register** Corporate | A significant proportion of the Council's expenditure is accounted for by externally commissioned services. In the event of insufficient skills in commissioning / contract management and competencies along with a lack of application of effective monitoring, governance and contract management rigour, there is a risk of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery. [Formerly IMP0002/CSCE0019] | 24 | 24 | 24 | 24 | 16 |
| TEC0004 | Resources Technology | **Corporate Risk Register** Strategic | In the event of failing to maintain and ensure the use of our security systems, technical protocols and change management processes, there is a risk of a cyber attack (virus, penetration or malicious internal action) on HCC's ICT environments causing significant service disruption and possible data loss | 32 | 32 | 32 | 24 | 16 |
| AUDIT0001 | Resources Audit (SIAS) | **Corporate Risk Register** Corporate | As a result of the scale and scope of services delivered by and through the county council, there is a risk of fraud, which may be significant fraud, that could lead to service disruption, financial and reputational loss.<br>This risk includes, but is not limited to, areas specifically recognised by Cipfa:<br>- Overstatement of needs through false declaration for personal budgets in adult care services<br>- Misuse of Blue Badge/Concessionary bus passes<br>- Staff falsifying time keeping / expenses and overpayment of pensions<br>- Bribery and collusion in procurement<br>- Exaggerated/false insurance claims | 16 | 16 | 16 | 16 | 16 |
| CPRES0001 | Community Protection Resilience | **Corporate Risk Register** Corporate | In the event of a failure of the Local Resilience forum (LRF) to provide adequate inter-agency plans which correctly identify the capabilities required to deal with a major emergency in Hertfordshire there is a risk that Hertfordshire's multi- agency response may not be fully effective (formerly SERMU0001) | 16 | 16 | 16 | 16 | 16 |
| CSHF0002 | Resources Finance | **Corporate Risk Register** Corporate | There is a risk that HCC's pension fund level may not improve sufficiently to cover accrued pension costs because of economic conditions, poor investment or ineffective governance | 16 | 16 | 16 | 16 | 16 |
| ENV0033 | Environment and Infrastructure | **Corporate Risk Register** Corporate | In the event of under investment there is a risk that road maintenance levels can not be maintained and general deterioration occurs, which may lead to increased number of accidents, loss of reputation and customer dissatisfaction. | 16 | 16 | 16 | 16 | 8 |

| Risk Ref | Business Unit | Category Type | Details | Current Risk Rating | | | | Target |
|---|---|---|---|---|---|---|---|---|
| | | | | 08/17 | 10/17 | 02/18 | 06/18 | Score |
| HFRS0004 | Community Protection Hertfordshire Fire & Rescue | **Corporate Risk Register** Corporate | In the event of a failure to meet national training requirements, poor operational performance from personnel who are not fully trained and competent in their role could lead to the death or serious injury of a firefighter. | 16 | 16 | 16 | 16 | 16 |
| PHD0014 | Public Health | **Corporate Risk Register** Corporate | In the event of a Health Protection emergency such as a communicable disease epidemic, radiological, chemical or biological agent exposure, or extreme weather conditions, there is a risk that the authority may be unable to meet its statutory duty to adequately assure multi-agency health protection arrangements. | 16 | 16 | 16 | 16 | 16 |
| HR0023 | Resources Human Resources | **Corporate Risk Register** Corporate | As a result of new legislation establishing an Apprenticeship Levy, there is a risk that should the County Council not take appropriate action to offset the levy and provide apprenticeship opportunities there may be financial and reputational consequences. | 12 | 12 | 12 | 12 | 8 |
| PROP0018 | Resources Property | **Corporate Risk Register** Corporate | There is a risk that land owned by the Council and no longer required for the purpose for which it was bought may not have an active management regime in place. As a result there is a risk of an H&S incident to persons or property which could give rise to H&SE action and a liability claim. | 12 | 12 | 12 | 12 | 8 |
| ENV0030 | Environment and Infrastructure | **Corporate Risk Register** Corporate | In the event of a failure in road inspection and / or fault reporting procedures, there is a risk that the condition of our roads falls below expected standards, which results in injury to citizens and / or successful claims against HCC. | 8 | 8 | 8 | 8 | 8 |
| | | | **34** | | | | | |

Agenda Item No.

**10**

**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

**CONTRACT MANAGEMENT**

*Report of the Director of Resources*

Author: Paul Drake, Head of Procurement (Tel: 01992 588747)

Executive Member: Ralph Sangster – Resources and Performance

## 1. Purpose of Report

1.1 To provide further information regarding the risk and associated controls recorded on the Hertfordshire County Council Corporate Risk Register relating to the procurement and management of contracts (SP0005).

1.2 This report invites the Audit Committee to endorse the overall approach that Hertfordshire County Council is taking to mitigate this risk.

## 2. Summary

2.1 The Audit Committee has requested a report on the above risk. The risk is owned by the Assistant Director, Finance within the Resources Directorate and is reviewed quarterly by the Head of Procurement.

2.2 The entry on the County Council's risk register reads:

*"A significant proportion of the Council's expenditure is accounted for by externally commissioned services. In the event of insufficient skills in commissioning / contract management and competencies along with a lack of application of effective monitoring, governance and contract management rigour, there is a risk of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery"*

2.3 The rating of the risk and the controls currently in place to minimise or avoid its occurrence are summarised in Appendix 1.

## 3. Recommendation/s

3.1 The Audit Committee is invited to note and comment on the information provided within this report.

## 4. Background

4.1 Currently approximately £850m is spent annually on externally commissioned services. Contract management and monitoring is the responsibility of individual contract managers within departments. The Strategic Procurement Group in Resources is responsible for ensuring appropriate training and best practice advice is available to departments. The way these contractual arrangements are set up, managed, and where necessary, decommissioned clearly presents a potential risk to the council. SP0005 aims to provide assurance that this risk is being mitigated.

4.2 In addition to the internal staff skills and competencies required, monitoring the performance and financial stability of the external partner is an important and challenging part of the contract management role. There have been some high profile failures of service providers to the public sector recently and it is not anticipated that the situation will stabilise in the near future.

4.3 The Council Contract Register contains details of approximately 1100 contracts and lists 204 contract managers. Council departments are well placed to assess risk on these and consequently the focus of contract management activity is on the larger strategic contracts or those for critical services. There are resources in place to deal with these, examples include the monitoring officers in ACS commissioning teams, the Commercial and Operational Support Team in Property and the Highways Contracts and Network Team. However the consequences of failure of a small provider, for example a key IT system provider or a private care home, could also be devastating to service users and their families so there is a general need for risk mitigation across the organisation.

4.4 As such the focus of risk reduction is on ensuring that a consistent and robust approach is taken to both procurement and ongoing contract management. This is achieved in a number of ways, and this paper will detail the measures in place to ensure the risk of under skilled council staff or poorly managed contractors is minimised as far as practicably possible.

4.5 The strength of the Council's contractual arrangements is dependent upon a number of factors addressed by this risk and associated controls. This focus report reviews arrangements in 3 areas:

- Training activities
- Promotion of best practice to develop competencies
- Financial Monitoring

n.b. Risk SP0006 deals with supplier monitoring in more detail although there is a clear overlap with SP0005 so this focus report addresses both areas.

4.6 In addition, as a temperature test a recent survey of contract managers has been undertaken and a Scrutiny session on dealing with supplier market volatility is planned in Quarter 4 of this year.

## 5 Training activities

5.1 There is a mature Council wide procurement training programme in place covering 4 key skills areas, which are fundamental to the delivery of good quality procurement / commissioning and contract management. These courses are part of the corporate Learning and Development offering and are bookable several times per year via iLearn. Courses are usually run at capacity, and for some of the courses a waiting list is maintained. Urgent requirements are met via the "supplementary training" set out below.

5.2 The courses are currently delivered on-site by Cordie Ltd, a leading edge provider of training in tools and techniques for procurement and supply chain professionals. Cordie Ltd is rated as a 'Centre of Excellence' by the Chartered Institute of Procurement and Supply (CIPS) and has twice won the UK National Training Awards.

5.3 The 4 courses on offer are:

**Pre-procurement market engagement**
This is a focused ½-day event for all staff who may be involved in the process of scoping and preparing for a procurement initiative. It considers the key activities required to engage with a market and to analyse it prior to commencing any procurement procedure. The role of stakeholders and market consultation activities are also considered, as well as the regulatory aspects of maintaining transparency and non-discrimination.

**Effective Procurement Procedures**
This is a 1-day course providing detailed practical guidance on application of the EU public procurement directives and other relevant regulations for procurement staff in Hertfordshire. The need for efficiency and probity in public sector procurement is strongly reinforced by this course.

**Contract Management**
This is a 1-day course providing excellent foundation knowledge and awareness of how to manage contracts with external providers successfully, in order to both deliver desired commercial outcomes and maintain a sustainable contractual relationship. Competence in this area is equally about how to manage intelligently, knowing when to consult

with professional colleagues especially when undertaking complex processes such as making contractual changes, recognising the key drivers that will improve supplier performance and understanding the role and importance of robust contract governance.

**Negotiation Skills for Public Contracts**
This is a 1-day course aimed at officers who are involved in negotiating and/or working with suppliers either as part of a contract award or during the contract management phase. As well as concentrating on how to prepare, manage and execute a negotiation, it also considers key aspects of the regulatory environment and the impact of public procurement legislation.

5.4 Attendance has been consistently high over the course of the programme, details are shown below, and feedback from participants has been excellent. Whilst this training is not currently mandatory, Hertfordshire County Council contract regulations require that "all officers involved in the commissioning and procurement of goods, services or works must be appropriately trained to carry out their duties". The contract register records show there are 204 contract managers across the organisation currently. Some existing contract managers have not attended this training, these are usually either experienced contract managers, who feel they have the necessary skills already or they are managing smaller, often one-off, contacts.

