



AUDIT COMMITTEE

Monday, 29th September, 2014

7.00 pm

Town Hall, Watford

Publication date: 24 September 2014

CONTACT

If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Democracy and Governance on 01923 278377 or by email to legalanddemocratic@watford.gov.uk .

COMMITTEE MEMBERSHIP

Councillor I Brown (Chair)
Councillor P Taylor (Vice-Chair)
Councillors I Brandon, A Khan and T Williams

AGENDA

PART A - OPEN TO THE PUBLIC

5. EXTERNAL AUDITORS REPORT TO THOSE CHARGED WITH GOVERNANCE (SEPTEMBER 2014) AND APPROVAL OF THE STATEMENT OF ACCOUNTS 2013/14 (Pages 1 - 198)

Report of the Acting Head of Finance Shared Services

This report allows the Committee to ask questions of the external auditor concerning his 'Report to those charged with Governance (ISA260)' and to approve the Statement of Accounts for 2013/14.

The following Appendices are included –

- Appendix 1 Audit Findings for Watford Borough Council (ISA260)
- Appendix 2 Draft Letter of Representation for Watford Borough Council
- Appendix 3 Watford Borough Council's Statement of Accounts
- Appendix 1a Audit Findings for Shared Services (ISA260)
- Appendix 2a Draft Letter of Representation for Shared Services
- Appendix 3a Shared Services Statement of Accounts

Agenda Item 5

Report to: Audit Committee

Date of meeting: 29 September 2014

Report of: Head of Finance Shared Services

Title: External Auditors Report To Those Charged With Governance (September 2014) and Approval Of The Statement of Accounts 2013/14

1.0 **SUMMARY**

1.1 This report allows the Committee to ask questions of the external auditor concerning his 'Report to those charged with Governance (ISA260)' and to approve the Statement of Accounts for 2013/14.

2.0 **RECOMMENDATIONS**

2.1 That the Committee notes the external auditor's 'Report to those charged with Governance.

2.2 That the Committee seeks any clarification it needs concerning the Statement of Accounts for 2013/14.

2.3 That the Committee confirms that it is satisfied that the accounting policies adopted are the most appropriate.

2.4 That the Statement of Accounts for 2013/14 be approved.

Contact Officer:

For further information on this report please contact: -
Nigel Pollard, Acting Head of Finance, Shared Services
telephone extension: 7198
email: nigel.pollard@threeivers.gov.uk

Report approved by: Joanne Wagstaffe Director of Finance

3.0 **DETAILS**

- 3.1 The Audit Committee at its meeting on the 30 June received the draft Statement of Accounts for 2013/14. The Accounts have since been audited by Grant Thornton UK LLP.
- 3.2 The Auditor's 'Report to those charged with Governance' is attached at Appendix 1. It is issued in accordance with ISA260 and incorporates a conclusion on final accounts work and a value for money judgement. Grant Thornton will attend the meeting to present the report and answer questions.
- 3.3 Attached at Appendix 2 is a draft letter of representation which should be signed at the meeting.
- 3.4 The Council's Statement of Accounts for 2013/14 is attached at Appendix 3.
- 3.5 The accounts must be signed by the Chief Financial Officer before they are approved by the Committee and, subject to approval, the Chairman of the Committee shall sign and date them at the meeting.
- 3.6 Financial Reporting Standard 18 requires the Committee to confirm that it is satisfied that the accounting policies adopted are the most appropriate.

4.0 **KEY ISSUES AND INTERPRETATION OF THE ACCOUNTING STATEMENTS**

- 4.1 The purpose of the Statement of Accounts is to give interested parties an understanding of the Council's financial position. It also provides an opportunity to compare how the Council performed financially against its original plan published when setting the budgets in February 2012. Members are referred to the Foreword to the Statement of Accounts.
- 4.2 The Financial Statements have been prepared under International Financial Reporting Standards (IFRS), a statutory accounting framework which has replaced the United Kingdom Generally Accepted Accounting Principles (UK GAAP). The Chartered Institute of Public Finance and Accountancy produces a Code of Practice on Local Authority Accounting which reflects the statutory requirements and has been followed in preparing the financial statements.
- 4.3 A draft Annual Governance Statement (AGS) was presented to the Committee and approved on 30 June 2014. It is now included in the Statement of Accounts before the Committee, and has been signed by the Mayor and the Managing Director as required by proper practice.
- 4.4 *Summary of Financial Position*
- 4.5 The Council's medium-term financial planning has aimed to achieve a balanced budget and a prudent level of balances. With the reductions in government grant and changes to business rates, however, this means that further savings are

required. The Council is aiming to realise these through the continuation of its Roadmap efficiencies that commenced in 2013/14. Close monitoring will be required to ensure that the savings identified are achieved.

5.0 **IMPLICATIONS**

5.1 **Financial**

5.1.1 Contained in the Statement of Accounts

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 None Specific.

5.3 **Equalities**

5.3.1 None Specific.

5.4 **Potential Risks**

There are no risks associated with the decisions members are being asked to make.

APPENDICES

1. Report to those charged with Governance (ISA260) – Grant Thornton – September 2014.
2. Draft Letter of Representation
3. Statement of Accounts 2013/14

BACKGROUND PAPERS

The Accounts and Audit (England) Regulations 2011

This page is intentionally left blank



The Audit Findings for Watford Borough Council

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014

10 September 2014

Paul Dossett
Engagement Lead

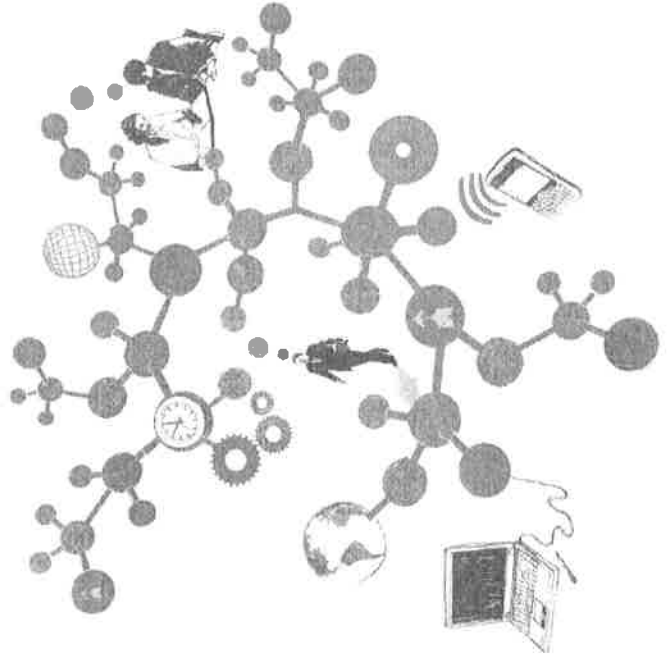
T +44 (0)207 728 3180
E paul.dossett@uk.gt.com

Richard Lawson
Manager

T 07766 442038
E richard.lawson@uk.gt.com

Rob Brearley
Audit Executive

T +44 (0)207 728 5100
E robert.j.brearley@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

| Section | Page |
|--|-------------|
| 1. Executive summary | 4 |
| 2. Audit findings | 7 |
| 3. Value for Money | 19 |
| 4. Fees, non audit services and independence | 24 |
| 5. Communication of audit matters | 26 |
| Appendices | |
| A Action plan | |
| B Audit opinion | |

Section 1: Executive summary

- 01. Executive summary**
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Watford Borough Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 12 June 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- completion of council tax testing
- completion of housing benefit case testing
- review of the final version of the financial statements

- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section 2 of this report). We have also identified a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- The Council completed and submitted for audit their year end bank reconciliation on the 15 September 2014. The year end bank reconciliation audit is pivotal to the audit being completed and we cannot provide our audit opinion until the bank reconciliation has been received and successfully audited. We would expect the bank reconciliation to be presented for audit at the commencement of the audit as is the case with the majority of councils

- The Council have correctly applied the new valuation methodology for property, plant and equipment. The Council have valued the PPE as at 31st March 2014.
- The method for accounting for the Collection Fund has changed from the prior year, the Council have set aside a provision for Business Rate appeals based on the 2010 Valuation Office rating list. The provision for appeals provides all appeals up to 31st March 2014 from the 1st April 2010 but does not include provision for future appeals. The 2010 Rating list will last 7 years, the 2005 rating list only had a life of 5 years, thus we need to perform a comparison on the level of 2005 appeals against the 2010 to gain additional assurance that the provision is sufficient. The work is underway and shall be reported to the Audit committee.
- The Council did not adjust its accounts for the prior year following the introduction of IAS19 'employee benefits' in respect of pensions accounting as the impact was deemed below triviality.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

We draw your attention in particular to control issues identified in relation to:

- User access rights review and logical access settings

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The working papers were of a good quality.

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 30 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

| Risks identified in our audit plan | Work completed | Assurance gained and issues arising |
|--|---|---|
| <p>1. Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> | <ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions | <p>Our audit work has not identified any issues in respect of revenue recognition.</p> |
| <p>2. Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p> | <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions | <p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p> |

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|------------------------------|---|--|--|
| Operating expenses | Creditors understated or not recorded in the correct period | <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively tested key controls tested operating expenses including a judgemental sample of 20 items for occurrence, allocation and pricing to ensure expenditure is properly recorded in the accounts. | <ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified. |
| Employee remuneration | Employee remuneration accrual understated | <ul style="list-style-type: none"> controls testing on IT controls over starters and leavers. pay recorded at the correct rate. performed testing over a judgemental sample of 15 employees for validity and completeness. | <ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified. |
| Welfare expenditure | Welfare benefit expenditure improperly computed | <ul style="list-style-type: none"> Currently in the process of completing the housing benefit testing modules to confirm welfare expenditure. | <ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified subject to the completion of our housing benefits testing. |

Audit findings against other risks (continued)

| Transaction cycle | Description of risk | Work completed | Assurance gained & issues arising |
|-----------------------------|-------------------------------------|---|---|
| Property, plant & equipment | PPE activity not valid | <ul style="list-style-type: none"> performance of existence testing over a sample of assets to confirm existence and completeness of the Council's fixed asset register. review of capitalisation policies, presentation and disclosure of property, plant & equipment, including assets held for sale. | <ul style="list-style-type: none"> Our audit work has not identified any significant issues in relation to the risk identified. |
| Property, plant & equipment | Revaluation measurement not correct | <ul style="list-style-type: none"> Review significant revaluation movements and assess the assumptions employed by the valuer. Evaluate the work of an expert in determining the appropriateness of the valuation. | <ul style="list-style-type: none"> New CIPFA code of requirements surrounding the valuation of property, plant and equipment valuation have been introduced in 2013/14. The Council has correctly applied the new requirements regarding the revaluation of PPE. Our final assessment of the work of a valuation expert has not yet been completed and we will report our results to the audit committee. |
| Annual Governance Statement | | <ul style="list-style-type: none"> Review of the annual governance statement against the cipfa code of audit practice guidance. | <ul style="list-style-type: none"> Our audit work found that the draft Annual Governance Statement did not include an update of the prior year significant governance risks highlighted in the prior year AGS. The AGS was subsequently updated and now conforms to the cipfa code of practice. |

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---------------------------------|---|---|------------|
| Revenue recognition | <ul style="list-style-type: none"> Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. | <ul style="list-style-type: none"> the revenue recognition policy is in line with IAS 18, Revenue recognition standard and the model policies within the CIPFA Code of Practice. our review of council tax, grant, national non-domestic rates and other income confirmed the council has accounted for income in line with stated policies and the Code. | ● |
| Judgements and estimates | <ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements revaluations Impairments PPE valuations. | <ul style="list-style-type: none"> testing of the assumptions is being finalised and will be reported to the audit committee. | ● |

Assessment

- Marginal accounting policy which could potentially attract attention from regulators ● Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

| Accounting area | Summary of policy | Comments | Assessment |
|---------------------------------------|---|--|------------|
| Judgements and estimates - PPE | <ul style="list-style-type: none"> The PPE assets are revalued as at 31 March 2014. This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> the revaluation of the class of assets is completed within a 'short period' the revaluations are kept up to date | <ul style="list-style-type: none"> Our review of the application of the revised accounting policy has not highlighted any issues that we wish to bring to your attention. | ● |
| Other accounting policies | <ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | <ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention | ● |

Assessment

- Marginal accounting policy which could potentially attract attention from regulators ● Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £'000 |
|-----------------------|---|------------------------|--|
| 1 None | | | |
| Overall impact | £0 | £0 | £0 |

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|-----------------|----------------|-----------------|--|
| 1 Disclosure | - | - | There were a number of presentational changes that arose during the course of the audit that have been made to the financial statements. |

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

| Assessment | Issue and risk | Recommendations |
|------------|---|---|
| 1. | <p>Lack of user access rights review – Network A review of user management processes identified that user accounts and associated permissions within network and network folders were not being routinely reviewed for appropriateness.</p> <p>In the absence of formalised users access rights reviews, access to information resources and system functionality may not be restricted on the basis of legitimate business need. Users access rights may become disproportionate to their responsibilities.</p> | <p>We recommend that formal reviews be undertaken of user access permissions (including the network folders) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</p> <p>We recommend that formal reviews be undertaken of user access permissions (including the network folders) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users responsibilities and protect systems and information from unauthorised access.</p> |
| 2. | <p>Logical Access Settings Active Directory parameters are not configure to log out the system if it is inactive for certain period, hence, there is an increased risk of unauthorised access to systems which could affect the privacy and integrity of financial data.</p> | <p>Management should configure the Active Directory to automatically log out after a specified period of inactivity. This would reduce the risk of privacy of data being compromised and unauthorised manipulation of financial data.</p> |

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Internal controls (continued)

| Assessment | Issue and risk | Recommendations |
|------------|---|--|
| 3. ● | <p>Year end accruals Testing of the accruals balance. Testing of the accruals balance found the system automatically accrues items of expenditure that have been received but not invoiced. We found 2 items of 2014/15 expenditure totalling £46,413 contained within the 2013/14 accruals balance.</p> <p>The year end accruals balance is overstated and, although not material to this years statement of accounts, it may be material to the following years accounts.</p> | <p>All managers should only mark items as good received where the goods or service were received before the year end but not yet invoiced. Finance has and will continue to provide the Services with training at the year end and throughout the year and will continue to send out a closing guidance before the year end to reduce the risk of error.</p> |

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| Issue | Commentary |
|--|---|
| 1. Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit. |
| 2. Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Council. |
| 4. Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements |
| 5. Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed |
| 6. Going concern | <ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis. |

Section 3: Value for Money

| |
|---|
| 01. Executive summary |
| 02. Audit findings |
| 03. Value for Money |
| 04. Fees, non audit services and independence |
| 05. Communication of audit matters |

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall our work highlighted the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted organisation is prioritising its resources within tighter budgets.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014

we set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

| | |
|--------------|---|
| Green | Adequate arrangements |
| Amber | Adequate arrangements, with areas for development |
| Red | Inadequate arrangements |

The table below and overleaf summarises our overall rating for each of the themes reviewed:

| Theme | Summary findings | RAG rating |
|--------------------------------------|--|--------------|
| Key indicators of performance | <p>The Council have recorded a large budget surplus in 2013/14 totalling £8.8million, the reasons for the large increase were due to one off large grants from central government including NDR funding £4.223m, additional weekly collection support grant of £2m and £1.4m new Homes bonus. Removal of the one off grants result in the Council producing small manageable deficit, which does not impact the current marking.</p> <p>The capital budget had a slight overspend of £53k, which is minimal but the Council can take the positive message that the Council is on track with the capital programme and is not carrying large balances forward due to scheme slippage.</p> <p>The Council has improved its employee sickness absence record reducing the average sickness from 8.6 to 6.4 days per employee and is now below the national average of 8.7 days per the average sickness days for 2013 from the Chartered Institute of Personal Development.</p> <p>The Councils liquidity remains high with over £33.5m in investments and over £35m in usable reserves, which can be called on to fund expenditure/ reduce deficits.</p> | Green |
| Strategic financial planning | <p>The Council has a good track record in managing its finances in challenging times. and has planned effectively for the first four years of reduced central government funding.</p> <p>A review of the latest Medium Term Financial Strategy has found it to be a balanced, achievable financial strategy with over £366k of savings to be made over the next 4 years. The amount of savings included in the plan is based on realistic assumptions and we have no reason to alter our view of the plan being achievable.</p> | Green |

| Theme | Summary findings | RAG rating | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------|---|-----------------------|--------------|--------------|--------|------------|---------|---------|---------|---------------|---------|---------|---------|--|---------|---------|--------|------|---------|---------|---------|--|---------|--------|---------|--------|---------|---------|---------|--|--------|--------|--------|-------|
| Financial governance | <p data-bbox="322 414 379 1697">There has been an improvement in the level of processing of notification regulation amendments from the Department for Work and Pensions for the 2013/14 .</p> <p data-bbox="391 414 475 1697">A benchmarking exercise has been performed that compares the Council's level of LA error overpayments, as recorded in the draft 2013/14 housing and council tax benefit claim form, against the highest and the median District Council's for Hertfordshire, Surrey and Kent. Please see the table below.</p> <p data-bbox="523 739 555 1697">Comparison of LA Error overpayments</p> <table border="1" data-bbox="566 757 973 1680"> <thead> <tr> <th data-bbox="571 757 614 1019">LA Error overpayments</th> <th data-bbox="571 1019 614 1288">2012/13 £</th> <th data-bbox="571 1288 614 1556">2013/14 £</th> <th data-bbox="571 1556 614 1680">Change</th> </tr> </thead> <tbody> <tr> <td data-bbox="614 757 657 1019">Watford BC</td> <td data-bbox="614 1019 657 1288">386,351</td> <td data-bbox="614 1288 657 1556">285,660</td> <td data-bbox="614 1556 657 1680">-26.06%</td> </tr> <tr> <td data-bbox="657 757 700 1019">Hertfordshire</td> <td data-bbox="657 1019 700 1288">386,351</td> <td data-bbox="657 1288 700 1556">285,660</td> <td data-bbox="657 1556 700 1680">-26.06%</td> </tr> <tr> <td data-bbox="700 757 743 1019"></td> <td data-bbox="700 1019 743 1288">118,754</td> <td data-bbox="700 1288 743 1556">115,683</td> <td data-bbox="700 1556 743 1680">-2.59%</td> </tr> <tr> <td data-bbox="743 757 786 1019">Kent</td> <td data-bbox="743 1019 786 1288">347,822</td> <td data-bbox="743 1288 786 1556">177,074</td> <td data-bbox="743 1556 786 1680">-49.09%</td> </tr> <tr> <td data-bbox="786 757 829 1019"></td> <td data-bbox="786 1019 829 1288">140,241</td> <td data-bbox="786 1288 829 1556">59,317</td> <td data-bbox="786 1556 829 1680">-57.70%</td> </tr> <tr> <td data-bbox="829 757 873 1019">Surrey</td> <td data-bbox="829 1019 873 1288">160,606</td> <td data-bbox="829 1288 873 1556">112,784</td> <td data-bbox="829 1556 873 1680">-29.78%</td> </tr> <tr> <td data-bbox="873 757 916 1019"></td> <td data-bbox="873 1019 916 1288">67,722</td> <td data-bbox="873 1288 916 1556">81,806</td> <td data-bbox="873 1556 916 1680">20.80%</td> </tr> </tbody> </table> <p data-bbox="997 414 1145 1697">A comparison of the Local Authority Error overpayments to the prior year, see table above, has resulted in the Council a 26% reduction to the quantum of overpayments. A review of the table below has found that Watford BC recorded the highest level of LA Error overpayments. Watford BC recording the highest level of LA error overpayments out of all the District Council's of Hertfordshire, Kent and Surrey and although this reflects an improvement further improvements have to be addressed going forward before the Council can be classed in the average banding.</p> <p data-bbox="1157 414 1268 1697">The Council controls the financial governance through the 'managing the business reporting pack', which contains 14 financial indicators and 18 non financial indicators measuring the performance of the Council is circulated to Leadership Team, portfolio holders, overview and scrutiny, budget panel and outsourced scrutiny panels. The indicators are reviewed and corrective action put in pace to address any deviations of performance.</p> | LA Error overpayments | 2012/13 £ | 2013/14 £ | Change | Watford BC | 386,351 | 285,660 | -26.06% | Hertfordshire | 386,351 | 285,660 | -26.06% | | 118,754 | 115,683 | -2.59% | Kent | 347,822 | 177,074 | -49.09% | | 140,241 | 59,317 | -57.70% | Surrey | 160,606 | 112,784 | -29.78% | | 67,722 | 81,806 | 20.80% | Amber |
| LA Error overpayments | 2012/13 £ | 2013/14 £ | Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Watford BC | 386,351 | 285,660 | -26.06% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Hertfordshire | 386,351 | 285,660 | -26.06% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 118,754 | 115,683 | -2.59% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Kent | 347,822 | 177,074 | -49.09% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 140,241 | 59,317 | -57.70% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Surrey | 160,606 | 112,784 | -29.78% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 67,722 | 81,806 | 20.80% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Theme | Summary findings | RAG rating |
|---|---|--------------|
| <p>Financial control</p> | <p>The Council has a robust process in place for the approval, monitoring and controlling of budgets. The Council utilise performance indicators encapsulated within the managing the business pack to highlight areas of concern that require to be addressed.</p> <p>Members and Officers receive the finance digest, a bi-monthly, which analyses the financial performance to date by service and allows the members to increase or decrease the budget in order to provide the service.</p> <p>The Council has re-designed service delivery in 2013/14 by outsourcing of environmental services including refuse collection, street cleansing and parks which has resulted in a £650k profiled saving from the external contractor Veolia.</p> <p>The Council has reviewed the current shared service arrangement it holds with Three Rivers DC to provide Revenues & Benefits, Finance, HR, ICT and Payroll. The shared service joint committee has constantly made a loss from its introduction in 1 April 2009. The 2013/14 loss is shared between the parties and has resulted in Watford taking on £565k of the loss.</p> <p>The Councils have now dissolved the shared service arrangement and replaced it with a Lead Authority model with Watford leading on ICT and Building Control. This represents and re-engineering of the service in an effort to provide the required savings and demonstrates the pro-active nature of the council.</p> <p>The Council have a very good feedback system in place and every 2 years they engage the Citizens panel, which is a panel of over 1200 people and they vote on their Council priorities and areas of Council spend. The Council takes this into account when prioritising resources for its future financial plans.</p> | <p>Green</p> |
| <p>Improving efficiency & productivity</p> | <p>From the vfm profile provided by the Audit Commission there were 3 areas of high spend which were environmental services, sustainable economy and housing and council tax benefit administration. Of the 3 areas, two were voted on by the Citizens panel and so the Council are responding to the remaining issue of benefit spend.</p> <p>The Revenue and Benefits section has overspent from budget by £563k as a result of employing agency and additional staff in an effort to reduce the processing time of new claims and change in circumstances. The result has been that the processing time for new claims is now under budget at 17.7 days (average is 20 days) and change in circumstances is 29.80 days (average is 12 days) and the Council are now processing the Atlas updates on a timely basis.</p> <p>The ICT section overspent budget by £546k as a result of the Council outsourcing the service to Capita, as part of the agreement the contract costs were front loaded to improve service levels. In July 2014 it had been identified that further contribution of £906k to ICT is required to ensure the service complies with public services network and to ensure the ICT system is fit for purpose.</p> | <p>Green</p> |

Section 4: Fees, non audit services and independence

| |
|--|
| 01. Executive summary |
| 02. Audit findings |
| 03. Value for Money |
| 04. Fees, non audit services and independence |
| 05. Communication of audit matters |

Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

| Fees | Per Audit plan | Actual fees |
|-------------------------|-----------------------|--------------------|
| | £ | £ |
| Council audit | 68,400 | 69,300 |
| Grant certification | 12,600 | Tbc |
| Total audit fees | 81,000 | Tbc |

| Fees for other services | Fees £ |
|--------------------------------|---------------|
| Service | |
| None | - |

Audit fee

There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for a District Council and is subject to agreement by the Audit Commission.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters**

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

Appendix A: Action plan

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|---|----------|--|--|
| 1 | <p>User Access Rights Review We recommend that formal reviews be undertaken of user access permissions (including the network folders) to help identify anomalies and ensure that access is granted on the basis of a user's level of responsibility. This will ensure that access rights are proportionate to users' responsibilities and protect systems and information from unauthorised access.</p> | ● | | |
| 2 | <p>Logical Access Settings Management should configure the Active Directory to automatically log out after a specified period of inactivity. This would reduce the risk of privacy of data being compromised and unauthorised manipulation of financial data.</p> | ● | | |
| 3 | <p>Bank Reconciliation Year end bank reconciliations are produced, reconciled and reviewed prior to the commencement of the audit.</p> | ● | Bank reconciliations will be completed on a monthly basis and signed off by the Head of Finance. | 30 th September 2014 Head of Finance |

Appendix A: Action plan (continued)

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---------|--|----------|--|--------------------------------------|
| 4 | <p>Year end accruals All managers should only mark items as good received where the goods or service were received before the year end but not yet invoiced</p> | ● | Finance has and will continue to provide the Services with training at the year end and throughout the year and will continue to send out a closing guidance before the year end to reduce the risk of error. The closing guidance will also be reviewed in 2014/15. | |

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATFORD BOROUGH COUNCIL

Opinion on the financial statements

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of Watford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

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

Paul Dossett, Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston
London
NW1 2EP

30 September 2014

DRAFT

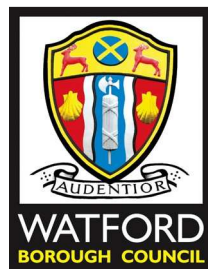


© 2014 Grant Thornton UK LLP. All rights reserved.
'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Draft Letter of Representation



Watford Borough Council

Town Hall • Watford • Hertfordshire • WD17 3EX

Tel 01923 226400 Fax 01923 278100

DX 51529 Watford 2

Website www.watford.gov.uk Email enquiries@watford.gov.uk

Grant Thornton UK LLP
 Grant Thornton House
 Melton Street
 Euston Square
 London
 NW1 2EP

Enquiries to: Joanne Wagstaffe
Phone no: 01923 278189
Our reference: JW/DMAR
Your reference:
Date: 29 September 2014

Dear Sirs

Watford Borough Council – financial statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Watford Borough Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vii Except as stated in the financial statements:

- a. There are no unrecorded liabilities, actual or contingent
 - b. None of the assets of the Council has been assigned, pledged or mortgaged
 - c. There are no material prior year charges or credits, nor exceptional or non recurring items requiring disclosure
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for.
 - ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
 - x All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code would require adjustment or disclosure have been adjusted or disclosed.
 - xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
 - xii We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
 - xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
 - xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a. 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;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii 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.

- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 29 September 2014.

Signed on behalf of the committee

| | |
|---------------------------------------|--|
| | |
| Name: Ian Brown | Name: Joanne Wagstaffe, CPFA |
| Position: Chairman Audit Committee | Position: Director of Finance and Section 151 officer |
| Date: 29 September 2014 | Date: 29 September 2014 |

This page is intentionally left blank



STATEMENT OF ACCOUNTS

2013/2014

CONTENTS

| | PAGES |
|--|-----------------|
| STATEMENT OF RESPONSIBILITIES | 2 |
| EXPLANATORY FOREWORD | 3 - 8 |
| ANNUAL GOVERNANCE STATEMENT | 9 - 16 |
| CORE FINANCIAL STATEMENTS | |
| EXPLANATION OF CORE FINANCIAL STATEMENTS | 17 |
| STATEMENT OF MOVEMENT IN RESERVES | 18 - 21 |
| COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT | 22 |
| BALANCE SHEET | 23 |
| CASH FLOW STATEMENT | 24 |
| NOTES TO THE CORE FINANCIAL STATEMENTS | |
| ACCOUNTING POLICIES | 25 - 40 |
| OTHER NOTES | 41 - 80 |
| SUPPLEMENTARY FINANCIAL STATEMENTS | |
| COLLECTION FUND | 81 |
| NOTES TO THE COLLECTION FUND | 82 - 85 |
| GROUP ACCOUNTS | |
| GROUP COVER PAGE | 86 |
| GROUP STATEMENT OF MOVEMENT IN RESERVES | 87 - 90 |
| GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT | 91 |
| GROUP BALANCE SHEET | 92 |
| GROUP CASH FLOW STATEMENT | 93 |
| NOTES TO THE GROUP ACCOUNTS | 94 - 95 |
| GLOSSARY OF TERMS AND ABBREVIATIONS | 96 - 98 |
| INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE | 99 - 101 |
| INDEX OF NOTES TO THE CORE FINANCIAL STATEMENTS | 102 |

STATEMENT OF RESPONSIBILITIES

The *Code of Practice on Local Authority Accounting in The United Kingdom* reflects the requirements of the *Accounts and Audit Regulations 2011*. The Council must provide a Statement of Responsibilities for the Statement of Accounts which sets out the responsibilities of the Council and the Chief Financial Officer for the Accounts.