**Procurement Training attendance 2015-2018**

| Course Title | Total Number | ACS | CS | CP | Env. | PH | Res. | Other |
|---|---|---|---|---|---|---|---|---|
| Pre-procurement Market Engagement | 77 | 14 | 11 | 0 | 15 | 2 | 31 | 4 |
| Effective Procurement Procedures | 107 | 29 | 17 | 1 | 17 | 5 | 36 | 2 |
| Contract Management | 106 | 15 | 16 | 3 | 21 | 3 | 41 | 7 |
| Negotiation Skills for Public Contracts | 58 | 13 | 11 | 1 | 14 | 1 | 14 | 4 |
| **Total** | **348** | **71** | **55** | **5** | **67** | **11** | **122** | **17** |

5.5 **Supplementary training**
As well as the generic courses offered, additional tailored sessions are available to departments on a procurement by procurement basis. These are usually delivered by a member of the Strategic Procurement Group, or occasionally external consultants if they are delivering technical advice to a particular service.

Examples include:

- Advice on running tailored pre-procurement market engagement exercises to ensure better understanding of the specific supply market, these may take the form of questionnaires, workshops, industry days, “speed dating” sessions, webinars, video briefings and site visits.

- Briefing sessions for services about to embark on a larger scale procurement process, aimed at building the project team and developing an understanding of the individual roles within it.

- Evaluation and moderation briefing sessions for those officers involved in these tasks. These sessions clearly explain the approach to evaluation, setting out the do’s and don’ts, the process and the requirement for quality detailed rationale of scoring decisions made. The specialist role of moderator is explained and attention drawn to the particular demands of technical competence as well as impartial challenge to the evaluation scores. These sessions have proved extremely valuable in minimising the number of challenges from disgruntled bidders.

- Briefing sessions for suppliers, particularly in industries or sectors which may not have wide experience of bidding for Council contracts, for example taxi companies, or voluntary and community sector organisations. These sessions typically focus on what the Council is looking for in a good tender, and on how to use the eTendering technology. They help to avoid misunderstandings about the Council’s requirements that could get magnified into legal challenge later in the process. They also help suppliers to deliver focussed and realistic bids.

- With Finance colleagues, sessions to build a financial evaluation model which ensures a robust evaluation but also keeps in mind the sustainability of the contract over its lifetime.

## 6. Promotion of best practice to develop competencies

6.1 The Contracting Best Practice Group exists in order to keep key officers informed of the latest developments in contract management best practice and of any advice with regard to supplier failure or new legislation. The Group meets every 3 months and continues to be well attended, with representatives from all departments. It is administered by the Strategic Procurement Group and chaired by the Head of Procurement.

6.2 Recent meetings have considered the lessons arising from the issues afflicting Carillion, Capita and other major providers of services to the public sector. Other matters that have been dealt with recently by the Group include ensuring a robust and compliant approach is adopted to the new General Data Protection Regulation requirements in terms of contract terms and conditions, and reviewing arrangements to ensure suppliers maintain their business continuity plans.

6.3 In addition to the Best Practice Group, a substantial amount of information on Best Practice procurement and contract management is issued and maintained on the Council's Procurement intranet pages.

## 7. Financial Monitoring

7.1 There are detailed processes in place to ensure that contract managers can monitor the financial position of key suppliers. These are can be split into 2 periods – pre contract and during contract management.

Pre contract

The Council's financial checking and monitoring tool is Dun & Bradstreet. There are 43 users of this system across all departments. These users are able to run instant reports on suppliers containing the latest standard financial accounts data on an organisation, with some additional analysis such as payment habits, comparison with industry payment benchmarks and detailed structure and governance information.

All bidders are subject to background checks on financial status. In the year 2017/18 a total of 4950 reports were run to check financial status. If any doubts are raised by a check, then more specific financial assurance will be sought from a bidder.

Contract management

Over 1780 organisations are held on a daily monitor with Dun & Bradstreet. These are identified by spend (over £100k) and/or nomination by the relevant contract manager. Alerts are coded as Red / Amber / Green according to significance of any changes identified to their financial positon. All "Red" alerts are forwarded to the relevant contract manager on the day of the alert, with recommended actions such as contacting the supplier immediately for an explanation of any significantly deteriorating financial position. Whilst this is not a perfect warning system for unpredicted supplier difficulty, it can provide a useful view of a supplier's deteriorating position over time and enable the contract manager to intervene early.

However, close contract monitoring can provide a plethora of early indicators of supplier issues. For example if staff training is not being maintained, an unusually high level of temporary staff is being used, investment in maintaining buildings is not being made or the supplier is chasing invoice payments or asking for early payment. These 'soft' indicators often provide earlier warnings of issues than financial data.

## 8. Temperature test - Contract Managers Survey 2018

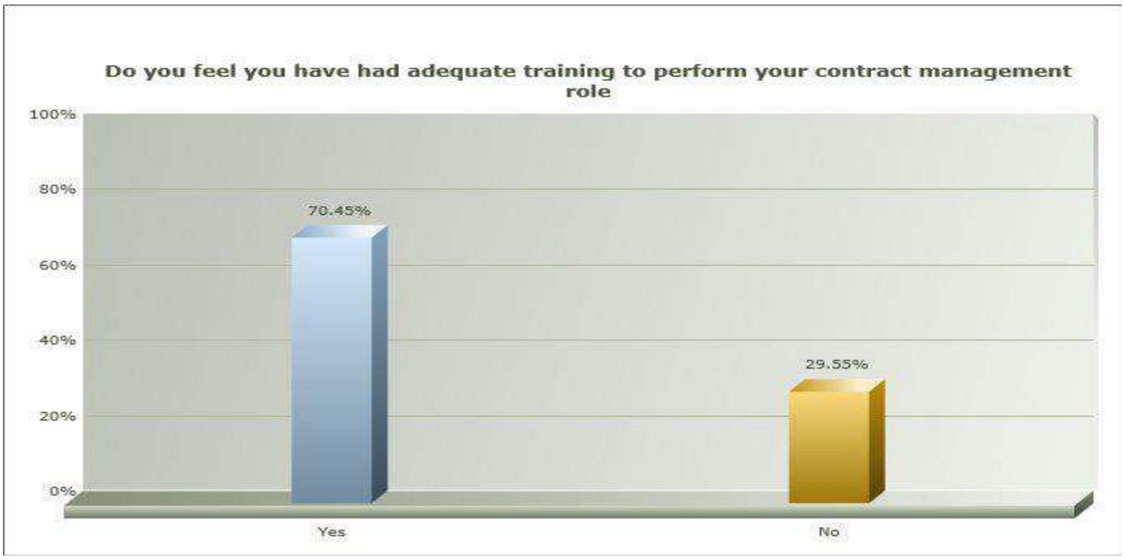
8.1 As a response to the high profile supplier issues nationally, and following discussion at Procurement Board in March 2018, a survey of the contract management community was conducted by the Strategic Procurement Group in Spring 2018.

8.2 The survey was distributed to all contract managers and was aimed at getting a fuller picture of how contracts are being managed across the organisation and at identifying any examples of best practice that could be disseminated across the Council contract managers.

8.3 There were 47 responses to the survey, with a good spread across departments. Some of the significant findings are detailed below:

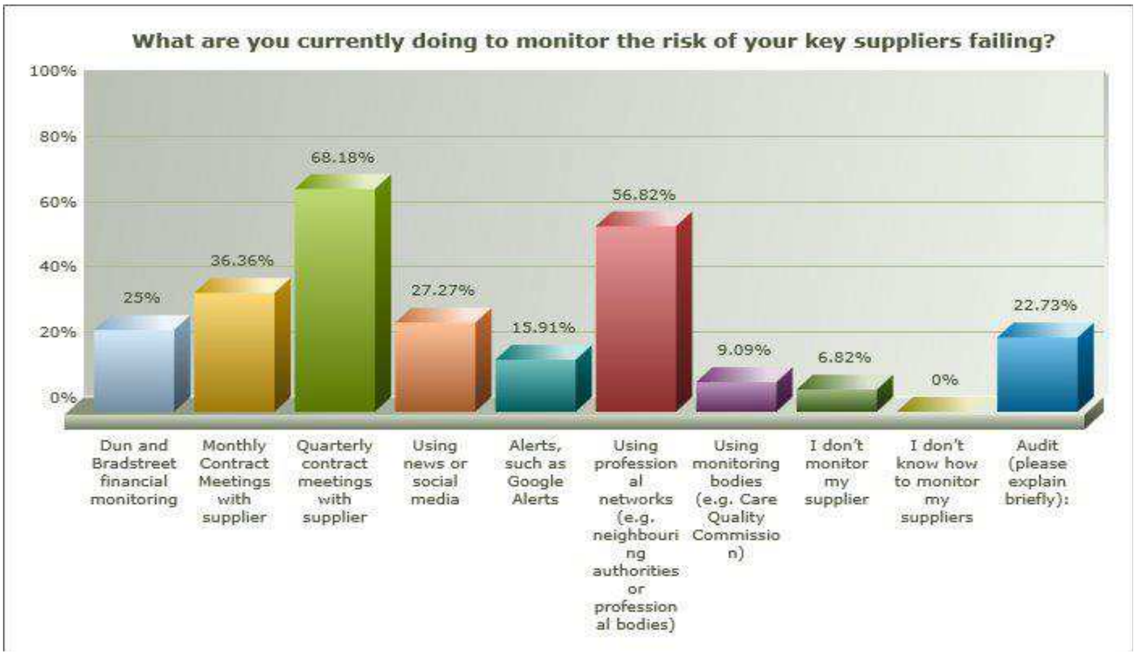
Alternative suppliers in the market
When asked if a key supplier were to fail, could an alternative provider be readily identified, over 97% of respondents were aware of alternative providers that could take over service delivery.


Contract Management training
Over 70% of respondents felt they had adequate training to perform their contract management role.