The Council's Responsibilities

The Council is required to:

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

The Chief Financial Officer's Responsibilities

The Director of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Director of Finance has:

- selected suitable accounting policies and applied them consistently.
- made judgements and estimates that were reasonable and prudent.
- complied with the local authority Code of Practice.

The Director of Finance has also:

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

The Statement of Accounts presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Signed
Joanne Wagstaffe CPFA
Director of Finance

Date: 29 September 2014

Signed
Ian Brown
Chairman of Audit Committee

Date: 29 September 2014

EXPLANATORY FOREWORD

1. Introduction

The purpose of this Foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the Statement of Accounts.

2. The Core Financial Statements

The accounts that follow this foreword contain four core financial statements:

- Statement of Movements in Reserves
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement

For a definition of each statement see the Explanation of Core Financial Statements.

3. Changes to the Statement of Accounts

There were some changes to accounting policies in 2013/14 in relation to its investment in the Watford Health Campus Limited Liability Partnership which is a Joint Venture with Kier Property Investment Limited.

The Council is required to prepare 'group accounts' where there are significant interests in other organisations. On 7th May 2013, the Council took a 50% stake in the Watford Health Campus Partnership Limited Liability Partnership. The other 50% stake is held by Kier Property Investment Limited. The Council has prepared Group Accounts on pages 86 to 95. This also resulted in some changes to accounting policies.

In July 2013, the Council outsourced waste, street and parks services to Veolia Environmental Services Limited. Also, in May 2013, ICT Shared Services were outsourced to Capita Secure Information Solutions Limited.

The Council continued to share Revenues and Benefits, Finance, Human Resources and ICT functions with Three Rivers District Council under the governance of a Joint Committee. Separate accounts are published for these activities and the impact on Watford Borough Council included in this Statement of Accounts.

From 1 April 2014, the two Councils have moved to a 'Lead Authority' model for Shared Services.

4. Contingent Assets and Liabilities

Note 32 to the Core Financial Statements gives details of contingent assets and liabilities. No exceptional or unusual items of income or expenditure have occurred. No material events affecting the accounts occurred after the year end up to 29 September 2014.

EXPLANATORY FOREWORD

5. Revenue Activities

Revenue Out-turn 2013/14

For accounting purposes, the Council distinguishes between 'revenue' and 'capital' activities. (Capital activities are dealt with below). Revenue activities are included in the Comprehensive Income and Expenditure Statement and cover the day to day income and expenditure involved in providing services to the public. The Council holds a General Fund Balance, shown in the Statement of Movement in Reserves and on the Balance Sheet, which is available to support revenue expenditure and to which surpluses are added and from which any deficits are met.

The net cost of revenue activities is met by central government grant, a share of non-domestic rates (business rates) and by the council tax charge made to residents. This is set each February prior to the start of the financial year and takes into account the General Fund Balance and detailed estimates of income and expenditure. A comparison of outturn figures to budgets, therefore, often provides a better indication of financial stewardship than comparison to the prior year.

The General Fund balance of £1.350m (2012/13: £1.350m) will remain unchanged for the foreseeable future as it is the ultimate 'bail out' fund in the unlikely event that the Council were to get into financial difficulties.

The level of Council's Reserves has however increased by the above £8.883m (2012/13: £0.426m).

The major variances are:

- An increase in NNDR funding of £4.223m and Small Business Rate relief of £0.251m compared to the original budget.
- additional weekly collection support grant of £2.001m applied in year
- additional new homes bonus funding of £1.021m
- an increase of £0.342m in ICT Shared Service costs in the year which is expected to generate future savings
- savings of £0.260m in relation to the Veolia outsourcing contract for waste, street and parks services
- operational savings of £0.209m in relation to the lease of Charter Place, including the market to Intu Watford.
- an underspend of £0.563m on the repairs and maintenance of operational buildings due to improved procurement, contract management, contractor selection and reduction in staff costs.

EXPLANATORY FOREWORD

The table below compares the original budget for the year against the out-turn:

| | 2013/14 | |
|---|-----------------------------------|------------------------|
| | Original Net Budget £000 | Net Outturn £000 |
| Service Area | | |
| Community and Customer Services | 3,562 | 3,211 |
| Corporate Strategy and Client Services | 8,521 | 8,928 |
| Democracy and Governance | 3,771 | 2,998 |
| Human Resources | 745 | 631 |
| Managing Director | 285 | 234 |
| Regeneration and Development | (4,437) | (4,787) |
| Strategic Finance | 2,574 | 1,834 |
| Net General Fund | 15,021 | 13,049 |
| Funding | | |
| Council Tax | (7,350) | (7,350) |
| Council Tax Support Grant | (958) | (958) |
| Council Tax Transition Grant | (26) | (26) |
| Council Tax Freeze Grant | (289) | (287) |
| Revenue Support Grant | (2,862) | (2,862) |
| Business Rate Relief | 0 | (251) |
| NNDR | (1,904) | (6,128) |
| Weekly Collection Support Grant | 0 | (2,001) |
| New Homes Bonus | (1,048) | (2,069) |
| Total Funding | (14,437) | (21,932) |
| Net General Fund less total funding | 584 | (8,883) |
| Transfers To / (From) Reserves | (584) | 8,883 |
| (Surplus) / Deficit for the year | 0 | 0 |

EXPLANATORY FOREWORD

Future Revenue Expenditure & its Funding

The Council ensures that its corporate, service and financial planning is closely linked so that resources are properly allocated to its priorities. The Council's aims and objectives are included within its Corporate Plan and reflected within the resource allocation process incorporated within the Medium Term Financial Strategy. The Corporate Plan is supported by individual Service Plans and there is a performance management framework which measures how the Council is performing against these plans. This information is available on the Council's website.

The Medium-Term Three-Year Financial Plan is continually updated by regular budget monitoring. The plan assumes reductions in government grant over the next three years. Following a freeze in the average council tax charge for 2013/14, the Council is planning no Council Tax increases in the next three years. The levels of council tax and government grant are critical to the Council's future revenue streams.

Because of a change in accounting treatment in 2013/14, Government Grant has been partially replaced by retention of the Business Rates the Council collects. This change creates additional uncertainty in funding, as it places the emphasis on the Council to generate additional income by encouraging business regeneration. This means that the Council's share of any surplus or deficit on Business Rate collection, falls on the General Fund and, potentially the Council Tax payers in the following year.

6. Capital Activities

Capital Out-turn 2013/14

Capital expenditure is incurred on assets that benefit the community over a number of years. Capital expenditure for 2013/14 is shown below:

| | 2013/14 | | |
|---|------------------------------------|-------------------------------------|--|
| | Current Budget £000 | Actual Out-turn £000 | Variance (under) / overspend £000 |
| Key Projects | 4,570 | 4,588 | 18 |
| Environmental Services | 2,290 | 2,307 | 17 |
| Community & Leisure Services | 697 | 755 | 58 |
| Housing Services | 368 | 368 | 0 |
| Parking Services | 16 | 16 | 0 |
| Asset Management | 1,056 | 808 | (248) |
| Information, Communication & Technology (ICT) | 198 | 80 | (118) |
| Information, Communication & Technology (Shared Services ICT) | 222 | 469 | 247 |
| Section 106 Funded Schemes | 2,636 | 2,609 | (27) |
| Corporate / Service Project Management | 552 | 552 | 0 |
| Total | 12,605 | 12,552 | (53) |

EXPLANATORY FOREWORD

The Council planned to complete schemes valued at £12.605m in 2013/14. The Council completed and funded £12.552m worth of work, £7.291m of which was funded from capital receipts, £3.610m from government grants and third party contributions and £1.651m from Earmarked Reserves. The creation of assets adds to their value and reduces cash holdings in the top half of the balance sheet. Their funding reduces the value of usable reserves and increases the value of unusable reserves in the bottom half of the balance sheet.

Key capital projects include the contribution to the Croxley Rail Link (£2.59m), Cultural Quarter (£2.07m), New Vehicles, Plant and Equipment for Environmental Services (£2.19m) and Green Spaces Strategy (£2.61m). Investment within Watford is seen as a key priority if the Council is to move forward and has been totally financed from internal resources (mainly capital receipts) and government grant as at 31st March 2014.

The Council borrowed £6m for the Health Campus scheme in 2013/14 and a further £4m of borrowing may be required in future years.

Future Capital Expenditure and its Funding

The Council plans to spend £15.02m on further capital schemes in 2014/15. Of this £9.68m is to be funded from capital receipts, £2.35m from government grants and third party contributions and £2.99m from Reserves.

Borrowing Facilities and Capital Borrowing

The Council on 21st March 2012 approved the ability to borrow up to £10m to facilitate the total regeneration of the Health Campus project, the repayment of such loans being made from development receipts. Other than this project all past and future capital expenditure has / will use internal resources without recourse to borrowing. During the year, the Council borrowed £6m of Growing Places Funding in order to fund the investment in the Watford Health Campus project.

The Council applies the 'Prudential Code for Capital Finance'. The Code is designed to ensure that all external borrowing is within prudent and sustainable levels, that capital expenditure plans are affordable, that treasury management decisions are taken in accordance with good practice and that the Council is accountable by providing a clear and transparent framework. The Council takes into account all sources of future income and the potential calls on the use of that income.

7. Pensions

The Council has disclosed its full liabilities to the Hertfordshire Pension Fund. The Income and Expenditure Account includes the charges made for retirement benefits in accordance with International Accounting Standard 19. The Statement of Movement in Reserves shows how this is adjusted for in the General Fund for the actual amount paid to the Fund in the year (i.e. the amount met from council tax). The balance sheet shows a net liability to the Fund at 31 March 2014 of £61.447m. This has decreased from £66.347m at 31 March 2013 and reflects actuarial changes. There are statutory arrangements for funding the deficit that protect the Council's financial position. Note 31 to the Core Statements of Account provides further information.

Following the results of the triennial valuation of the pension fund, on the advice of the pension fund actuaries, the Council decided to make a contribution of £2.842m over the next three years to reduce the deficit on the pension fund.

EXPLANATORY FOREWORD

8. Conclusion

The Council's Overall Financial Position

The Council's Medium Term Financial Strategy has a primary focus to produce a sustainable budget (where expenditure and income are in balance) over a four year timescale. This includes council tax increases at or below the rate of inflation and a prudent level of reserves and balances. Reductions in government grant means that significant savings have had to be identified. The Council is aiming to continue to achieve efficiency savings rather than cut levels of service.

In the current financial climate, the Council monitors on a regular basis the financial and budgetary risks that it faces. At the date of issue of this Statement of Accounts, no significant impairment has been made to assets although provisions for bad debts have been increased to reflect the increased probability that debtors may default.

In the longer term the Council will also have to address the impact on the revenue account of reduced interest income as capital receipts are used to fund capital expenditure.

In the meantime, reserves and balances are healthy. The General Fund balance and available usable earmarked reserves totalled £21.975m (2012/13: £14.712m). The Council also held £13.701m (2012/13: £12.616m) in capital receipts available for new capital expenditure.

The Council is constantly looking to improve its financial management and internal control. The Annual Governance Statement shows the steps the Council is taking to achieve this and to address the challenges brought about by changes to business rates, the local support to council tax and the introduction of benefit caps and universal credit.

Joanne Wagstaffe CPFA
Director of Finance
29 September 2014

ANNUAL GOVERNANCE STATEMENT

1.0 Scope of Responsibility

- 1.1 Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. A key aspect of this responsibility is the identification and management of risk.
- 1.2 Watford Borough Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/Solace Framework 'Delivering Good Governance in Local Government'. It is also in accordance with the requirements of the Accounts and Audit (England) Regulations 2011.
- 1.3 Underpinning the Governance Statement is a framework which ensures corporate ownership at the very highest levels of management and is dynamic in responding to all governance issues as they occur. A key component of the Governance framework is the underlying system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.0 Strategic Aims and Objectives

- 2.1 The governance framework enables the Council's key objectives to be met and these can be summarised as follows:

VISION:

A successful town in which people are proud to live, work, study and visit.

OUR OBJECTIVES:

- Making Watford a better place to live in
- To provide the strategic lead for Watford's sustainable economic growth
- Promoting an active, cohesive and well informed town
- Operating the Council efficiently and effectively

- 2.2 Underpinning these over arching priorities are a series of measurable (SMART) objectives so that every member of staff and our community can feel fully engaged in the process. The council also plays a major role in the Local Strategic Partnership, One Watford, which is made up of key stakeholders such as Hertfordshire County Council, Herts Valleys Clinical Commissioning Group, the Chamber of Commerce, Watford and Three Rivers Trust, Watford Community Housing Trust, and John Lewis plc.

3.0 Decision Making Structures

- 3.1 Watford Borough Council has a directly elected Mayor, which means that the community elect the person to lead the council at four yearly intervals. The Mayor is supported by a Cabinet that plays a key role in determining the overall budget and policy framework of the Council. Each member of the Cabinet has a portfolio for which they are responsible and can make decisions within their area of responsibility.

ANNUAL GOVERNANCE STATEMENT

- 3.2 Watford Borough Council operates a Mayor and Cabinet model of governance under the Local Government Act 2000 this places total responsibility for those functions designated as Executive Functions into the hands of the directly elected mayor. However full Council is responsible for setting the Council's budget and agreeing the key policy framework. The Council also has established an Overview and Scrutiny Committee, Budget Panel, Outsourced Services Scrutiny Panel and task groups to scrutinise the actions the Mayor and Cabinet and assist with policy development. In addition the Council has five further committees that cover non executive functions, these are Licensing, Development Control, Audit, Functions and Standards.
- 3.3 At an officer level, the senior management comprises the Managing Director and Heads of Service. Financial control will primarily be the responsibility of a shared Director of Finance with neighbouring Three Rivers District Council. This combined management will comprise the Leadership Team who meet fortnightly to review and progress the key objectives of the council.
- 3.4 Overall financial control is monitored on a monthly basis by Leadership Team and the Budget Panel, and quarterly by Cabinet. Budget preparation is influenced by the Council's Medium Term Financial Strategy which forecasts budget pressures and available resources over a four year period. This MTFS is reported quarterly to Cabinet and Budget Panel where variations to the strategy are approved. The council has the ultimate responsibility for approving the annual budget. The final accounts at the end of a financial year are subject to formal approval by the Audit Committee (but is also reported to Cabinet and Budget Panel).