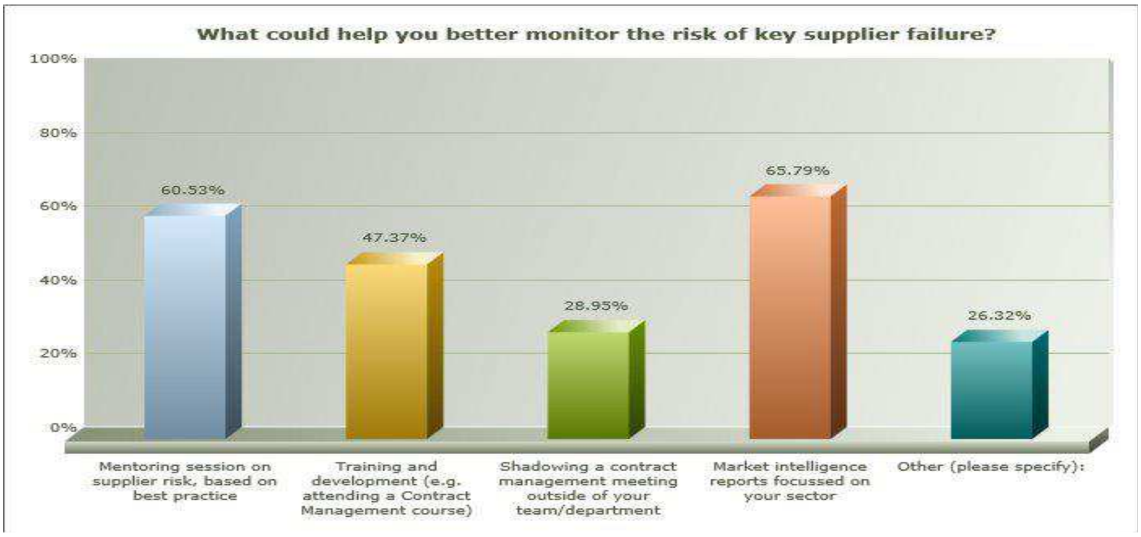
Market monitoring
There was a wide spread of activities taking place to monitor the marketplace in order to assess the probability of key supplier failure including:

- Financial checking,
- Contract management meetings monthly or quarterly,
- Accessing professional networks
- External monitoring bodies such as the Care Quality Commission.




Improvement recommendations
There were a number of suggestions aimed at better preparing for the risk of failure, these included more training on monitoring supplier risk and more market intelligence data.

'Market intelligence reports' and 'mentoring and sharing best practice' were the most popular choices (65% and 60% respectively).



Recommendations from respondents included:

- Better outline of the expectations of contract managers
- Developing an officer level best practice group for contract managers
- Cross-organisational monitoring, e.g. Public Health colleagues working with the CCGs – can resources be pooled for monitoring?

8.4 Actions arising from the Survey - The next Contracting Best Practice Group (July 2018) will review the survey findings and determine an action plan to further consolidate risk measures. These actions are likely to include improving the clarity of the 'role of the contract manager' and additional measures to work with departments on identifying supplier risks.

## 9. Other relevant information

### 9.1 Future Scrutiny session

There will be a 2 day topic group on dealing with contractor market volatility taking place on 11 & 25 March 2019.

The objective is to assess Hertfordshire County Council's arrangements to deal with supply market and contractor volatility post Carillion, including sub-contractors and partners.

The questions that will be addressed are:

- How effective are Hertfordshire County Council's due diligence activities?
- How does the council practise good quality contract management to identify potentially serious issues early?
- What happens when a supplier fails or becomes increasingly unstable?

## 10. Recommendation

10.1 The Audit Committee is invited to note and comment on the information provided within this report.

10.2 Based on the content of this report and the current level of instability and unpredictability in the supply market generally, it is recommended that the risk score remains unaltered i.e. Probability Possible (3) x Impact High (8) = 24 Significant.

**APPENDIX ONE**

| CORPORATE RISK REGISTER | | |
|---|---|---|
| **Risk Number** | **Risk Owner** | **Department** |
| SP0005 | Steven Pilsworth | Resources |
| **Date risk first included on risk register** | **Risk treatment (response) to manage the risk** | **Executive Member** |
| 09/07/2010 | Reduce | Ralph Sangster |

**Description of the risk**
A significant proportion of the Council's expenditure is accounted for by externally commissioned services. In the event of insufficient skills in commissioning / contract management and competencies along with a lack of application of effective monitoring, governance and contract management rigour, there is a risk of poor value, inadequate service provision and data security and/or failure of externally delivered services, which could lead to disruption of service delivery. [Formerly IMP0002/CSCE0019]

**Consequences of the risk**
Service disruption, poor value / poor quality services, data security breaches and service failure.

**Current controls**

**SP0005/002**
Effective use of The Procurement Cycle (the `Do, Buy, Share' model of procurement)

**SP0005/005**
Deliver specialist procurement training programme

**SP0005/006**
Regular newsletter and Contracting Best Practice meeting which takes place bi monthly

**SP0005/008**
SPG team specialist support to key business areas

**SP0005/009**
Commercial skills assessment undertaken through SMART Commercial programme

**SP0005/010**

| | | |
|---|---|---|
| Effective service and contractual checks are made by contracting managers pre contract placement and on an ongoing basis<br><br>**SP0005/011**<br>HCC's Technology team provide support to contracting managers to assess ICT implications and security. | | |
| **Current Risk score based on effectiveness of current controls** | | |
| ***Probability score:*** | ***Impact score:*** | ***Overall score:*** |
| 3 - Possible | 8 – High | 24 - Significant |
| **Reason for inclusion on Corporate Register** | | |
| Identifiable risk of service delivery disruption or detrimental effect on quality / cost of provision. | | |
| **Direction of travel** *(overall risk score for previous three quarters)* | | |
| 24 | 24 | 24 |
| **Target risk score** | | |
| ***Probability score:*** | ***Impact score:*** | ***Overall score:*** |
| 2 - Unlikely | 8 - High | 16 – Significant |

**HERTFORDSHIRE COUNTY COUNCIL**

| Agenda Item No: |
|---|
| **11** |

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00PM**

# END-OF-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2017/18


*Report of the Chief Finance Officer*

Author: Rob Thurlow, Senior Accountant (01992 555061)

Executive Member: Ralph Sangster, Executive Member, Resources and Performance


## 1. Purpose of Report

1.1. The CIPFA Prudential Code and CIPFA Code of Practice for Treasury Management in the Public Sector require the Council to set an annual Treasury Management Strategy (TMS) and assess performance indicators and the treasury function throughout the year.

1.2. This report fulfils the requirement to provide an End-of-Year report on performance against the prudential indicators which were specified in the Integrated Plan, Part D approved by the County Council on 21 February 2017.

1.3. The report provides a summary of treasury management performance and activity for the financial year ended 31 March 2018, and follows on from the Mid-Year report to Audit Committee as at 30 September 2017. Treasury management performance indicators and narrative are also reported to Resources, Property and the Economy Panel within the quarterly budget monitor.

## 2. Summary

2.1. The Council has been compliant with the Prudential and Treasury Management Indicators set out in the Integrated Plan.

2.2. The total interest earned on Treasury Investments was £1.830m, exceeding the budget of £1.434m.

2.3. The performance of the UK economy has exceeded forecast expectations during 2017-18, despite significant uncertainty around the outcome of the negotiations around withdrawal from EU membership, although there are signs that the economy may be slowing. This is analysed in further detail in section 6.

2.4. The Council has continued to operate a diverse investment portfolio. Pooled fund investments are held for the long-term to mitigate capital volatility and generate income. Daily liquidity needs are met using a variety of instant-access bank and Money Market instruments, along with short term lending to and from other local authorities.

2.5. An additional disbursement from the Administrators of the Icelandic investment with Kaupthing, Singer & Friedlander [KSF] was made in December 2017. No further funds have been received for the Icelandic investments with Heritable. The recovery to date from these particular investments stands at 85.50% and 98.00% respectively.

2.6. A breach of the TMS occurred during May 2017 as a result of an operational error. This was previously reported in the Mid-Year Treasury Management report, and Section 5 provides further details of the breach and procedural changes implemented as a result. There was no loss to the authority as a result of this error and actions to mitigate any future occurrence were taken immediately.

2.7. No new long-term borrowing has been taken and no long-term borrowing has been repaid in the year.

2.8. Short-term borrowing was used between April and July 2017 to cover cash flow requirements. No short-term loans were in place at 31 March 2018.

2.9. There were a number of regulatory developments during the year. The Markets in Financial Instruments Directive II (MiFID II) became effective in January 2018. For 2018/19 new Investment and MRP Guidance was issued by MHCLG, and CIPFA Published revised Prudential and Treasury Management codes. More information on the impacts and actions taken is provided in Section 12.

## 3. Recommendations

3.1. Members are invited to note the Treasury Management End-of-Year report.

## 4. Background

4.1. The Council operates its treasury management function in accordance with the CIPFA Prudential Code and the CIPFA Code of Practice for Treasury Management in the Public Sector. The Codes require the Council to set prudential indicators for its capital expenditure and treasury management activities prior to the start of each financial year.

4.2. The Codes also require that regular reports are provided reviewing performance and compliance at the end of each financial year and on a half-yearly basis. In addition to these reports, performance against the prudential indicators and treasury management activities are reported to Cabinet as part of the quarterly budget monitoring report.

## 5. Breach of Strategy (4 May 2017)

5.1. The breach arose as the methodology being used to record overnight changes in balance on the Barclays account on the Treasury Management System did not trigger a control warning when the exposure limit was breached. As a result a balance of £10.275m was held in the account overnight, breaching the limit of £10m in place for this counterparty. The balance was correctly reduced the following day.

5.2. Procedures for recording overnight balance changes have been revised so that an alert is correctly triggered if balances are recorded in excess of the limits set in the system. All treasury officers have been instructed in the revised data entry method to avoid breaching counterparty limits. No financial loss was incurred as a result of this breach.

## 6. Arlingclose Economic Review

6.1. The Council's Treasury management activities in this period were undertaken in an environment marked by uncertainty over the UK's future relationship with the EU, geopolitical tensions, and the influence of expectations around the potential for fiscal tightening in the US and EU.

6.2. Despite a decline in household, business and investor sentiment in the face of political uncertainty, UK economic growth remained resilient, and GDP growth was recorded throughout the year. This is reflective of strong international growth, in the US and Eurozone, generating increased trade.

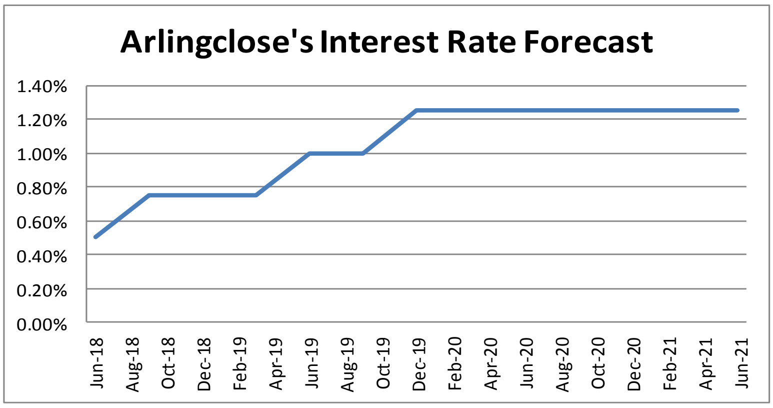
6.3. UK inflation has been above the Bank of England's 2% target throughout the year as a consequence of the significant reduction in the value of Sterling following the vote to leave the EU. Annual CPI inflation reached a peak of 3.1% in November 2017, but has since fallen more rapidly than expected to reach 2.4% by March 2018.

6.4. The labour market has also shown resilience, with the headline unemployment rate at 4.2% in February 2018. UK wage growth was lower than inflation for much of 2017/18, with positive real-terms being achieved in March 2018. This pressure on incomes was reflected in weaker consumer spending and a challenging operating environment for the retail sector affecting GDP growth.

6.5. Concern about the high level of inflation prompted the Monetary Policy Committee of the Bank of England to increase the official interest rate to 0.50% from 0.25% in November 2017. The Bank has indicated that a limited number of further rate increases are likely, but not certain. The action to increase rates will also give the Bank more flexibility to provide economic stimulus at a later date if required.

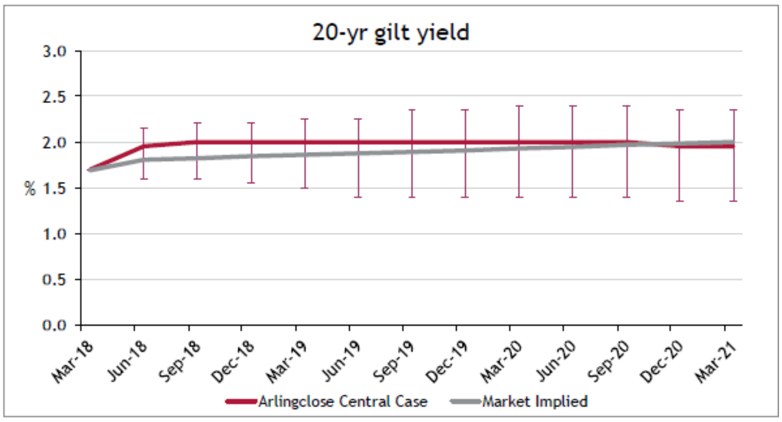
6.6. Graph 1 (overleaf) provides the Arlingclose (the Council's treasury adviser) interest rate forecast for the period March 2018 to June 2021. This indicates their view that the Bank of England is likely to sanction a limited number of interest rate increases over the forecast period.

**Graph 1: Arlingclose Interest Rate Forecast for Base Rate**




6.7. Graph 2 provides the Arlingclose forecast for 20-year gilt yields, compared to the market implied forecast. This supports the above view that rates are likely to remain low. It also demonstrates the range of uncertainty and outlook for possible changes to rates for new PWLB borrowing.

**Graph 2: Arlingclose 20-Year Gilt Projection**




## 7. Prudential and Treasury Management Indicators

7.1. The Prudential Code requires the Council to set and monitor a range of prudential indicators relating to borrowing. The objectives of the Prudential Code are to ensure, within a clear framework, that capital investment plans for local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

7.2. The Council measures and manages its exposure to treasury management risks using a range of indicators related to interest rate exposure, refinancing risk and liquidity risk. In addition, treasury activity is measured against a range of performance indicators related to security, liquidity and yield.

7.3. Appendix A provides evidence of compliance with the prudential and treasury management indicators and reports on treasury activity performance indicators.

## 8. Treasury Management Strategy

8.1. In setting the 2017/18 TMS, the Council approved a Lending Policy that continued to enable flexibility in use of investment instruments whilst maintaining security and liquidity of investments. The 2017/18 Lending Policy was unchanged from the 2016/17 TMS.

8.2. The Lending Policy continued to reflect the on-going risks in the wider economy and banking institutions. The primary considerations when placing investments continues to be the security and liquidity of the Council's funds and only once both of these factors have been taken into account will the yield on investment be considered. Long term borrowing is only considered when it becomes necessary to avoid a prolonged short term overdraft position.

8.3. During the year to 31 March 2018, investments have been held in a range of instruments detailed in Table 1.

**Table 1: Counterparties and Investment Instruments 2017/18**

| Counterparty | Investment Instruments |
|---|---|
| Local Authorities | Fixed Term |
| UK Banks / Building Society | Call / Notice Accounts |
| Overseas Banks with AA+ Sovereign Rating | Call Accounts, Fixed Bonds |
| AAA rated Money Market Funds | Call / Notice |
| Pooled Fund – Property | Notice |
| Pooled Fund – Bond | Notice |
| Pooled Fund – Equity | Notice |
| Pooled Fund – Multi-asset | Notice |
| Debt Management Office | Account Deposit Facility [DMADF] |

8.4. Table 2 (overleaf) provides a summary of the value of investment instruments outstanding as at 30 September 2017 and 31 March 2018 and the percentage of investment instruments compared to the overall investment portfolio.

**Table 2: Investment Balances**
**As at 31 March 2017 and 31 March 2018**

| Counterparties | Investment Instrument | 31/03/2017 | | 31/03/2018 | |
|---|---|---|---|---|---|
| | | £m | % | £m | % |
| Local Authorities | Fixed Term | 5.00 | 4.9 | 23.00 | 16.3 |
| UK Banks / Building Society | Call / Notice | 16.65 | 16.2 | 9.97 | 7.0 |
| Overseas Banks | Fixed Bond | 3.02 | 2.9 | 0.00 | 0.0 |
| CNAV Money Market Funds | Call | 30.32 | 29.6 | 61.03 | 43.1 |
| VNAV Money Market Funds | Notice | 17.50 | 17.1 | 17.50 | 12.4 |
| Pooled Fund – Property | Notice | 10.00 | 9.8 | 10.00 | 7.1 |
| Pooled Fund – Bond | Notice | 10.00 | 9.8 | 10.00 | 7.1 |
| Pooled Fund – Equity | Notice | 6.00 | 5.9 | 6.00 | 4.2 |
| Pooled Fund – Multi-asset | Notice | 4.00 | 3.9 | 4.00 | 2.8 |
| **TOTAL** | | **102.49** | **100.0** | **141.50** | **100.0** |

8.5. Table 2 reflects the diversified investment portfolio being operated by the council within the bounds of the TMS.

8.6. Table 3 shows the number and value of maturities and new investments in fixed term instruments during the year.

**Table 3: Value of Maturities and New Investments**
**1 April 2017 – 31 March 2018**

| Instrument Type | Investment | | Maturities | |
|---|---|---|---|---|
| | No. | £m | No. | £m |
| 31 Day Notice Account | 1 | 10.00 | 1 | (10.00) |
| 95 Day Notice Account | 1 | 0 | 1 | (10.00 ) |
| Fixed Deposit – Other Authority | 16 | 100.00 | 13 | (82.00) |
| Bond | 0 | 0 | 1 | (3.02) |
| DMADF | 6 | 179.00 | 6 | (179.00) |
| **TOTAL** | **7** | **289.00** | **6** | **(284.02)** |

8.7. A total of £30m continues to be invested over the long term in a number of diversified pooled funds. At 31 March 2018, the net market value of the investment in these funds was approximately £30.69m. This represents an increase of approximately £120k on the valuation at 31 March 2017. The changes in market value are fluid depending on market conditions and are therefore not recognised as gains or losses in the financial statements.

8.8. Cash balances have increased by £39.01m between 31 March 2017 and 31 March 2018. The overall increase in cash balances was due to timing differences between receipts and payments, including £33m of Single Local Growth Fund funding awarded to the LEP and held within the Council's balances, but not fully spent during the year. Interest earned on LEP balances is apportioned to the LEP at year end.

8.9. Interest rates for investments have ranged between 0.27% and 0.85% for fixed durations of up to 364 days. Interest rates on variable investments were as high as 0.18% at the start of the year and are now as high as 0.53%. Rates have increased following the decision by the Bank of England MPC to increase base rate in November 2017.

8.10. Table 4 provides a summary of the treasury activity in the year to 31 March 2018.

**Table 4: Treasury Activity - 1 April 2017 to 31 March 2018**

| Measure | 2017/18 | 2016/17 |
|---|---|---|
| Average size of portfolio (excluding Iceland investments) | £144.88m | £110.72m |
| Weighted average term (fixed term only) | 64 days | 79 days |
| Average rate earned | 1.26% | 1.58% |
| Interest earned | £1.830m | £1.749m |

8.11. The overall rate of return peaked in the second quarter at 1.45%, compared to 1.35% in the first quarter. Returns declined during the second half of the year, with 1.22% recorded in the third quarter and 1.07% recorded in the final quarter. The average return for the year was 1.26%.