4.0 The Governance Framework

- 4.1 The Council has a written constitution which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct. This sets out how the council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens.
- 4.2 Council, Cabinet and committee / scrutiny meetings are open to the public and written reports are available to the public through the council's website. Information is only treated as confidential when it is necessary to do so for legal / commercial reasons in accordance with the provisions of the Local Government Act 1972.
- 4.3 The Council publishes its Corporate Plan annually, which sets out key service improvement priorities for the medium term, with targets for performance and deadlines for achievement. This has been informed by public consultation on a range of topics, particularly around priority setting, and a detailed analysis of the Watford context based on information derived from sources such as Census 2011 and the Indices of Multiple Deprivation. Progress on the Plan is reported to the public through a quarterly magazine, About Watford, and includes an 'annual report' on the Council's achievements compared to its initial targets.
- 4.4 Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from members include comments on financial, legal, equalities, sustainability, community safety and other appropriate issues such as potential risks to non achievement, all of which ensures that comprehensive advice is provided prior to decisions being taken.

ANNUAL GOVERNANCE STATEMENT

- 4.5 The scrutiny function within a local authority provides a necessary check upon the role of the Executive and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance, the Council has recently set up an Outsourced Services Scrutiny Panel as a standing scrutiny panel to scrutinise the activities of functions undertaken by external providers on the council's behalf. In addition the Standards Committee considers member conduct and the Budget Panel considers financial issues in a non political forum. Finally, the Audit Committee reviews the overall governance arrangements including the service related control and risk management environment. The Audit Committee also considers the response to Freedom of Information requests, the Ombudsman's annual report, risk management, Regulation of Investigatory Powers Act as well as annual accounts and treasury management (investment) policies.
- 4.6 The Council's protocols and procedures are reviewed and updated on a regular basis for standing orders, financial regulations, a scheme of delegation and supporting procedure notes/ manuals clearly defining how decisions are taken and the process and controls required to manage risks. Compliance with established policies, procedures, laws and regulations is achieved through a combination of training events, written policy and procedural documentation, authorisation procedures, managerial supervision, review by internal and external audit and use of the disciplinary procedure where appropriate.
- 4.7 Codes of Conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the Council's website. These include:
- Members Code of Conduct
 - Code of Conduct for staff
 - Anti fraud and corruption policy (including whistle blowing and anti bribery)
 - Money Laundering detection guidance
 - Members and officer protocols
 - Regular performance appraisals, linked to service and corporate objectives
 - Service standards that define the behaviour of officers
 - A Standards Committee which has a key role in promoting and maintaining high standards of conduct for members
 - Officers are subject to the standards of any professional bodies to which they belong
- 4.8 The Head of Democracy and Governance is the Council's Monitoring Officer and duties include: maintaining the council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.
- 4.9 The Shared Director of Finance is the statutory Chief Finance Officer. Duties include: overall responsibility for financial administration; reporting on any actual or potential instances of illegality in expenditure, including unlawful loss or deficiency or illegal items of account; and giving advice to the council on financial planning.

ANNUAL GOVERNANCE STATEMENT

5.0 Performance Management

- 5.1 Performance management follows very much a 'cascade' principle. The Council approves its Corporate Plan annually (although it covers a rolling four year perspective) and highlights key aspirations and targets including a series of objectives to be achieved in the year ahead. This Corporate Plan then cascades down to individual services delivery plans, which in turn translates into team and individual work plans. Performance is monitored regularly by Leadership Team and on a quarterly basis through Heads of Service, Cabinet Members and Overview and Scrutiny Committee. Performance reviews also include consideration of complaints and progress against the Council's equalities agenda.
- 5.2 The Council keeps residents and stakeholders informed of its progress through a quarterly publication called '*About Watford*' which is delivered to every household and covers key issues, events and challenges. At the end of every financial year the we also produce an Annual Report, '*Look Back*', which informs the community of progress in the achievement of the Corporate Plan.

6.0 Data Quality and Risk Management

- 6.1 The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the Council has a senior member of staff who acts as the Senior Information Risk Officer. There is also a council wide Data Quality Champions Group which meets periodically and adopts a risk based approach to data quality. Guidance documents include a Data Quality Policy; an Information Security Policy; a Data Asset Register: and management training modules all of which are on the intranet.
- 6.2 The governance framework is dependent upon the underlying system of internal control which is designed to manage risk to a reasonable level. The Council's approach to risk management is governed by its Risk Management Strategy which is updated annually and approved by Leadership Team and the Audit Committee. This Strategy underpins the Strategic Risk Register which was updated and approved by the Audit Committee in January 2014 and covers major issues that will affect the achievement of the council's key objectives. This Risk Register is at a strategic/high level and is complemented by detailed project and service area registers. This Strategic Risk Register is reviewed by the Risk Management and Business Continuity Steering Group which meets bi-monthly and ensures a consistent approach to risk management across the Council.
- 6.3 Business continuity and emergency planning are other key aspects within the corporate governance framework and again falls within the remit of the Risk Management corporate group.
- 6.4 The risk management section within the Partnership Framework has been revised and all committee reports contain a 'risk implications' section as an aid to decision taking. There is however a need to ensure an effective risk identification process occurs where the Council has outsourced the provision of services to a private sector partner.

7.0 Shared Services with Three Rivers District Council

- 7.1 Watford Borough Council has been a leading authority in developing a shared service for revenues, benefits, ICT, financial services, and human resources with Three Rivers District Council. Both councils also share the statutory post of Chief Financial Officer - the Shared Director of Finance.

ANNUAL GOVERNANCE STATEMENT

7.2 In 2013/14 the Governance arrangements for shared services were exercised through a Joint Committee. From April 2014, the Governance arrangements for shared services has changed. A new agreement between Watford Borough Council and Three Rivers District Council has introduced a lead authority model. Watford Borough Council are responsible for providing the services of ICT and human resources whilst Three Rivers District Council are responsible for providing financial services and revenues & benefits. An executive board of senior management from both councils are responsible for these services. The role of the Board covers:

- Monitoring performance and dealing with complaints from either authority
- Resolving conflicts between competing interests amongst the authorities
- Reviewing the governance arrangements
- Dealing with matters referred up to it by the Operations Board
- Having overall supervision of the Shared Service
- Receiving annual reports on each service within the shared service.

8.0 Community Engagement

8.1 Corporate governance includes informing our community of the plans and aspirations of the council and is primarily communicated through its published Corporate Plan and the regular editions of 'About Watford'. The directly elected Mayor, Dorothy Thornhill MBE, takes the lead in ensuring there is open and effective community leadership and provides a focal point for individuals, communities, business and voluntary organisations to engage with the Council. The Mayor is also the Chair of the borough's Local Strategic Partnership, One Watford, which continues to lead on the successful delivery of the overall vision and objectives for the town and on effectively integrating partnership working and delivery.

8.2 The Council has established twelve neighbourhood forums, which mirror the borough's ward boundaries and each have a devolved budget of £2,500. These are organised and managed by the relevant local councillors as part of their commitment to community leadership and engagement.

8.3 The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the Council magazine 'About Watford'.

8.4 A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the borough's Citizens' Panel, which covers a range of areas relating to the Council's services and activities, including how it spends its money and prioritises areas for focus and improvement. The Citizens Panel is refreshed regularly to ensure it is representative of the Watford community and will be reviewed in 2014/15. Local residents are also invited to attend the Mayor's annual information seminars, which help build understanding across a range of areas including Council finances and the implications for future service delivery. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community.

ANNUAL GOVERNANCE STATEMENT

9.0 The Role of Audit and the Audit Committee

- 9.1 The governance framework and its compliance mechanisms must be distinguished from the role of audit which is to review the effectiveness of the compliance framework, not be a substitute for it.
- 9.2 The internal audit function is carried out, by the Shared Internal Audit Service (SIAS), a local internal audit partnership hosted by Hertfordshire County Council. This provides greater independence and resilience and a positive step in improving governance. Internal Audit carry out a programme of reviews during the year which are based upon a risk assessment including fraud risk. As part of these audits, any failures to comply with legislation, council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to senior officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported in quarterly reviews to Audit Committee and to the Leadership Team.
- 9.3 External auditors, Grant Thornton, appointed by the Audit Commission, provide an external review function through the audit of the annual accounts, assessment of value for money, certification of grant claims and the periodic inspection of services such as revenues and benefits. The Annual Audit and Inspection Letter is circulated to all Members and formally reported to Cabinet and the Audit Committee.
- 9.4 The Audit Committee's terms of reference are consistent with best practice. The Committee approves the annual plan of internal audit, and receives the quarterly and annual reports of the Head of the Shared Internal Audit Service. It approves the Statement of Accounts, the annual governance statement and the review of the effectiveness of the internal audit system. It receives reports on risk management and reviews the operation of treasury management. It also received the annual letter from the Ombudsman and considers regular reports upon Freedom of Information requests, risk management and the Regulation of Investigatory Powers Act.

10.0 Review of Effectiveness

- 10.1 In accordance with recent external audit guidance, the review of the effectiveness of the governance framework will focus upon significant weaknesses and the 'big picture'. If issues have not been highlighted then that is because current governance arrangements have proved fit for purpose.
- 10.2 The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Shared Internal Audit Services annual report and also by comments made by the external auditors and other review agencies and inspectorates. The Mayor and Portfolio Holders maintain a continuous review of the Council's policies, activities and performance of officers both through quarterly reviews and on a day to day basis.
- 10.3 The Annual Report of the Head of Assurance for the Shared Internal Audit Services has been reported to the Audit Committee at its meeting on 30 June 2014 and included the following statement . . . "In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based primarily on the work undertaken by the Council and reported in its Annual Governance Statement for 2013/14; and, the specific reviews of Risk Management and Corporate Governance carried out by SIAS over February and March 2014 both of which received overall Full Assurance opinions."

ANNUAL GOVERNANCE STATEMENT

11.0 Significant Governance Issues

The 'normal' running of Council business has and can be controlled through the governance framework detailed at sections 4 to 9 of this report. Specific issues identified within the 2012/2013 Governance Statement have been resolved as below:

| No. | Issue | Action | Resolved | Lead | Update |
|-----|---|--|----------|--|---|
| 1 | Continued reductions in Central Government funding will place pressures upon the delivery of services | The MTFS will be updated quarterly and planned efficiencies through the Council's Road Map will be monitored | ✓ | Shared Director of Finance and Leadership Team | Central Government funding changes have been allowed for and included in the updated Medium Terms Financial Strategy. The position is continuously monitored and reported to Leadership Team and Council. |
| 2 | The outsourcing of ICT and waste, street cleansing, recycling, parks and open spaces can result in an unacceptable fall in levels of service. | Detailed key performance indicators have been included within contract documentation and need to be rigorously monitored | ✓ | Head of Cultural and Client Services | Audit report received and an overall moderate assurance that there are effective controls in operation was awarded. Of the 7 recommendations made 4 were in the "medium" category and 3 in the "merits attention" category. None were in the "high" category. One of the recommendations has been completed and 2 will be ongoing in relation to reducing the number of PIs over the life of the contract and building relationships with other councils contract managers. The remainder have target dates set which will be monitored quarterly. An Audit on the ICT Capita contract management will be undertaken in 2014/15. |
| 3 | Welfare Benefit changes and the preparation for Universal Credit needs to ensure no unacceptable impact upon benefit recipients | Monitoring of existing client base needs to identify where distortions occur. Testing of current ICT systems need to ensure a seamless transfer of caseloads to central government | ✓ | Head of Shared Services Revenues and Benefits | The Minister has announced that only 40,000 claims will be out into Universal Credit this year and there are further exemptions. We are undertaking no further planning work on this until we are provided with a proper timeline from central government and clarity about what cases are and are not included. We are simply maintaining a watching brief. |
| 4 | Deletion of senior management posts may result in a breakdown in governance processes. | Transfer of responsibilities to named officers should ensure future accountability | ✓ | Managing Director and Leadership Team | The constitution has been amended to reflect the new council structure. Policies have also been amended as necessary. |

ANNUAL GOVERNANCE STATEMENT

| | | | | | |
|---|--|---|---|-------------------------------------|--|
| 5 | Ensuring investment partnerships at the Health Campus and Charter Place achieve planned objectives | Detailed development agreements are in place and will be monitored through Partnership Boards | ✓ | Managing Director and Elected Mayor | <p>Charter Place planning application for redevelopment submitted by Intu to be determined in January.</p> <p>Meeting with Intu regularly to progress land assembly.</p> <p>Watford Health Campus Partnership LLP Boards meet regularly.</p> |
| 6 | The effect of demographic changes need to be identified at an early stage | The composition of the Council's client base is kept under continuous review. Pressures upon services such as housing and welfare entitlement will be known | ✓ | Leadership Team | <p>The council is developing a corporate approach to managing information on its community and clients and bringing together the significant work done to assess / analyse data in this field.</p> <p>Partnerships and Performance Section Head will be leading on an intelligence gathering approach to be developed in 2014.</p> |
| 7 | The Council's Pension Fund needs to be adequately funded in order to meet current and future liabilities | In December 2013 the triennial review of the Pension Fund will be reported by the Actuary. The Council will need to respond to the main features of that report | ✓ | Shared Director of Finance | The Actuary has reported the position following the triennial review. The details will be included in the Financial Planning (Revenue and Capital Estimates 2014 – 16) to Budget Panel, Cabinet and Council in January 2014 |

12.0 Statement from the Elected Mayor and the Managing Director

12.1 We propose over the coming year to keep a close focus upon the key governance issues identified as part of the 2013/2014 review and are satisfied that the identified actions and reporting mechanisms will ensure no adverse outcomes will occur. We will monitor their implementation and operation periodically during the year will a formal review as part of the 2014/2015 Annual Governance Statement.

Signed
Mayor

Date: 29 September 2014

Signed
Managing Director

Date: 29 September 2014

EXPLANATION OF CORE FINANCIAL STATEMENTS

Statement of Movement in Reserves (Pages 18 to 21)

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. These are different from the statutory amounts required to be charged to the General Fund Balance for Council tax setting. The net (increase) / decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to, or from, earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement (Page 22)

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting policies, rather than the amount to be funded from taxation. Councils 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.