8.12. The variability in the overall rate of return reflects a number of factors, including changes in overall balances, and decisions about liquidity risk management which impacted the choice of instruments used:

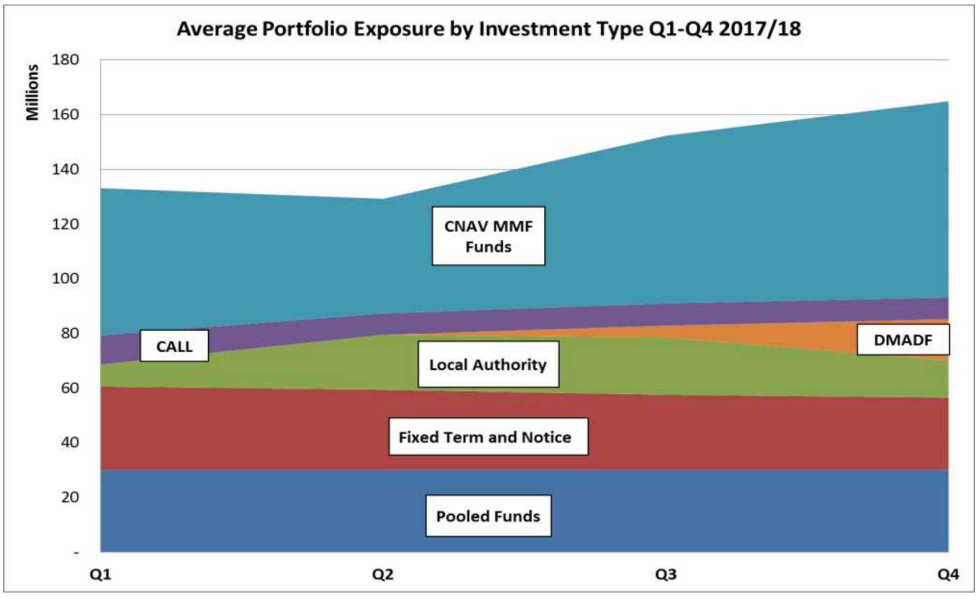
<u>Increased Overall Balance</u>

The increased overall balance increases the proportion of the portfolio exposed to lower short-term rates relative to the stable investment in higher-yielding strategic investments (the pooled funds). The following table (based on appendix A) reflects the inverse relationship between the overall rate of return and average investment balance

| Measure | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|
| Average Balance | £133.47m | £129.02m | £152.38m | £164.97m |
| Interest Earned | £0.451m | £0.467m | £0.464m | £0.448m |
| Overall Rate of Return | 1.35% | 1.45% | 1.22% | 1.07% |

<u>Choice of Instruments</u>

The chart overleaf shows the average exposure to different types of instruments in each quarter throughout the year. This reflects decisions on instrument choices made with reference the expected liquidity demands.




The chart demonstrates a marked increase in the use of liquidity instruments vs longer-term instruments, during the second half of the year. This approach was taken to ensure adequate liquidity was available to cover expected capital expenditure. The DMADF was used during periods of peak balances, in order to avoid excessive exposure to CNAV MMFs. DMADF pays low rates, but has the advantage that a deposit can be made for any duration of the depositor's choosing, improving the ability to match maturities to planned cash outflows. The result of this approach is an increased bias towards lower yielding investments.

Interest Rates

The approach taken to the use of liquidity instruments in the second half of the year restricted the Council's ability to take advantage of increasing market rates from November 2017. Money Market Funds hold a range of underlying assets, with a range of maturities. The yield of these assets is linked to market rates at the time of purchase, and the resale value of the asset varies in response to market rates. Following the increase in base rate the funds must hold the assets to maturity in order to avoid a loss on trading the assets. As assets mature, they are replaced by assets yielding at current market levels. The result of this process is that there is a lag between the change in base rate, and improved rates on MMF investments.

The table below indicates the average rate of return on this element of the portfolio from October 2017 to March 2018:

| Measure | October | November | December | January | February | March |
|---|---|---|---|---|---|---|
| Base Rate | 0.16% | 0.26% | 0.31% | 0.34% | 0.36% | 0.38% |
| MMF Average | 0.25% | 0.50% | 0.50% | 0.50% | 0.50% | 0.50% |

Fixed term interest rates for new investments with Local Authorities respond more quickly than funds, but the Council's liquidity forecast meant that only limited new investments could be made following the rate change.

8.13. The pooled fund investments continue to make a significant contribution to overall interest income. The return for the year on pooled fund investments was 4.67% per annum compared to 4.79% last year.

8.14. The rate of return for the year (1.26%) includes underlying returns of 0.37% for the investment portfolio excluding the pooled fund investments. The 0.37% rate compares to 0.46% achieved in 2016/17 and exceeds the 7-day LIBID benchmark of 0.21% by 0.16%.

8.15. The total interest earned on treasury investments during the year is £1.830m, which exceeded the budget by £0.396m. Whilst investment balances have increased, returns on highly liquid investments have recovered slowly following the base rate increase, damping the impact of high balances. The pooled funds have continued to perform strongly and returns exceed the 4% target level.

8.16. The pooled funds have experienced some variations in capital value during the year. This variability is expected as the nature of these types of investments in bond, equity and multi-asset funds means that income yield and fund values are influenced by market movements. It is important to recognise the long-term nature of these investments in mitigating this expected volatility.

As at the 31 March 2017 a small overall capital gain was reported, with a slightly higher overall gain reported as at 31 March 2018. Appendix A, Section 3 provides more details of how the Council intends to utilise and balance these instruments alongside its existing investments with regards to management of security, liquidity and yield.

8.17. With the exception of the breach described in Section 5, all treasury management activity undertaken during the period complied with the approved Treasury Management Strategy, the CIPFA Code of Practice for Treasury Management and the relevant legislative provisions.

## 9. Icelandic deposits

9.1. Of the original four Icelandic banks in which HCC had deposits, the outstanding Landsbanki claim was sold in 2013/14 resulting in a total recovery of 92%. The outstanding Glitnir claim was resolved in February 2015 resulting in a total recovery of 101% of the amounts originally deposited.

9.2. The recovery rate of 101% for Glitnir reflects exchange rate gains following the conversion of disbursements held in Escrow in Icelandic Krona into £ Sterling.

9.3. As of 31 March 2018 repayments for the investments in Heritable total 98.0p in the £. The Administrators, Ernst and Young (EY), are not forecasting any additional distribution to creditors. The claim cannot be closed as a reserve has been retained to cover administrator costs and expenses until outstanding legal matters are resolved.

9.4. A repayment of 0.90p in the £ was announced by the administrator (EY) for the investments in Kaupthing, Singer & Friedlander (KSF) and paid in May 2017. A further dividend of 0.35p in the £ was paid in December 2017.

EY estimates that the total return will be between 86.25p and 87.0p in the £. Recovery as at 31 March stood at 85.50p in the £.

9.5. Table 5 provides details of dividends received to 31 March 2018 together with current information about the anticipated value and percentage recovery for Icelandic investments.

**Table 5: Icelandic bank deposits at 31 March 2018**
**ALL Claims**

| Bank | Original Deposit | Recovered at 31/03/2018 | Total expected distribution | | Claim Status |
|---|---|---|---|---|---|
| | £m | £m | £m | % | |
| Glitnir | 7.00 | 7.05 | 7.05 | 100.71 | Closed |
| Landsbanki | 10.00 | 9.23 | 9.23 | 92.30 | Closed |
| Heritable Bank | 7.00 | 6.88 | 6.88 | 98.00 | Open |
| KSF | 4.00 | 3.51 | 3.55 | 86.63 | Open |
| **TOTAL** | **28.0** | **26.67** | **26.71** | **95.39** | |

## 10. Borrowing

### Long Term Borrowing

10.1. Table 6 (overleaf) shows total long term borrowing outstanding at 31 March 2018, the future maturity profile of borrowing and an analysis of sources of borrowing shown as a percentage of the total.

**Table 6: Borrowing Maturity Profile as at 31 March 2018**

| | Total | Sources of Borrowing | | | | | |
|---|---|---|---|---|---|---|---|
| | | PWLB [1] | | LOBO [2] | | Commercial [3] | |
| | £m | £m | % | £m | % | £m | % |
| Borrowing at 31 March 2018 | 258.78 | 103.28 | 39.9 | 49.40 | 19.1 | 106.10 | 41.0 |
| Maturing in 2018/19 | 0.00 | 0.00 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 |
| Maturing in 2019/20 | 0.25 | 0.25 | 0.0 | 0.00 | 0.0 | 0.00 | 0.0 |
| Maturing later | 258.53 | 103.03 | 39.9 | 49.40 | 19.1 | 106.10 | 41.0 |
| **Average interest rate** | **4.61%** | | **5.36%** | | **4.37%** | | **4.43%** |

[1] Borrowing sourced from the government's Public Works Loans Board
[2 & 3] Borrowing sourced from commercial banks

10.2. At 30 September there was a total of £258.78m long term borrowing outstanding. £103.28m (40%) was sourced from the government's Public Works Loan Board and £155.50 (60%) was sourced from commercial banks.

10.3. No new Long Term Borrowing has been arranged since March 2009, and consequently interest rates for the Council's long-term loans reflect historically higher rates than are currently available. The average rate of interest for total borrowing was 4.61%, the average rate for PWLB borrowing was 5.36% and the average rate for borrowing from commercial banks was 4.41%.

10.4. The Commercial Loan portfolio of £155.5m at the start of the year included £49.40m of Lender Option Borrower Option loans, which is a product which confers on the lender the right to increase the interest rate. In the event that this happens the borrower has the right to repay the loan without penalty.

10.5. The long term borrowing portfolio is kept under review in consultation with the Council's treasury advisor Arlingclose to identify opportunities to reduce borrowing costs by restructuring existing loans.

10.6. The difference between planned capital expenditure and capital funding (from revenue or capital receipts and specific capital grants) is known as the Capital Financing Requirement (CFR), and is met via borrowing. Borrowing can be funded from externally sourced loans, for example from the Public Works Loans Board, or internally from the council's own resources.

10.7. Because the cost of long term borrowing remains significantly higher than the return on short-term investments, the Council has made prudent use of its resources to fund an element of its borrowing requirement from surplus cash balances held in respect of its reserves. This has allowed the Council to maintain a lower level of external borrowing, which has in turn minimised the pressure on revenue budgets from interest payments.

## 11. Short Term Borrowing

11.1. Short term borrowing was required during the first half of the year, due to forecast differences in timing between receipts and their associated payments. Maximum short term borrowing in place at any one time during the year was £30m.

11.2. This was sourced through direct contact or external brokers, from other local authorities, at rates varying from 0.25% to 0.47% (including brokerage fees of between 0.03% - 0.10%) for durations of 7 to 139 days.

11.3. All short-term borrowing was repaid during the year.

## 12. Regulatory Changes

### CIPFA Code Revisions

12.1. CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code will be incorporated into the 2019/20 Treasury Management Strategy Statement (TMSS), or any revisions to the strategy made during 2018/19.

12.2. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Council, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

12.3. Due to the late publication of the Code the Council has not prepared a Capital Strategy under the 2018 Prudential Code. It is permitted to defer this, and the Council will produce a Capital Strategy from 2019/20.

12.4. In the 2018 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability is to be identified and reported.

12.5. Changes to Treasury Management and Prudential Indicators will be implemented during the year, and publication of detailed guidance to support this is expected during the summer of 2018.

**MHCLG Investment Guidance and Minimum Revenue Provision**

12.6. In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

12.7. Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called "loans" (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

12.8. The definition of prudent MRP has been changed to "put aside revenue over time to cover the CFR"; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

12.9. The Council must ‘have regard’ to the MHCLG Guidance, and it will be incorporated in future revisions or new versions of the Treasury Management Strategy.

**MiFID II**

12.10. Part of a package of European legislation to improve regulation of the financial sector, the second Markets in Financial Instruments Directive (MiFID II) came into effect on 3rd January 2018.

12.11. Under earlier legislation Local Authorities were considered to be de facto ‘professional’ clients, with open access to financial markets. This position is reversed under MiFID II, and Local Authorities are now considered by default to be retail clients.

12.12. Clients with retail status are unable to access some of the instruments and facilities permitted within the Council’s TMSS

12.13. The legislation introduces quantitative and qualitative criteria which must be met by Local Authorities who wish to “opt up” to ‘elective professional client’ status.

12.14. The quantitative criterion is for the Council to have an investment balance of at least £10 million. The qualitative criterion is for the person(s) authorised to make investment decisions on behalf of the authority to have at least a year’s relevant professional experience.

12.15. It is the responsibility of each regulated financial services firm to whom this directive applies to assess their customers’ eligibility for elective professional status, including that the person(s) duly authorised have the expertise, experience and knowledge to make investment decisions and understand the risks involved

12.16. The Authority meets the conditions to opt up to professional status and has done so in order to retain the professional status held prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

## 13. Hertfordshire Police and Crime Commissioner – Treasury Management

13.1. The Police and Crime Commissioner (PCC) contracts with Hertfordshire County Council to deliver its Treasury Management services.

13.2. A separate treasury management strategy is maintained for the PCC. Data concerning the Police’s cashflow is provided to the Council’s treasury officers and any surplus cashflow is invested in accordance with the investment criteria outlined in the PCC’s Treasury Management Strategy. The Police’s cashflow and investment portfolio is maintained separately from the Council’s funds.

13.3. The reporting arrangements for the PCC are similar to the Council’s. An annual treasury management strategy is prepared before the start of each financial year, with mid-year and end-year reports subsequently delivered on treasury management activities and delivery of the strategy. Quarterly reports are also provided according to the schedule of meeting dates provided by the PCC.

## APPENDIX A: PRUDENTIAL INDICATORS 2017/18

### 1. Capital financing Indicators

| | Indicator | Description | Integrated Plan Ref. | 2017/18 IP | 2017/18 Q1 | 2017/18 Q2 | 2017/18 Q3 | 2017/18 Q4 |
|---|---|---|---|---|---|---|---|---|
| | **Indicators 1 to 3 demonstrate the affordability and sustainability of the capital programme. The projections for financial years 2017/18 to 2018/19 are set out in the Integrated Plan at the reference shown in the table below.** | | | | | | | |
| 1 | **Capital Expenditure** | Monitors capital expenditure for 2017/18 against the projections set out in the Integrated Plan | 2.4 Table 1 | £219.29m | £192.40m | £174.70m | £164.74m | £147.23m |
| 2 | **Capital Financing Requirement (CFR)** | Monitors the Council's underlying need to borrow for capital purposes for 2017/18 against the projections set out in the Integrated Plan | 2.10 Table 3 | £580.44m | £577.80m | £564.81m | £564.44m | £548.52m |
| 3 | **Ratio of financing costs to net revenue stream** | Monitors the percentage of revenue budget set aside to service capital financing costs (borrowing costs net of lending income) for 2017/18 against projections set out in the Integrated Plan. | 2.11 Table 4 | 1.47% | 1.37% | 1.35% | 1.32% | 1.31% |

| | Indicator | Description | Integrated Plan Ref. | 2017/18 IP | 2017/18 Q1 | 2017/18 Q2 | 2017/18 Q3 | 2017/18 Q4 |
|---|---|---|---|---|---|---|---|---|
| | **Treasury Position:** **The Treasury Management Prudential Indicators are set to contain lending and borrowing activities within approved limits. The indicators are set at a level that will provide enough flexibility for effective treasury management whilst managing the risk of a negative impact on the Council's overall financial position in the event of adverse movements in interest rates or borrowing decisions. The indicators are also used to demonstrate that Net Borrowing does not exceed the Capital Financing Requirement. The projections for financial years 2018/19 to 2020/21 are set out in the Integrated Plan.** | | | | | | | |
| **4A** | **Net Borrowing** | Monitors actual borrowing less actual lending | NA | NA | £151.08m | £137.89m | £126.43m | £117.29m |
| **4B** | **Net Borrowing Less than CFR** | Comparison of net borrowing to CFR | NA | NA | ✓ | ✓ | ✓ | ✓ |
| | **Borrowing: Indicators 5 and 6 control the overall level of borrowing. The limits for 2017/18 to 2019/20 are set out in the Integrated Plan. The Authorised Limit is the maximum amount that may beyond which borrowing is prohibited without Member Approval. The Operational Boundary is an estimate for the external debt for the financing year – this is not a limit but an indicator to ensure the authorised limit is not breached.** | | | | | | | |
| | **Total Borrowing in Place at Quarter End** | | Borrowing in £ at Q End | | £288.8m | £258.8m | £258.8m | £258.8m |
| | **Maximum Borrowing Exposure in Quarter** | | Quarter Maximum in £ | | £298.8m | £288.8m | £258.8m | £258.8m |
| **5** | **Authorised Limit** | | 6.5 Table 11 | Limit | £495m | £495m | £495m | £495m |
| | Compliance Indicator | | | Complied? | ✓ | ✓ | ✓ | ✓ |
| **6** | **Operational Boundary** | | | Indicator | £465m | £465m | £465m | £465m |
| | Compliance indicator | | | Complied? | ✓ | ✓ | ✓ | ✓ |

## 2. Treasury Management Indicators

| | Indicator | Description | Integrated Plan Ref. | 2017/18 Budget | 2017/18 Q1 | 2017/18 Q2 | 2017/18 Q3 | 2017/18 Q4 |
|---|---|---|---|---|---|---|---|---|
| | **Interest Rate Exposure:**<br>**Indicators 7 and 8 limit the Council's exposure to both fixed and variable interest rate movements.**<br>**The limits for 2017/18 to 2017/18 are set out in the Integrated Plan.** | | | | | | | |
| 7 | **Upper limit on fixed interest rates *(against maximum position)*** | Monitors the limits set for 2017/18 for the volume and value of the (lending) /borrowing portfolios that may be committed for fixed interest rate investments or borrowing | 6.7 Table 12 | £395.00m (LIMIT) | £258.78m | £258.78m | £258.78m | £258.78m |
| 8 | **Upper limits on variable interest rates *(against maximum position)*** | Monitors the net limits set for 2017/18 for the volume and value of the (lending) /borrowing portfolios that may be committed for variable interest rate investments or borrowing | 6.7 Table 12 | £118.50m (LIMIT) | (£107.70m) | (£120.89m) | (£132.34m) | (£141.49m) |
| | **Maturity structure of fixed rate borrowing (against maximum position):**<br>**Indicator 9 limits the Council's exposure to large fixed rate sums falling due for refinancing in the same period.**<br>**The indicators are set relatively high to give the council enough flexibility to respond to opportunities to repay or reschedule debt during the financial year, while remaining within the parameters set by the indicators.** | | | | | | | |
| **9A** | Under 12 months | | 6.8 Table 13 | 50% | 0.00% | 0.00% | 0.00% | 0.00% |
| **9B** | 12 months to 2 years | | 6.8 Table 13 | 50% | 0.00% | 0.10% | 0.10% | 0.10% |
| **9C** | 2 years to 5 years | | 6.8 Table 13 | 60% | 1.22% | 2.09% | 2.09% | 2.09% |
| **9D** | 5 years to 10 years | | 6.8 Table 13 | 80% | 3.28% | 5.60% | 5.60% | 5.60% |

| | Indicator | Description | Integrated Plan Ref. | 2017/18 Budget | 2017/18 Q1 | 2017/18 Q2 | 2017/18 Q3 | 2017/18 Q4 |
|---|---|---|---|---|---|---|---|---|
| **9E** | 10 years to 20 years | | 6.8 Table 13 | 85% | 7.92% | 7.10% | 7.10% | 7.10% |
| **9F** | 20 years to 30 years | | 6.8 Table 13 | 90% | 12.34% | 9.88% | 9.88% | 9.88% |
| **9G** | 30 years and above | | 6.8 Table 13 | 100% | 75.24% | 75.24% | 75.24% | 75.24% |
| | **Investments greater than 364 days (against maximum limit): Indicator 10 measures the Council's exposure to investing for periods greater than one year. This indicator is required to ensure that the Council is aware of the cashflow implications for long term investments. This includes deposits at risk in Icelandic Banks.** | | | | | | | |
| **10** | Investments greater than 364 days (Maximum Limit)* | | 6.9 Table 14 | £50m | £30.63m | £30.63m | £30.61m | £30.61m |

*Includes Pooled Fund investments, which can be withdrawn in less than one year but the intention is to hold for the long-term to minimise the risk of capital value volatility, as agreed at Full Council on the 25th November 2014.