Balance Sheet (Page 23)

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are 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. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement (Page 24)

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 finance activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

STATEMENT OF MOVEMENT IN RESERVES

| | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------------|-------------------------------|--|-------------------------------------|------------------------------|--|
| Balance at 1 April 2012 | 1,350 | 13,306 | 12,872 | 27,528 | 99,453 | 126,981 |
| Movement in Reserves during 2012/13 | | | | | | |
| (Surplus) or deficit on provision of services | 4,609 | 0 | 0 | 4,609 | 0 | 4,609 |
| Other Comprehensive Expenditure and Income | (7,699) | 0 | 0 | (7,699) | 0 | (7,699) |
| Total Comprehensive Expenditure and Income (CI&E) | (3,090) | 0 | 0 | (3,090) | 0 | (3,090) |
| Adjustments between accounting basis & funding basis under regulations | | | | | | |
| <u>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</u> | | | | | | |
| Charges for depreciation of long-term assets | 2,220 | 0 | 0 | 2,220 | (2,220) | 0 |
| Revaluation gains / (losses) on long-term assets | (5,317) | 0 | 0 | (5,317) | 5,317 | 0 |
| Finance Lease Vehicle Additions | (52) | 0 | 0 | (52) | 52 | 0 |
| (Gains) / Losses on disposal of long-term assets | (445) | 0 | 0 | (445) | 445 | 0 |
| (Surplus) / Deficit on revaluation of long-term assets | (320) | 0 | 0 | (320) | 320 | 0 |
| Capital grants & contributions applied | (1,798) | 0 | 0 | (1,798) | 1,798 | 0 |
| Revenue expenditure funded from capital under statute | 1,587 | 0 | 0 | 1,587 | (1,587) | 0 |
| Minimum Revenue Provision | (218) | 0 | 0 | (218) | 218 | 0 |
| Voluntary Contributions to Reduce the Capital Finance Requirement | (160) | 0 | 0 | (160) | 160 | 0 |
| <u>Adjustments primarily involving the Capital Receipts Reserve</u> | | | | | | |
| Use of capital receipts reserve to finance new capital expenditure | 0 | 0 | (2,787) | (2,787) | 2,787 | 0 |
| Proceeds from sale of long-term assets | 0 | 0 | 1,384 | 1,384 | (1,384) | 0 |
| Unattached capital receipts | (1,147) | 0 | 1,147 | 0 | 0 | 0 |
| <u>Adjustments primarily involving the Collection Fund Adjustment Account:</u> | | | | | | |
| Collection Fund adjustment in accordance with statutory requirements | (29) | 0 | 0 | (29) | 29 | 0 |
| <u>Adjustments primarily involving the Accumulated Absences Reserve:</u> | | | | | | |
| Accrued employee benefits adjustment in accordance with statutory requirements | (22) | 0 | 0 | (22) | 22 | 0 |
| <u>Adjustments primarily involving the Pensions Reserve:</u> | | | | | | |
| Employer's pension contributions and direct payments to pensioners payable in year | (3,509) | 0 | 0 | (3,509) | 3,509 | 0 |
| Actuarial (gains) / losses on pension fund assets / liabilities | 8,019 | 0 | 0 | 8,019 | (8,019) | 0 |
| Reversal of items relating to retirement benefits debited or credited to the CI&E | 4,338 | 0 | 0 | 4,338 | (4,338) | 0 |
| <u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u> | | | | | | |
| Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans | (1) | 0 | 0 | (1) | 1 | 0 |
| Net increase / decrease before transfers to earmarked reserves | 56 | 0 | (256) | (200) | (2,890) | (3,090) |

STATEMENT OF MOVEMENT IN RESERVES

-continued

| | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------------|-------------------------------|--|-------------------------------------|------------------------------|--|
| Transfers to/from earmarked reserves | | | | | | |
| Budget Carry Forward Reserve | 67 | (67) | 0 | 0 | 0 | 0 |
| Capital Fund Reserve | 83 | (83) | 0 | 0 | 0 | 0 |
| Car Parking Zones Reserve | (22) | 22 | 0 | 0 | 0 | 0 |
| Charter Place Tenants Reserve | 96 | (96) | 0 | 0 | 0 | 0 |
| Climate Change Reserve | 12 | (12) | 0 | 0 | 0 | 0 |
| High Street Innovation | (100) | 100 | 0 | 0 | 0 | 0 |
| Economic Impact Reserve | (286) | 286 | 0 | 0 | 0 | 0 |
| Insurance Fund Reserve | 100 | (100) | 0 | 0 | 0 | 0 |
| Invest to Save Reserve | 165 | (165) | 0 | 0 | 0 | 0 |
| LA Business Growth Incentive Reserve | 28 | (28) | 0 | 0 | 0 | 0 |
| Local Development Framework Reserve | 80 | (80) | 0 | 0 | 0 | 0 |
| Multi-Storey Car Park Repair Reserve | 2 | (2) | 0 | 0 | 0 | 0 |
| Performance Reward Grant Reserve (capital) | (191) | 191 | 0 | 0 | 0 | 0 |
| Performance Reward Grant Reserve (revenue) | 60 | (60) | 0 | 0 | 0 | 0 |
| Vehicle Replacement Reserve | (150) | 150 | 0 | 0 | 0 | 0 |
| Transfers to/from earmarked reserves | (56) | 56 | 0 | 0 | 0 | 0 |
| Increase / Decrease in 2012/13 | 0 | 56 | (256) | (200) | (2,890) | (3,090) |
| Balance as at 31 March 2013 | 1,350 | 13,362 | 12,616 | 27,328 | 96,563 | 123,891 |

STATEMENT OF MOVEMENT IN RESERVES

-continued

| | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------------|-------------------------------|--|-------------------------------------|------------------------------|--|
| Balance at 1 April 2013 | 1,350 | 13,362 | 12,616 | 27,328 | 96,563 | 123,891 |
| Movement in Reserves during 2013/14 | | | | | | |
| (Surplus) or deficit on provision of services | 4,430 | 0 | 0 | 4,430 | 0 | 4,430 |
| Other Comprehensive Expenditure and Income (OCIE) | 8,776 | 0 | 0 | 8,776 | 0 | 8,776 |
| Total Comprehensive Expenditure and Income (CI&E) | 13,206 | 0 | 0 | 13,206 | 0 | 13,206 |
| Adjustments between accounting basis & funding basis under regulations | | | | | | |
| <u>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</u> | | | | | | |
| Charges for depreciation of long-term assets | 2,569 | 0 | 0 | 2,569 | (2,569) | 0 |
| Revaluation (gains) / losses on long-term assets | 352 | 0 | 0 | 352 | (352) | 0 |
| (Gains) / Losses on disposal of long-term assets | (630) | 0 | 0 | (630) | 630 | 0 |
| (Surplus) / Deficit on revaluation of long-term assets (OCIE) | (1,160) | 0 | 0 | (1,160) | 1,160 | 0 |
| Capital grants & contributions applied | (3,610) | 0 | 0 | (3,610) | 3,610 | 0 |
| Revenue expenditure funded from capital under statute | 3,161 | 0 | 0 | 3,161 | (3,161) | 0 |
| Minimum Revenue Provision | (236) | 0 | 0 | (236) | 236 | 0 |
| Revenue Contribution to Capital | 114 | 0 | 0 | 114 | (114) | 0 |
| Adjustment for Finance lease payments | 2 | 0 | 0 | 2 | (2) | 0 |
| <u>Adjustments primarily involving the Capital Receipts Reserve</u> | | | | | | |
| Use of capital receipts reserve to finance new capital expenditure | 0 | 0 | (7,291) | (7,291) | 7,291 | 0 |
| Proceeds from sale of long-term assets | 0 | 0 | 4,004 | 4,004 | (4,004) | 0 |
| Unattached capital receipts | (4,372) | 0 | 4,372 | 0 | 0 | 0 |
| <u>Adjustments primarily involving the Collection Fund Adjustment Account:</u> | | | | | | |
| Collection Fund adjustment in accordance with statutory requirements | 4,402 | 0 | 0 | 4,402 | (4,402) | 0 |
| <u>Adjustments primarily involving the Accumulated Absences Reserve:</u> | | | | | | |
| Accrued employee benefits adjustment in accordance with statutory requirements | 15 | 0 | 0 | 15 | (15) | 0 |
| <u>Adjustments primarily involving the Pensions Reserve:</u> | | | | | | |
| Employer's pension contributions and direct payments to pensioners payable in year | (2,454) | 0 | 0 | (2,454) | 2,454 | 0 |
| Actuarial (gains) / losses on pension fund assets / liabilities (OCIE) | (7,616) | 0 | 0 | (7,616) | 7,616 | 0 |
| Reversal of items relating to retirement benefits debited or credited to the CI&E | 5,170 | 0 | 0 | 5,170 | (5,170) | 0 |
| <u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u> | | | | | | |
| Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans | 0 | 0 | 0 | 0 | 0 | 0 |
| Net increase / decrease before transfers to earmarked reserves | 8,913 | 0 | 1,085 | 9,998 | 3,208 | 13,206 |

STATEMENT OF MOVEMENT IN RESERVES

-continued

| | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|--|------------------------------------|-------------------------------|--|-------------------------------------|------------------------------|--|
| Transfers to/from earmarked reserves | | | | | | |
| Budget Carry Forward Reserve | (105) | 105 | 0 | 0 | 0 | 0 |
| Capital Fund Reserve | 0 | (171) | 0 | (171) | 171 | 0 |
| Car Parking Zones Reserve | (33) | 33 | 0 | 0 | 0 | 0 |
| Charter Place Tenants Reserve | 220 | (220) | 0 | 0 | 0 | 0 |
| Climate Change Reserve | (20) | 20 | 0 | 0 | 0 | 0 |
| Development Sites Decontamination Reserve | 0 | (35) | 0 | (35) | 35 | 0 |
| Economic Impact Reserve | (104) | 104 | 0 | 0 | 0 | 0 |
| High Street Innovation | 10 | (10) | 0 | 0 | 0 | 0 |
| Housing Planning Delivery Grant Reserve | 35 | (35) | 0 | 0 | 0 | 0 |
| Invest to Save Reserve | 416 | (416) | 0 | 0 | 0 | 0 |
| LA Business Growth Incentive Reserve (LABGI) | 43 | (43) | 0 | 0 | 0 | 0 |
| New Homes Bonus Reserve | (2,069) | 2,069 | 0 | 0 | 0 | 0 |
| NNDR Collection Fund Reserve | (4,661) | 4,661 | 0 | 0 | 0 | 0 |
| Parks, Waste & Street Strategy Reserve | (60) | 60 | 0 | 0 | 0 | 0 |
| Pension Funding Reserve | (874) | 874 | 0 | 0 | 0 | 0 |
| Performance Reward Grant Reserve (Revenue) | 28 | (28) | 0 | 0 | 0 | 0 |
| Recycling Reserve | 13 | (13) | 0 | 0 | 0 | 0 |
| Vehicle Replacement Reserve | (150) | 150 | 0 | 0 | 0 | 0 |
| Weekly Collection Support Grant Reserve | (1,603) | 158 | 0 | (1,445) | 1,445 | 0 |
| Transfers to/from earmarked reserves | (8,914) | 7,263 | 0 | (1,651) | 1,651 | 0 |
| Increase / Decrease in 2013/14 | 0 | 7,263 | 1,085 | 8,348 | 4,859 | 13,207 |
| Balance as at 31 March 2014 | 1,350 | 20,625 | 13,701 | 35,676 | 101,422 | 137,098 |

0 0

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2012/13 NET EXPEND- ITURE £000 | | Note | 2013/14 | | |
|--|---|------|-----------------------------------|-------------------------|---------------------------------|
| | | | GROSS EXPEND- ITURE £000 | GROSS INCOME £000 | NET EXPEND- ITURE £000 |
| | Central Services to the Public: | | | | |
| 1,105 | Local Taxation Collection | | 1,100 | (317) | 783 |
| 718 | Other Central Services | | 992 | (431) | 561 |
| | Cultural and Related Services: | | | | |
| 4,043 | Leisure Services | | 4,957 | (249) | 4,708 |
| 1,104 | Other Services | | 870 | (143) | 727 |
| | Environmental and Regulatory Services: | | | | |
| 347 | Cemeteries and Crematoria | | 538 | (245) | 293 |
| 2,616 | Environmental Health | | 2,710 | (445) | 2,265 |
| 3,469 | Waste Collection and Disposal | | 5,296 | (941) | 4,355 |
| 3,487 | Planning and Economic Development | | 10,258 | (1,377) | 8,881 |
| 0 | Highways and Transport Services | | 2,543 | (2,655) | (112) |
| 2,715 | Other Housing Services | | 42,487 | (40,053) | 2,434 |
| 3,403 | Corporate and Democratic Core | | 2,850 | (35) | 2,815 |
| 0 | Central Support Services | | 162 | (162) | 0 |
| 138 | Non-distributed Costs | | 104 | 0 | 104 |
| 23,145 | Net Cost of Services | | 74,867 | (47,053) | 27,814 |
| | Other Operating (Income) and Expenditure | | | | |
| (445) | (Gains) / Losses on disposal of long-term assets | | | | (631) |
| (1,147) | Unattached capital receipts | | | | (4,372) |
| 0 | Other Operating (Income) and Expenditure | | | | (61) |
| | Financing and Investment (Income)/Expenditure | | | | |
| 93 | Interest payable and similar charges | | | | 82 |
| 2,164 | Pension interest costs & expected return on assets | | | | 2,978 |
| (412) | Interest receivable and similar income | | | | (266) |
| (4,746) | (Surplus) or deficit on trading undertakings not included in Net Cost of Services | 9 | | | (5,131) |
| (6,086) | Changes in the fair value of Investment Properties | | | | (3,912) |
| 100 | Other Investment (Income) / Expenditure | | | | 0 |
| | Taxation and Non-Specific Grant Income | | | | |
| (8,288) | Council Tax Income | | | | (7,350) |
| (5,316) | Non-domestic Rates Redistribution | | | | (1,725) |
| (1,496) | Non-ringfenced Government Grants | 8 | | | (8,454) |
| (2,175) | Capital Grants and Contributions | 8 | | | (3,402) |
| (4,609) | (Surplus) or Deficit on Provision of Services | 7 | | | (4,430) |
| (320) | (Surplus) / Deficit on revaluation of long-term assets | | | | (1,160) |
| 8,019 | Actuarial (gains) or losses on pension assets and liabilities | 31 | | | (7,616) |
| 7,699 | Other Comprehensive (Income) and Expenditure | | | | (8,776) |
| 3,090 | Total Comprehensive (Income) and Expenditure | | | | (13,206) |

BALANCE SHEET

| 31 March 2013 | | | Note | 31 March 2014 | |
|---------------|-----------------|---|------|---------------|-----------------|
| £000 | £000 | | | £000 | £000 |
| 40,236 | | Land and Buildings | 17 | 40,663 | |
| 5,966 | | Vehicles, Plant and Equipment | 17 | 8,496 | |
| 2,130 | | Infrastructure Assets | 17 | 1,998 | |
| 2,045 | | Heritage Assets | 18 | 2,045 | |
| 113,309 | | Investment Properties | 19 | 105,703 | |
| 900 | | Surplus Assets | 19 | 900 | |
| 1,190 | | Long Term Debtors & Investments | 22 | 1,575 | |
| | 165,776 | Long Term Assets | | | 161,380 |
| 0 | | Assets Held for Sale | 23 | 9,107 | |
| 36 | | Inventories | 24 | 15 | |
| 8,511 | | Short Term Debtors | 25 | 21,501 | |
| 28,111 | | Short Term Investments | 35 | 31,496 | |
| 381 | | Cash and Cash Equivalents | 26 | 2,911 | |
| | 37,039 | Current Assets | | | 65,030 |
| (6,364) | | Short Term Creditors | 28 | (17,705) | |
| (479) | | Short Term Borrowing | 26 | (1,111) | |
| | (6,843) | Current Liabilities | | | (18,816) |
| (5,138) | | Government Grants & Other Contributions in Advance | 29 | (2,840) | |
| (166) | | Deferred Liabilities | 29 | (70) | |
| 0 | | Loans | 29 | (6,000) | |
| (430) | | Provisions | 30 | (139) | |
| (66,347) | | Liability related to Defined Benefit Pension Scheme | 31 | (61,447) | |
| | (72,081) | Long Term Liabilities | | | (70,496) |
| | 123,891 | Net Assets | | | 137,098 |
| 12,616 | | Capital Receipts Reserve | 33b | 13,701 | |
| 13,362 | | Earmarked Reserves | 33c | 20,625 | |
| 1,350 | | General Fund Balance | 33d | 1,350 | |
| | 27,328 | Usable Reserves | | | 35,676 |
| (89) | | Accumulated Absences Reserve | 34b | (104) | |
| 151,477 | | Capital Adjustment Account | 34c | 145,675 | |
| 31 | | Collection Fund Adjustment Account | 34d | (4,371) | |
| (294) | | Deferred Capital Payments | 34e | (84) | |
| 1,265 | | Deferred Capital Receipts | 34f | 10,300 | |
| (75) | | Financial Instruments Adjustment Account | 34g | (75) | |
| (66,347) | | Pensions Reserve | 31 | (61,447) | |
| 10,595 | | Revaluation Reserve | 34i | 11,528 | |
| | 96,563 | Unusable Reserves | | | 101,422 |
| | 123,891 | Total Reserves | | | 137,098 |

Signed

Joanne Wagstaffe CPFA
Director of Finance

Date: 29 September 2014

Signed

Ian Brown
Chairman of Audit Committee

Date: 29 September 2014

CASH FLOW STATEMENT

| 2012/13 | | | Note | 2013/14 | |
|-----------|----------------|--|------|-----------|----------------|
| £000 | £000 | | | £000 | £000 |
| 4,609 | | Net (surplus) or deficit on the provision of services | | 4,430 | |
| (2,570) | | Adjustments to net surplus or deficit on the provision of services for non cash movements | 27 | 2,815 | |
| (320) | | Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities | 27 | (184) | |
| | 1,719 | | | | 7,061 |
| (93) | | Interest element of finance lease payments | | (82) | |
| 412 | | Interest received | | 266 | |
| | 319 | | | | 184 |
| | 2,038 | Net cash flows from Operating Activities | | | 7,245 |
| | | Investing and Financing Activities | | | |
| (2,577) | | Purchase of Long Term Assets | 20 | (8,887) | |
| (2,008) | | Other payments for investing activities | 20 | (3,665) | |
| 1,798 | | Grants and Contributions Applied to Capital Expenditure | 20 | 3,610 | |
| (167,934) | | Purchase of short term and long term investments | | (280,325) | |
| 168,935 | | Proceeds from the sale of investments | | 276,940 | |
| 1,384 | | Proceeds from the sale of Long Term Assets | | 3,374 | |
| (956) | | Movement in Grants and Contributions Unapplied | | (2,394) | |
| 0 | | Long Term Loans | | 6,000 | |
| | (1,358) | | | | (5,347) |
| | 680 | Net increase/(decrease) in cash and cash equivalents | | | 1,898 |
| | (778) | Cash and Cash equivalents at the beginning of the reporting period | | | (98) |
| | (98) | Cash and Cash equivalents at the end of the reporting period | 26 | | 1,800 |

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Accounting Policies - Single Entity and Group Accounts

1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the CIPFA Service Reporting Code of Practice 2013/14 (SERCOP), supported by International Financial Reporting Standards (IFRS) [and statutory guidance issued under section 12 of the 2003 Act]. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non current assets and financial instruments.

1.02 Turnover (for Group Accounts)

Turnover in respect of property development is recognised on unconditional exchange of contracts on disposals of finished developments.

Where construction of pre-sold developments is under-taken, the revenue and profits are recognised in accordance with IFRIC 15. Revenue is determined by independently certified milestones.

1.03 Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- supplies 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
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract
- where revenue and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected

NOTES TO THE CORE FINANCIAL STATEMENTS

1.04 Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

1.05 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Council's financial performance.

1.06 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.07 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation and impairment losses and amortisations are therefore funded, by way of an adjusting transaction, with the Capital Adjustment Account in the Movement in Reserves Statement.

1.08 Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer, or group of officers, or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post Employment Benefits

Employees of the Council are members of the Local Government Pension Scheme, administered by Hertfordshire County Council. The scheme provided defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the Council.

The Local Government Pension Scheme

- the Local Government Scheme is accounted for as a defined benefits scheme
- the liabilities of Hertfordshire County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the indicative rate of return on high quality corporate bonds)

NOTES TO THE CORE FINANCIAL STATEMENTS

- the assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Council are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS)19. The assets are:
 - Equities
 - Bonds
 - Property
 - Cash

The bid value of assets for the Fund are provided by the Administering Authority, Hertfordshire County Council.

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

- current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost — the increase in liabilities arising from current year decisions which relate to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- interest cost — the expected increase in the present value of liabilities during the year as they move one year closer to being paid — debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets — the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments — the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees — debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — debited to the Pensions Reserve
- contributions paid to the HCC pension fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

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

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

NOTES TO THE CORE FINANCIAL STATEMENTS

1.09 Events After the Balance Sheet Date

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.10 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. The Council currently has no long-term external debt.

Financial Assets - Loans and Receivables

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market.

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

However, the Council has made a few loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, 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 — the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

1.11 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions of the payment
- the grants or contributions will be received

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify 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.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

1.12 Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

NOTES TO THE CORE FINANCIAL STATEMENTS

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired — any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

1.13 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

1.14 Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

1.15 Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment — applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

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

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property — applied to write down the lease debtor (together with any premiums received); and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

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

1.16 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SERCOP). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core — costs relating to the Council's status as a multi-functional, democratic organisation
- Non-Distributed Costs — the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale

These two cost categories are defined in SERCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.17 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

NOTES TO THE CORE FINANCIAL STATEMENTS

Assets are then carried in the Balance Sheet using the following measurement bases:

- Infrastructure, community assets and assets under construction — depreciated historical cost
- Dwellings — fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets — fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value — EUV)

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified:

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

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

When impairment losses are identified:

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Land and buildings — straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles — straight-line over the estimated life of the vehicle
- Plant, furniture and equipment — 25% on a reducing balance basis
- Infrastructure — straight-line allocation over 25 years
- Finance leases — straight-line over the term of the lease

Depreciation commences in the year following acquisition.

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Capital receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for either new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

Construction Contracts (for Group Accounts)

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

1.18 Heritage Assets

Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

The Heritage Assets are relatively static and acquisitions, donations and disposals are rare. Where acquisitions do occur, they are initially recognised at cost and donations are recognised at valuation ascertained by insurance officers, museum curators or external valuers. Proceeds from the disposal of Heritage Assets are accounted for in accordance with the Council's general policies relating to the disposals of property, plant and equipment. The Council has a rolling programme of major repair and restoration of its heritage assets and therefore the assets are deemed to have indefinite lives and the Council does not consider it necessary to charge depreciation.

The Council's collection of Heritage Assets, which includes works of art, musical equipment, sculptures, statues, war memorials and civic regalia, are reported at insurance valuations, which are based on market values, internal or external valuations. These insurance valuations are reviewed and updated on an annual basis. The carrying amounts of heritage assets are reviewed where there is evidence of impairment or where an item has suffered physical deterioration or breakage. Any impairment is recognised and measured in accordance with the Council's general policy on impairment.

1.19 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

NOTES TO THE CORE FINANCIAL STATEMENTS

1.20 Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council — these reserves are explained in the relevant policies.

1.21 Revenue Expenditure Funded from Capital under Statute

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

1.22 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

1.23 Single Entity Financial Statements

The financial statements presented by a parent, an investor in an associate or a venturer in a joint venture (jointly controlled entity) in which the investments are accounted for on the basis of the direct equity interest (i.e. at cost) rather than on the basis of the reported results and net assets of the investees. In the context of the Code, an Authority's single entity financial statements are deemed to be separate financial statements.

1.24 Group Accounts - Recognition of Group Entities and Basis of Consolidation

Group Accounts are the financial statements of an entity together with:

- its subsidiary undertakings,
- its investments in associates, and
- its interests in joint ventures (jointly controlled entities); presented as a single economic entity.

Subsidiary undertakings are accounted for in accordance with the implementation of IAS27 (International Accounting Standard 27) in the 2013/14 Code. The 2013/14 Code requires consolidation of subsidiaries. Consolidation is a method of accounting whereby an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, reserves, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:

NOTES TO THE CORE FINANCIAL STATEMENTS

- the carrying amount of the parent's investment in each subsidiary and the parent's portion of reserves of each subsidiary are eliminated;
- any non controlling interest is identified and separately disclosed;
- intragroup balances and transactions, including income, expenses and dividends, are eliminated in full.

Investments in associates are accounted for in accordance with the implementation of IAS28 in the 2013/14 Code. The 2013/14 Code requires the consolidation of an entity's interest in associates. Joint ventures are accounted for in accordance with the implementation of IAS31 in the 2013/14 Code. The 2013/14 Code requires use of the "equity method" of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the investor's share of the net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

1.25 Taxation (for Group Accounts)

Taxation on all profits is solely the personal liability of individual members. Consequently neither taxation nor related deferred taxation arising in respect of Watford Health Campus Partnership LLP are accounted for in these financial statements.

1.26 Subscription and repayment of members' capital (for Group Accounts)

The capital requirements of the LLP are reviewed from time to time by the Board and further capital contributions may be made at the discretion of the members. No interest is charged on capital and except pursuant to a dissolution, no capital can be withdrawn by a member unless agreed by all members.

1.27 Allocation of profits and drawings (for Group Accounts)

The allocation of profits to those who were members during the financial period occurs following the finalisation of the annual financial statements.

The allocation of profits between members is determined by entitlements outlined in the Members' Agreement and is dependent on certain profit criteria being achieved. In accordance with the SORP as a consequence of the LLPs profits being automatically divided in line with the entitlements outlined in the Members' Agreement these profits are treated as an expense in the profit and loss account.

1.28 Work in progress (for Group Accounts)

Development land and work in progress is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the profit and loss account.

2 Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

For 2013/14 the following accounting policy changes that need to be reported relate to:

- IFRS 13 Fair Value Measurement (May 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS27 Separate Financial Statements (as amended in 2011)
- IAS28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financials Instruments: Presentation

Appendix C of the 2014/15 Code will provide details of the disclosures required.

3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement in the Statements of Accounts is that there is a high level of uncertainty about future levels of funding for local government. However, 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 close facilities and reduce levels of service provision.

4 Prior Period Adjustments

There were no prior period adjustments in 2013/14.

5 Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Finance on 29 September 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statement and notes have been adjusted in all material respects to reflect the impact of this information.

6 Assumptions Made About the Future and Other Major Sources of Uncertainty

The Statements of Accounts contains estimated figures that are based on assumptions made by the Council about the future that are otherwise uncertain. Estimates are made taking in to account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2014 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

| 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 the individual assets. The current economic climate makes it possible that the Council will be unable to sustain its current spending on repairs and maintenance, bringing in to doubt the useful lives assigned to assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. |
| Pensions 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 the retirement ages, mortality rates and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects of these individual assumptions can have a major impact on the pension liability calculation. During 2013/14, The Council's actuaries advised that the net pensions liability had declined by £4,900k as a result of estimates and assumptions being updated. |
| Arrears | At 31 March 2014, the Council had a short term sundry debtor balance of £10,361k. A review of significant balances suggested a provision of £7,938k was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient. See Note 25. | If collection rates were to deteriorate an increasing level of doubtful debts would require an additional amount to be set aside as a bad debt provision or additional bad debt write offs. |

7 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2013/14 (SERCOP). However decisions about resource allocation are taken by the Council's Cabinet on the basis of Finance Digest budget reports analysed across directorates. These reports are produced several times a year to inform senior management and members about the current and forecasted financial position of the Council. They are prepared on a different basis from the accounting policies used in the financial statement. In particular:

- Estimated charges are made in relation to capital expenditure, whereas different actual amounts for depreciation, revaluation and impairment gains and losses are charged to the Comprehensive Income and Expenditure Statement at the year end
- The cost of retirement benefits is based on cash flows (Payment of employer's pensions contributions rather than current service cost of benefits accrued at the year end)
- Expenditure on some support services is budgeted for centrally and not charged to directorates

NOTES TO THE CORE FINANCIAL STATEMENTS

Finance Digest - Actuals

| 2012/13 Finance Digest £000 | | 2013/14 Finance Digest £000 |
|--------------------------------------|---|--------------------------------------|
| | Service Area | |
| 0 | Corporate Services | 0 |
| 6,752 | Community Services | 9,710 |
| 5,926 | Environmental Services | 3,751 |
| 3,324 | Planning | 3,707 |
| 1,360 | Corporate Management | 1,025 |
| (1,091) | Legal and Property Services | 1,788 |
| 4,107 | Shared Services | 0 |
| (3,529) | Strategic Finance, Capital, IAS19 and Other Adjustments | (7,963) |
| 16,849 | Net General Fund | 12,018 |
| | Funding | |
| (8,258) | Council Tax | (7,350) |
| (103) | Revenue Support Grant | (2,862) |
| (5,316) | NNDR | (6,127) |
| (3,598) | Central Government and Other Funding | (4,592) |
| (17,275) | Total Funding | (20,931) |
| (426) | Net General Fund less total funding | (8,913) |
| 426 | Transfers To / (From) Reserves | 8,913 |
| 0 | Change To General Fund Balance | 0 |

Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure within the Finance Digest (FD) relate to the amounts included in the Comprehensive Income and Expenditure Statement (CIES).