## 3. Treasury Management Performance and Activity Measures

| Indicator | Description | Integrated Plan Ref. | 2017/18 Q1 | 2017/18 Q2 | 2017/18 Q3 | 2017/18 Q4 |
|---|---|---|---|---|---|---|
| **The CIPFA Treasury Management Code of Practice requires the Council to set performance indicators to assess the treasury function. Group A measures performance for "Security, Liquidity and Yield" and Group B measures the performance of "Operational Activities"** | | | | | | |
| **GROUP A: Security, Liquidity and Yield** | | | | | | |
| Average Investment Portfolio | | 7.3 Table 16 | £133.47m | £129.02m | £152.38m | £164.97m |
| Monitors the average amount HCC has had invested in third parties. | | | | | | |
| Average borrowing portfolio | | 6.3 Table 10 | £258.78m | £258.78m | £258.78m | £258.78m |
| Monitors the average amount HCC has as long term borrowing during the quarter | | | | | | |
| Security Indicator: Average Credit Rating of Investments held | | Section 6.10 | 4.46 | 4.72 | 4.44 | 3.96 |
| Measured on a 1 to 10 scale, where 1 is a very good Credit Rating, i.e., government guaranteed | | | | | | |
| Liquidity Indicator: Weighted Average Maturity of investments held | | Section 6.10 | 23 days | 14 days | 9 days | 14 days |
| Measures the liquidity/accessibility of investments in average days | | | | | | |
| Yield Indicator: Interest Earned* | | 7.3 Table 16 | 1.35%<br>£0.451m | 1.45%<br>£0.467m | 1.22%<br>£0.464m | 1.07%<br>£0.448m |
| Monitors the interest earned on HCC investments. Shown as the actual amount (in quarter) and equivalent annual percentage of amount invested | | | | | | |
| Yield Indicator: Interest Paid | | 7.2 Table 15 | 4.35%<br>£3.13m | 4.74%<br>£3.10m | 4.79%<br>£3.12m | 4.79%<br>£3.06m |
| Monitors the interest earned on HCC investments. Shown as the actual amount (in quarter) and equivalent annual percentage of amount invested | | | | | | |

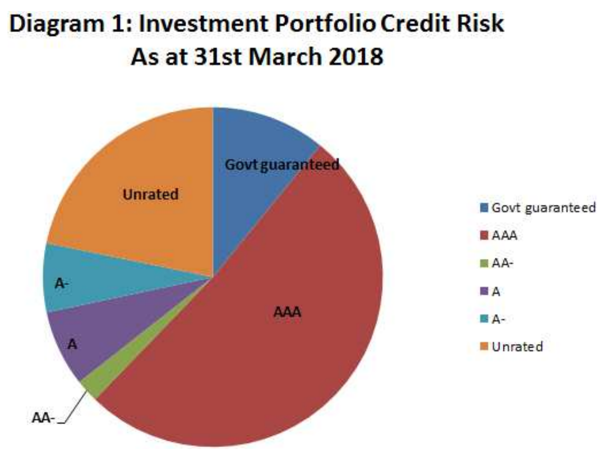
*includes Pooled Fund investment returns some of which are estimated, see Yield section below for further information for rate excluding Pooled Funds

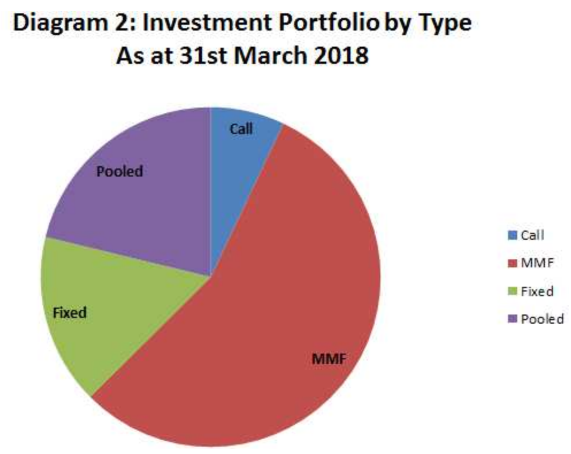
**Security, Liquidity and Yield**

**Security - Exposure to Risk**

The Treasury Management Strategy was approved on 21st February 2017 as Part D of the Integrated Plan. This maintained the range of investment types approved for use in 2016/17. The approved instruments were last changed in 2014/15 to enable greater diversification of the investment portfolio; these changes introduced greater flexibility in use of investment instruments whilst continuing to maintain security and liquidity of investments.

The following diagrams illustrate the credit rating breakdown of all investment instruments by credit rating grade and investment type for the Council's investment portfolio as at 31st March




**Investment Portfolio and Activity**

The greater proportion of the investment portfolio is held in highly liquid money market funds and call accounts. This reflects the need to ensure adequate liquidity in the management of cash balances to meet daily cashflow requirements.

Investments in pooled funds consist of the CCLA Property Fund, two bond funds, two multi-asset funds and one equity fund.

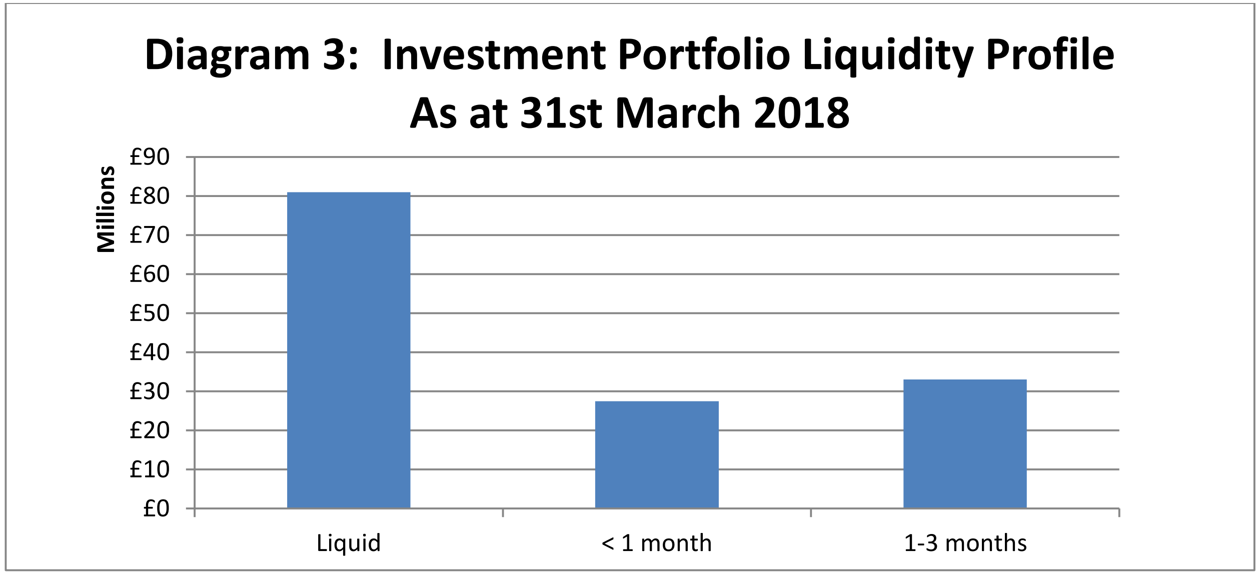
12 new fixed deposits were made, and 11 matured, during the period. 5 were with the Debt Management Office and the remainder with Local Authorities.

**Liquidity**

Investment balances forecast to reduce during the second half of 2017/18 in fact increased and as a result of uncertainty about cashflows for capital expenditure a larger proportion of the portfolio was held in short term investments – with the DMADF during periods of high cash balances. As certainty about cash balances improved some new fixed-term loans to other local authorities were made towards the end of the quarter, reducing overall liquidity.

Diagram 3 (overleaf) provides a graph showing the liquidity of the Council's investments portfolio as at 31st March 2018.

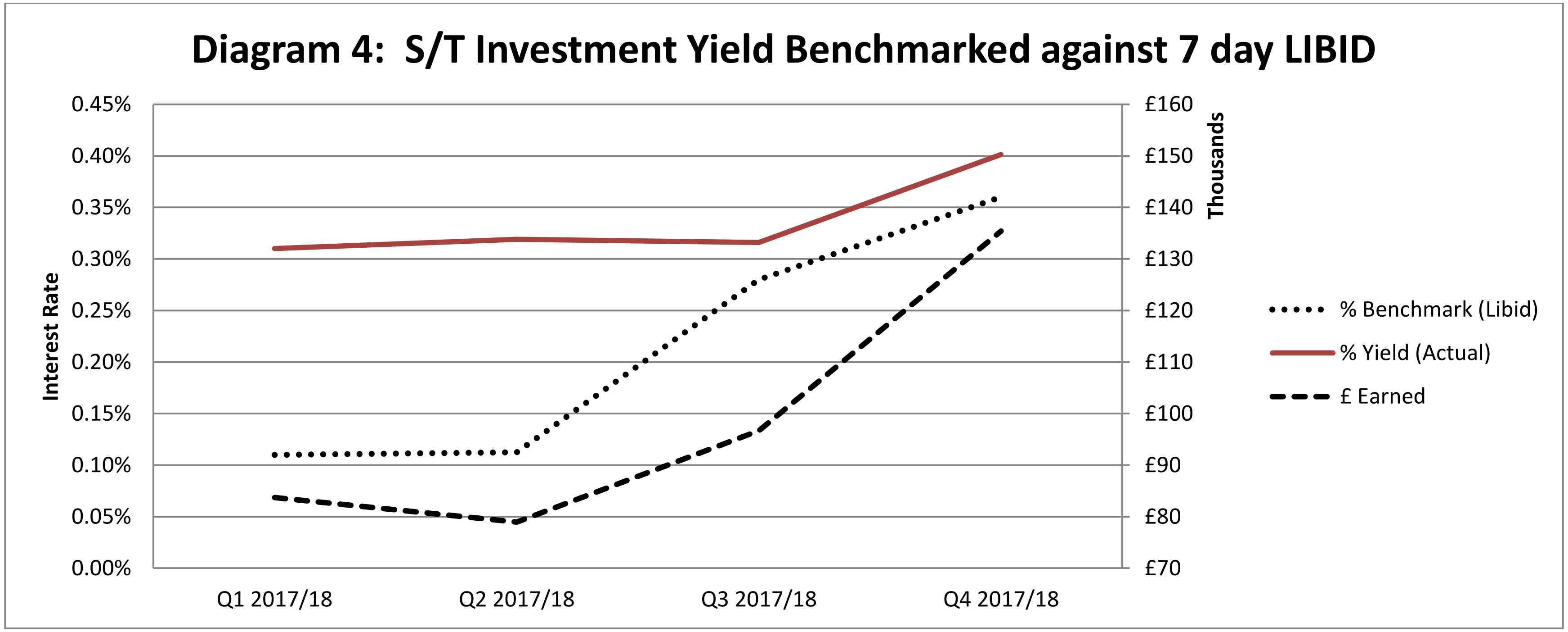
The potential capital volatility of the pooled fund investments means that they are intended to be held for 3-5 years, but in the graph below these investments are shown on the basis of their accessibility. These funds are all classified as "liquid", except the Property Fund which accessible on 30 days' notice.