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2012/13 | | | Subjective Analysis | 2013/14 | | |
|------------------------|---------------------------|-----------------|---|------------------------|---------------------------|-----------------|
| Finance Digest £000 | Not Inc. In FD £000 | CI&E £000 | | Finance Digest £000 | Not Inc. In FD £000 | CI&E £000 |
| (15,928) | 0 | (15,928) | Fees, Charges and Other Service Income | (15,547) | 0 | (15,547) |
| (411) | (1) | (412) | Interest and Investment Income | (266) | 0 | (266) |
| (8,258) | 0 | (8,258) | Income From Council Tax | (7,350) | 0 | (7,350) |
| (50,303) | (1,998) | (52,301) | Government Grants and Contributions | (60,070) | 0 | (60,070) |
| (788) | 788 | 0 | Transfer from reserves | (1,293) | 1,293 | 0 |
| (75,688) | (1,211) | (76,899) | Total Income | (84,526) | 1,293 | (83,233) |
| 19,426 | (25) | 19,401 | Employee Expenses | 12,828 | 0 | 12,828 |
| 0 | (1,332) | (1,332) | IAS19 Adjustments | 858 | 0 | 858 |
| 55,443 | 0 | 55,443 | Other Service Expenses | 54,419 | 0 | 54,419 |
| (552) | 0 | (552) | Support Service Recharges | (552) | 0 | (552) |
| 0 | 2,242 | 2,242 | Depreciation, Amortisation and Impairment | 6,994 | 0 | 6,994 |
| 98 | 0 | 98 | Interest Payments | 58 | 0 | 58 |
| 265 | (3,275) | (3,010) | Other Items in Budget Monitoring | 4,198 | 0 | 4,198 |
| 391 | (391) | 0 | Transfer to reserves | 10,207 | (10,207) | 0 |
| 75,071 | (2,781) | 72,290 | Total Expenditure | 89,010 | (10,207) | 78,803 |
| | | | (Surplus)/Deficit on Provision of Services / General Fund Movement | 4,484 | (8,914) | (4,430) |
| (617) | (3,992) | (4,609) | | | | |

NOTES TO THE CORE FINANCIAL STATEMENTS

8 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|---|-----------------|
| | Credited To Taxation and Non-Specific Grant Income | |
| 0 | Cassiobury Park HLF Grant | 278 |
| 206 | Council Tax Freeze Grant | 287 |
| 0 | Council Tax Support Grant | 958 |
| 0 | Council Tax Transition Grant | 26 |
| 0 | Colne River Project | 54 |
| 100 | High Street Innovation Fund | 0 |
| 160 | Housing Planning Delivery Grant | 0 |
| 280 | Leisure Grant | 119 |
| 1,393 | New Homes Bonus | 2,069 |
| 5,316 | NNDR Redistributed | 0 |
| 14 | Oxhey Park | 178 |
| 191 | Performance Reward Grant | 0 |
| 103 | Revenue Support Grant | 2,862 |
| 1,224 | Section 106 Contributions | 2,608 |
| 0 | TRDC Shared Services Transition - Capital | 165 |
| 0 | Small Business Rate Relief | 251 |
| 0 | Waste Collection Support Grant | 2,001 |
| 8,987 | | 11,856 |
| | Credited To Services | |
| 40 | Arts Council - Lottery | 40 |
| 42 | Building Safer Communities | 26 |
| 60 | Capital Funding | 0 |
| 15 | CCTV | 39 |
| 23 | Cemeteries | 23 |
| 680 | Council Tax Benefit Administration Grant | 633 |
| 279 | Disabled Facility Grant | 239 |
| 42,161 | DWP Housing Benefit Grant | 38,168 |
| 10 | Elections | 81 |
| 297 | Housing - Homelessness | 181 |
| 0 | Individual Electoral Registration | 15 |
| 67 | Miscellaneous Highways | 65 |
| 120 | New Burdens | 103 |
| 50 | Other Grants | 157 |
| 30 | Parks Development | 4 |
| 14 | Performance and Engagement | 5 |
| 76 | Police & Crime Commissioner | 29 |
| 17 | Sports Development | 4 |
| 55 | Street Cleansing | 24 |
| 40 | Taxi Marshall Scheme | 30 |
| 433 | Waste Management | 423 |
| 44,509 | | 40,289 |
| 53,496 | Total | 52,145 |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|-------------------------|-----------------|
| 262 | Other Government Grants | 52 |
| 4,875 | Section 106 | 2,788 |
| 5,137 | Total | 2,840 |

9 Trading Operations

The Council has established trading units where the services provided are required to operate in a commercial environment. These operations include commercially let trading estate units, shop units and a non-livestock trading market.

The income and expenditure relating to these operations are shown below:

| 2012/13 | | | | 2013/14 | | |
|----------------|--------------------------|-----------------------|-------------------------------|----------------|--------------------------|-----------------------|
| Income £000 | Expend- iture £000 | Net Income £000 | | Income £000 | Expend- iture £000 | Net Income £000 |
| 6,935 | (2,100) | 4,835 | Investment Property Market | 6,485 | (1,236) | 5,249 |
| 377 | (466) | (89) | | 1 | (119) | (118) |
| 7,312 | (2,566) | 4,746 | Total | 6,486 | (1,355) | 5,131 |

10 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 statutory inspections.

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|---|-----------------|
| 68 | Fees payable to the audit commission with regard to external audit services carried out by the appointed auditor for the year, Grant Thornton | 61 |
| 16 | Fees payable to Grant Thornton for the certification of grant claims and returns for the year | 11 |
| 84 | Total | 72 |

NOTES TO THE CORE FINANCIAL STATEMENTS

11 Members' Allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and the maximum amounts payable in respect of certain allowances.

The total of Members' Allowances paid in the year was £434,511 (2012/13: £442,000).

Further information on Members' Allowances can be obtained from the Council's Democratic Services section.

12 Officers' Remuneration

The Council is required to disclose the number of employees in the accounting period whose remuneration fell in each bracket of a scale in multiples of £5,000, starting with £50,000. The relevant details are as follows:

| 2012/13 No. of employees | Remuneration Band | 2013/14 No. of employees |
|--------------------------------|---------------------|--------------------------------|
| 9 | £50,000 - £54,999 | 8 |
| 2 | £55,000 - £59,999 | 2 |
| 0 | £60,000 - £64,999 | 1 |
| 5 | £65,000 - £69,999 | 3 |
| 2 | £70,000 - £74,999 | 1 |
| 0 | £75,000 - £79,999 | 0 |
| 0 | £80,000 - £84,999 | 0 |
| 0 | £85,000 - £89,999 | 0 |
| 0 | £90,000 - £94,999 | 0 |
| 0 | £95,000 - £99,999 | 0 |
| 1 | £100,000 - £104,999 | 0 |
| 0 | £105,000 - £109,999 | 0 |
| 0 | £110,000 - £114,999 | 0 |
| 0 | £115,000 - £119,999 | 0 |
| 0 | £120,000 - £124,999 | 0 |
| 0 | £125,000 - £129,999 | 0 |
| 0 | £130,000 - £134,999 | 0 |
| 1 | £135,000 - £139,999 | 1 |
| 0 | £140,000 - £214,999 | 0 |
| 1 | £215,000 - £219,999 | 0 |
| 21 | Total | 16 |

NOTES TO THE CORE FINANCIAL STATEMENTS

The following tables provide additional detail for senior officers remuneration where salary for the establishment post falls between £50,000 and £150,000.

| 2012/13 | Salary Including Fees and Allowances | Compensation For Loss of Office | Total Remun'n excluding Pension Contrib'n | Pension Contribution | Total Remuneration |
|---|--------------------------------------|---------------------------------|---|----------------------|--------------------|
| Post | £ | £ | £ | £ | £ |
| Managing Director | 135,105 | 0 | 135,105 | 36,208 | 171,313 |
| Executive Director - Services | 98,906 | 119,291 | 218,197 | 26,507 | 244,704 |
| Head of Legal & Property Services | 72,256 | 0 | 72,256 | 19,365 | 91,621 |
| Head of Strategic Finance | 82,256 | 20,899 | 103,155 | 0 | 103,155 |
| Head of Environmental Services | 66,851 | 0 | 66,851 | 17,916 | 84,767 |
| Head of Human Resources | 66,858 | 0 | 66,858 | 17,918 | 84,776 |
| Head of Planning & Transportation | 66,871 | 0 | 66,871 | 17,916 | 84,787 |
| Head of Community Services | 66,857 | 0 | 66,857 | 17,918 | 84,775 |
| Head of Information, Communication & Technology | 66,930 | 0 | 66,930 | 0 | 66,930 |
| Total | 722,890 | 140,190 | 863,080 | 153,748 | 1,016,828 |

| 2013/14 | Salary Including Fees and Allowances | Compensation For Loss of Office | Total Remun'n excluding Pension Contrib'n | Pension Contribution | Total Remuneration |
|--|--------------------------------------|---------------------------------|---|----------------------|--------------------|
| Post | £ | £ | £ | £ | £ |
| Managing Director | 135,780 | 0 | 135,780 | 21,589 | 157,369 |
| Executive Director - Services (Post deleted in May 2013) | 9,801 | 0 | 9,801 | 1,437 | 11,238 |
| Head of Legal & Property Services | 72,976 | 0 | 72,976 | 11,603 | 84,579 |
| Head of Strategic Finance (Post deleted in July 2013) | 28,140 | 0 | 28,140 | 0 | 28,140 |
| Head of Environmental Services | 69,752 | 0 | 69,752 | 11,091 | 80,843 |
| Head of Human Resources | 62,173 | 0 | 62,173 | 9,886 | 72,059 |
| Head of Planning & Transportation | 69,752 | 0 | 69,752 | 11,091 | 80,843 |
| Head of Community Services | 69,755 | 0 | 69,755 | 11,091 | 80,846 |
| Total | 518,129 | 0 | 518,129 | 77,788 | 595,917 |

13 Termination Benefits

The Council terminated the contracts of a number of employees in 2013/14, incurring liabilities of £100,972 (2012/13: £381,329). Of this total, £90,584 (2012/13: £262,593) was payable in the form of compensation for loss of office and £10,388 (2012/13: £118,736) in enhanced pension benefits as part of the Council's rationalisation of Services.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

| 2012/13 | | Cost Band | 2013/14 | |
|-------------------------------|-----------------------------|---------------------|-------------------------------|-----------------------------|
| Total number of exit packages | Total cost of exit packages | | Total number of exit packages | Total cost of exit packages |
| 8 | 35,783 | £0 - £20,000 | 4 | 41,390 |
| 2 | 53,104 | £20,001 - £40,000 | 0 | 0 |
| 1 | 58,608 | £40,001 - £60,000 | 1 | 59,582 |
| 0 | 0 | £60,001 - £80,000 | 0 | 0 |
| 1 | 82,374 | £80,001 - £100,000 | 0 | 0 |
| 0 | 0 | £100,001 - £150,000 | 0 | 0 |
| 1 | 151,460 | £150,001 - £200,000 | 0 | 0 |
| 13 | 381,329 | Total | 5 | 100,972 |

14 Related Party Transactions

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.

a) Central Government & Other Local Bodies

Central 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. Housing Benefits).

Details of grant funding transactions with Government Departments and Agencies are set out in Note 8 to the Core Financial Statements.

The Council paid precepts to Hertfordshire County Council and Hertfordshire Police Authority, further details of which are included in the Collection Fund Accounts.

b) Members and Chief Officers

The Council is one of five Districts (the others being Dacorum, Hertsmere, St Albans, and Three Rivers) that oversee the operation of the West Hertfordshire Crematorium. Watford provides the Honorary Clerk to the Joint Committee (the Managing Director, Manny Lewis, undertakes this role). Councillor Ian Brown is the Council's Member representative on the Joint Committee. In 2013/14, as in 2012/13, no contribution towards the running of the Crematorium was required from the Council. The Crematorium's practice is to meet all running costs from its own income, and build up reserves to meet future capital improvement costs. Should a deficiency contribution from Watford Borough be necessary, the contribution would be calculated in proportion to its population. The net assets of the Joint Committee as at 31 March 2014 were £5.20m (31 March 2013: £5.26m). However, Watford's share of the net assets excludes property acquired or constructed for the purpose of Cremation which belong to and are vested in the Authority where the Crematorium is sited.

NOTES TO THE CORE FINANCIAL STATEMENTS

Councillors Kareen Hastrick and Derek Scudder are members of the Citizens Advice Bureau (CAB) Management Board and Council representatives. The board was paid an amount of £204,192 in grant and £42,531 in rent support during 2013/14 (£174,222 and £39,095 for grant and rent respectively in 2012/13). Councillor Derek Scudder is on the management board of the Watford Sheltered Workshop who lease a premises from Watford rent free and also on the Board of the Green Deal Together CIC.

Councillor George Derbyshire is a Director and Council representative on the Watford Palace Theatre Trust. The Trust received £257,730 in grant aid and £32,500 in rent support from the Council in 2013/14 (£257,728 and £32,500 respectively in 2012/13).

Following the transfer of the housing stock, Councillor Kareen Hastrick is a Council representative on the Board of the Watford Community Housing Trust. Also, Councillors Ian Brown and Jan Brown are Directors of the Watford Charity Centre Limited (The Le Marie Centre) who lease a property from the Council.

Mayor Dorothy Thornhill is the Council's representative on the National LGA, on the LGA Environment Board, on the Inter Authorities Health Partnership Board, Herts Anti Poverty Partnership and Chair of LSP One Watford. She is also General Assembly Member of Safer Watford, Vice President of Watford Football Club and Patron of WFC Educational Trust which is negotiating a lease for the Meriden Community Centre.

Councillor Mark Watkin is on the Board of the Watford Multi-Cultural Community Centre as a Council representative. The Head of Community Services has a relative who is a senior officer for Hightown Praetorian Housing Association which is one of Watford Borough Council's Housing and Regeneration Initiative (HARI) partners.

Councillors Mo Mills is a trustee of the West Watford Community Association who received a grant from the Council.

In addition, a small number of Council Members and Officers have made declarations of personal interests in voluntary and other organisations, which are grant aided or otherwise financed by the Council, which are not disclosed separately in this note as the sums involved are not considered material.