**Yield: Short-Term Investments**

The benchmark used for assessing the performance of return on short-term lending is the 7-Day London Interbank Bid Rate (LIBID). Diagram 4 shows yield (solid line) against the benchmark (dotted line) for the last four quarters on the left-hand axis, and the actual cash earned (dashed line, right-hand axis).

LIBID remained constant at 0.11% during the first half of the year, remaining stable despite significant uncertainty in financial markets, and increased to 0.36% by the end of the year, following Bank of England Base Rate rise. The average return excluding pooled fund interest was 0.37%, which compares positively with LIBID average of 0.21%. Overall rate of return fell during the second half of the year; as balances increased a greater proportion of the portfolio was held for shorter durations at low rates.



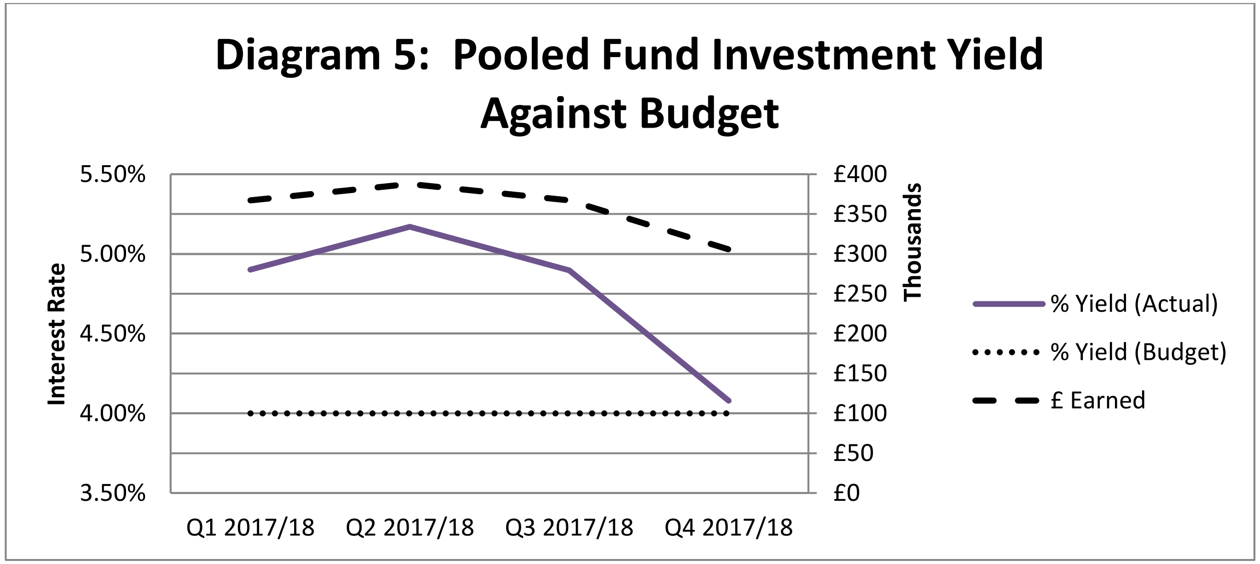
**Yield: Pooled Funds**

The performance of the Council's strategic investments is benchmarked against the target yield level of 4.00%, which forms the basis of the income budget. Diagram 5 shows shows yield (solid line) against budget (dotted line) for the last four quarters on the left-hand axis, and the actual cash earned (dashed line, right-hand axis).

The Pooled funds have consistently achieved returns exceeding expectations, and the average % yield during 2017/18 is equivalent to 4.67% per annum.

Pooled fund returns reduced in the final quarter of 2017/18. All funds have suffered some capital losses due to a market correction in the fourth quarter where market expectations about inflation and interest rates increased, prompting a fall in bond and equity prices as investors sought improved returns.

The impact of this reduction will have prompted the bond fund managers to reduce the average maturity of the assets in the fund, resulting in reduced coupon income for the fund and may have caused losses to be realised on bond trading. Both of these factors will reduce the income available for disbursement to investors in the fund. The impact of the market correction is expected to be a one-off effect.



**HERTFORDSHIRE COUNTY COUNCIL**

**AUDIT COMMITTEE**
**18 JULY 2018 AT 2.00 PM**

Agenda Item No:

**12**

## WHISTLEBLOWING ANNUAL REPORT 2017/18

*Report of the Director of Resources*

Author: Kathryn Pettitt, Chief Legal Officer (Tel: 019952 555527)

## 1. Purpose of Report

To provide members with an overview of the disclosures made through the Council's whistleblowing process and the operation of the Whistleblowing Procedure in the year 2017/18.

## 2. Summary

2.1 The Council's Whistleblowing Procedure provides that a report will be made annually to the Audit Committee on the operation of the Procedure and on the whistleblowing allegations made during the period covered by the report.

2.2 The number of concerns raised under the Whistleblowing Procedure in 2017/18 was 7 and of these allegations 4 proceeded to an investigation.

## 3. Recommendations

The Committee is invited to note the contents of the report and the on-going work to raise awareness and provide assurance on the effectiveness of the Council's whistleblowing arrangements

## 4. Background

4.1 The Council's Whistleblowing Procedure is intended to provide a means for employees and others (including agency workers, contractors working for or providing services to the County Council) to raise concerns about any suspected serious misconduct, wrong doing, financial irregularity or possible unlawful action in a way that will ensure confidentiality and protect those who raise such concerns in the reasonable belief that it is in the public interest to do so from being victimised, discriminated against or disadvantaged.

4.2 The Whistleblowing Procedure provides that a report will be made annually to the Audit Committee on the operation of the Procedure and on the whistleblowing allegations made during the period covered by the report.

4.3 The Chief Legal Officer in her role as Monitoring Officer has overall responsibility for the Whistleblowing Procedure. The Chief Legal Officer meets regularly with the Head of Assurance Services and the Assistant Director – HR Services (all three of whom are 'Reporting Officers' as defined in the Whistleblowing Procedure) to monitor the effectiveness of the Whistleblowing Procedure, any allegations made under it and learning from the allegations/process.

4.4 During the year 2017/18 the campaign to raise awareness of the Whistleblowing Procedure ('Speak Out') has continued with regular publicity on the intranet and by the use of posters in the Council's offices.

4.5 The Council's Whistleblowing Policy was refreshed in 2017 and the revised Policy was approved by Council at its meeting on 18 July 2017.

## 5. Whistleblowing Allegations 2017/18

5.1 The Chief Legal Officer maintains a register of whistleblowing allegations that are made through the Whistleblowing Procedure. The number of allegations that are included in the register for 2017/18 is 7. The numbers for the preceding 3 years are:

2014/15 - 5
2015/16 – 3
2016/17 – 6

5.2 Of the 7 allegations received in 2017/18, 5 were from employees or former employees, 1 was from a volunteer and 1 was from the former employee of a contractor. The allegations concerned:

a) Adult safeguarding/ health and safety issues ( 2 allegations)
b) Inappropriate involvement by an officer in contracting activities (1 allegation)
c) Misuse of public funds (1 allegation)
d) Bullying and harassment and discrimination (2 allegations)
e) Inappropriate recruitment practice (1 allegation)

5.3 Investigations were undertaken into the allegations relating to adult safeguarding/health and safety issues, the inappropriate officer involvement in contracting activities and the allegation concerning misuse of public funds.

5.4 After investigation it was determined that in one of the adult safeguarding/health and safety allegations the matters alleged had either been brought previously to management's attention, investigated and appropriate action taken or no further action was deemed necessary. The outcome of the other adult safeguarding/health investigation is awaited.

5.5 The allegations concerning inappropriate involvement by an officer in contracting activities and misuse of public funds were determined to be unfounded.

5.6 The bullying and harassment and discrimination allegations and the allegation of inappropriate recruitment practice were not investigated under the whistleblowing procedure but were referred to HR for consideration.

## 6. Work Programme in 2018/19

6.1 The Chief Legal Officer, Head of Assurance Services and the Assistant Director - HR will continue to meet in 2018/19 to review the effectiveness of the Whistleblowing Procedure at the Council and in particular will:

a) continue to look at ways of raising awareness of the Council's whistleblowing procedures amongst all staff;

b) develop a Whistle-blowing module on i-Learn ensuring the integration on the iLearn platform of that module with the Fraud module

***Background documents***

Public Interest Disclosure Act 1998 and associated guidance