The Watford Health Campus Limited Liability Partnership was formally set up in June 2013 and the Council is a 50:50 partner with Kier Property Investment Limited. The Partnership Board Members for the Council are Manny Lewis, Jane Custance and Jo Wagstaffe. The LLP is a Local Asset Backed Vehicle (LABV) with Kier Property to take forward the redevelopment of the Health Campus.

c) Hertfordshire Pension Fund

The details of the transactions with the Council's pension fund are provided in Note 31 to the Core Financial Statements.

15 Partnership Working

Since April 2009, Watford Borough Council and Three Rivers District Council have been participating in Joint Services, provided by the Joint Shared Services Committee. During 2013/14 the services that have been provided jointly are Human Resources, Finance, Revenue and Benefits, and the ICT function. These services are jointly provided with an aim to making efficiencies for both Authorities. From April 2014, the Governance arrangements for shared services has changed. A new agreement between Watford Borough Council and Three Rivers District Council has introduced a lead authority model.

NOTES TO THE CORE FINANCIAL STATEMENTS

The net expenditure of the shared services is apportioned between the Councils based on the Shared Service Agreement. The table below shows the total expenditure and income of the Joint Committee of which Watford Borough Council's share is £4.471million (2012/13: £4.113million).

| 2012/13 | | | Services | 2013/14 | | |
|---------------------------|----------------------|------------------|---|---------------------------|----------------------|------------------|
| Gross Expenditure £000 | Gross Income £000 | Net Cost £000 | | Gross Expenditure £000 | Gross Income £000 | Net Cost £000 |
| 1,436 | 0 | 1,436 | Local Tax Collection | 1,628 | (1) | 1,627 |
| 1,724 | 0 | 1,724 | Housing Benefits | 1,883 | 0 | 1,883 |
| 3,583 | (7) | 3,576 | Central Support Services | 3,930 | (6) | 3,924 |
| 6,743 | (7) | 6,736 | Net Cost of Services / Operating Expenditure | 7,441 | (7) | 7,434 |
| | | (2,623) | Income from Three Rivers District Council | | | (2,963) |
| | | (4,113) | Income from Watford Borough Council | | | (4,471) |
| | | 0 | (Surplus) / Deficit for the year | | | 0 |

16 Intangible Assets

Intangible long-term assets are non-financial assets which do not have a physical substance but are identified and controlled by the Council through legal rights, e.g. IT software, and which bring benefits to the Council for more than one year.

During 2013/14 no capital expenditure was recorded in this category.

17 Property, Plant and Equipment

a) Information on Assets Held

The Property of the Council comprises:

| 31 Mar 13 No. / area | | 31 Mar 14 No. / area |
|-------------------------|--|-------------------------|
| | Property, Plant and Equipment | |
| 1 | Museum | 1 |
| 5 | Community Centres | 5 |
| 1 | Assembly Hall | 1 |
| 2 | Play Facilities | 2 |
| 2 | Theatres | 2 |
| 3 | Council Offices | 3 |
| 2 | Depot | 1 |
| 4 | Car Parks | 4 |
| 2 | Cemeteries | 2 |
| 2 | Leisure Pools | 2 |
| | Community Assets (see note below) | |
| 915 acres | Parks and Open Spaces | 915 acres |
| 9 | Allotments | 9 |

NOTES TO THE CORE FINANCIAL STATEMENTS

Community Assets: These assets are held for the community in perpetuity. They are often assets that have been in the community for a long period, and little if any record exists of their original cost. The assets are not expected to be sold and have a nominal value in the accounts of £1.

b) Movement of Property, Plant and Equipment

| 2012/13 | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Infra-structure £000 | Total £000 |
|---|--------------------------|--|-------------------------|-----------------|
| Cost or valuation | | | | |
| At 1 April 2012 | 43,252 | 12,848 | 2,613 | 58,713 |
| Additions - Capital Programme | 789 | 1,765 | 23 | 2,577 |
| Additions - Finance Leases | 0 | 52 | 0 | 52 |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | 205 | 0 | 0 | 205 |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services | (780) | 0 | 0 | (780) |
| Derecognition - Disposals | 0 | 0 | 0 | 0 |
| Derecognition - Other | 0 | (650) | 0 | (650) |
| Assets reclassified (to) / from Held for Sale | 0 | 0 | 0 | 0 |
| Other movements in cost or valuation | 0 | 82 | 0 | 82 |
| At 31 March 2013 | 43,466 | 14,097 | 2,636 | 60,199 |
| Accumulated Depreciation & Impairment | | | | |
| At 1 April 2012 | (2,412) | (7,465) | (375) | (10,252) |
| Depreciation Charge | (855) | (1,234) | (131) | (2,220) |
| Depreciation written out to the Revaluation Reserve | 0 | 0 | 0 | 0 |
| Depreciation written out to the surplus / deficit on the provision of services | 0 | 0 | 0 | 0 |
| Impairment losses / (reversals) recognised in the Revaluation Reserve | 37 | 0 | 0 | 37 |
| Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services | 0 | 0 | 0 | 0 |
| Derecognition - Disposals | 0 | 0 | 0 | 0 |
| Derecognition - Other | 0 | 650 | 0 | 650 |
| Other movements in depreciation and impairment | 0 | (82) | 0 | (82) |
| At 31 March 2013 | (3,230) | (8,131) | (506) | (11,867) |
| Balance Sheet Value at 31 March 2013 | 40,236 | 5,966 | 2,130 | 48,332 |
| Balance Sheet Value at 1 April 2012 | 40,840 | 5,383 | 2,238 | 48,461 |

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2013/14 | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Infra-structure £000 | Total £000 |
|---|--------------------------------------|---|---------------------------------|-----------------------|
| Cost or valuation | | | | |
| At 1 April 2013 | 43,466 | 14,097 | 2,636 | 60,199 |
| Additions - Capital Programme | 4,664 | 4,223 | 0 | 8,887 |
| Additions - Finance Leases | 0 | 0 | 0 | 0 |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve | 1,119 | 0 | 0 | 1,119 |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services | (4,328) | 0 | 0 | (4,328) |
| Derecognition - Disposals | (100) | (575) | 0 | (675) |
| Derecognition - Other | 0 | (260) | 0 | (260) |
| Assets reclassified (to) / from Held for Sale | (35) | 0 | 0 | (35) |
| Other movements in cost or valuation | 0 | 0 | 0 | 0 |
| At 31 March 2014 | 44,786 | 17,485 | 2,636 | 64,907 |
| Accumulated Depreciation & Impairment | | | | |
| At 1 April 2013 | (3,230) | (8,131) | (506) | (11,867) |
| Depreciation Charge | (991) | (1,446) | (132) | (2,569) |
| Depreciation written out to the Revaluation Reserve | 0 | 0 | 0 | 0 |
| Depreciation written out to the surplus / deficit on the provision of services | 64 | 0 | 0 | 64 |
| Impairment losses / (reversals) recognised in the Revaluation Reserve | 34 | 0 | 0 | 34 |
| Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services | 0 | 0 | 0 | 0 |
| Derecognition - Disposals | 0 | 328 | 0 | 328 |
| Derecognition - Other | 0 | 260 | 0 | 260 |
| Other movements in depreciation and impairment | 0 | 0 | 0 | 0 |
| At 31 March 2014 | (4,123) | (8,989) | (638) | (13,750) |
| Balance Sheet Value at 31 March 2014 | 40,663 | 8,496 | 1,998 | 51,157 |
| Balance Sheet Value at 1 April 2013 | 40,236 | 5,966 | 2,130 | 48,332 |

c) Revaluations

The Council carried 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. Valuations are carried out internally and the basis of valuations is in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. All assets have been valued individually, with the final statements of account reconciled to the valuation certificates. The basis of valuing individual classes of assets owned by the Council is detailed in Note 1 to the Core Financial Statements.

NOTES TO THE CORE FINANCIAL STATEMENTS

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme. The Council undertakes an impairment review at the year end and any asset which has had a material gain or loss in value during the year is adjusted. Therefore, the Council believes that the prior year valuations are still appropriate.

| | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Infra- structure £000 | Total £000 |
|--------------------------------|-----------------------------|---|-----------------------------|---------------|
| Carried at historical cost | 0 | 17,485 | 2,636 | 20,121 |
| Valued at current value as at: | | | | |
| 31/03/2014 | 3,565 | 0 | 0 | 3,565 |
| 31/03/2013 | 2,272 | 0 | 0 | 2,272 |
| 31/03/2012 | 11,250 | 0 | 0 | 11,250 |
| 31/03/2011 | 25,553 | 0 | 0 | 25,553 |
| 31/03/2010 | 2,146 | 0 | 0 | 2,146 |
| Total Cost or Valuation | 44,786 | 17,485 | 2,636 | 64,907 |
| | | | | |

d) Information About Depreciation Methodologies

Depreciation has been provided for all assets with a finite useful life. The basis for depreciating assets is detailed in the Statement of Accounting Policies. Depreciation commences in the year following acquisition. Freehold land, investment properties, Surplus Assets and Heritage Assets are not depreciated. On all other assets where depreciation has been provided, assets have been depreciated on the following basis:

| | |
|------------------------------|---|
| Buildings | Straight-line over the useful life of the property as estimated by the valuer |
| Vehicles | Straight-line over the estimated life of the vehicle |
| Plant, Furniture & Equipment | 25% on a reducing balance basis |
| Infrastructure | Straight-line over 25 years |
| Finance Leases | Straight-line over the term of the lease |

18 Heritage Assets

The Council's Heritage Assets are reported in the Balance Sheet at insurance valuations which are based on market values. These insurance values are reviewed and updated annually. The Council has a rolling programme of repair of its Heritage Assets and regularly reviews the conditions of its assets. The Council keeps a register of all its Heritage Assets and records the nature, condition and location of each asset.

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2012/13 | Musical Instrument £000 | Statues, Sculptures & War Memorials £000 | Works of Art £000 | Civic Regalia £000 | Total £000 |
|--------------------------------------|-------------------------------|--|-------------------------|--------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 April 2012 | 400 | 745 | 700 | 200 | 2,045 |
| Additions | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Revaluations increases / (decreases) | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2013 | 400 | 745 | 700 | 200 | 2,045 |

| 2013/14 | Musical Instrument £000 | Statues, Sculptures & War Memorials £000 | Works of Art £000 | Civic Regalia £000 | Total £000 |
|--------------------------------------|-------------------------------|--|-------------------------|--------------------------|---------------|
| Cost or valuation | | | | | |
| At 1 April 2013 | 400 | 745 | 700 | 200 | 2,045 |
| Additions | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Revaluations increases / (decreases) | 0 | 0 | 0 | 0 | 0 |
| At 31 March 2014 | 400 | 745 | 700 | 200 | 2,045 |

19 Investment Properties and Surplus Assets

a) Information on Assets Held

The Investment Properties and Surplus Assets of the Council comprise:

| 31 Mar 13 No. / area | | 31 Mar 14 No. / area |
|-------------------------|------------------------------------|-------------------------|
| 209 | Commercial Properties | 209 |
| 1 | Old Woolworths Store | 1 |
| 1 | Business Park | 1 |
| 250,000 sq.ft | Charter Place Shopping Area | 250,000 sq.ft |
| 1 | Market | 1 |
| 7% of net profit | Share in Harlequin Shopping Centre | 7% of net profit |
| 1 | Cardiff Road Industrial Estate | 0 |
| 1 | Surplus Assets | 1 |
| 2 | Assets Held for Sale | 3 |

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Movement of Investment Properties and Surplus Assets

| 2012/13 | Investment Properties £000 | Surplus Assets £000 | Total £000 |
|---|----------------------------------|---------------------------|----------------|
| Cost or valuation | | | |
| At 1 April 2012 | 106,529 | 1,160 | 107,689 |
| Additions | 421 | 0 | 421 |
| Revaluation increases / (decreases) recognised in the Surplus / | | | |
| Deficit on the provisions of services | 6,359 | (260) | 6,099 |
| Derecognition - Disposals | 0 | 0 | 0 |
| Derecognition - Other | 0 | 0 | 0 |
| Assets reclassified (to) / from Held for Sale | 0 | 0 | 0 |
| Other movements in cost or valuation | 0 | 0 | 0 |
| At 31 March 2013 | 113,309 | 900 | 114,209 |
| Balance Sheet Value at 31 March 2013 | 113,309 | 900 | 114,209 |
| Balance Sheet Value at 1 April 2012 | 106,529 | 1,160 | 107,689 |

| 2013/14 | Investment Properties £000 | Surplus Assets £000 | Total £000 |
|---|----------------------------------|---------------------------|----------------|
| Cost or valuation | | | |
| At 1 April 2013 | 113,309 | 900 | 114,209 |
| Additions | 504 | 0 | 504 |
| Revaluation increases / (decreases) recognised in the Surplus / | | | |
| Deficit on the provisions of services | 3,912 | 0 | 3,912 |
| Derecognition - Disposals | (2,950) | 0 | (2,950) |
| Derecognition - Other | 0 | 0 | 0 |
| Assets reclassified (to) / from Assets Held for Sale | (9,072) | 0 | (9,072) |
| Other movements in cost or valuation | 0 | 0 | 0 |
| At 31 March 2014 | 105,703 | 900 | 106,603 |
| Balance Sheet Value at 31 March 2014 | 105,703 | 900 | 106,603 |
| Balance Sheet Value at 1 April 2013 | 113,309 | 900 | 114,209 |

During the year, the major revaluation increases included Charter Place (+£0.5m), Century Retail Park (+£1.62m), Waterfields Retail Park (+£1.50m) and Chess Site-9-17 Caxton Way (+£0.41m). There were also several revaluation decreases, including 2 Butterwick (-£0.23m).

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Accounted for in Comprehensive Income and Expenditure Statement

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

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 7,312 | Rental income from Investment Property | 6,486 |
| (2,566) | Direct operating expenses arising from Investment properties | (1,355) |
| 4,746 | Net income | 5,131 |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

d) Revaluations

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme. The Council undertakes an impairment review at the year end and any asset which has had a material gain or loss in value during the year is adjusted. Therefore, the Council believes that the prior year valuations are still appropriate.

| | Investment Properties £000 | Surplus Assets £000 | Total £000 |
|---------------------------------------|----------------------------------|---------------------------|----------------|
| Valued at current value as at: | | | |
| 31/03/2014 | 49,035 | 0 | 49,035 |
| 31/03/2013 | 29,613 | 900 | 30,513 |
| 31/03/2012 | 11,568 | 0 | 11,568 |
| 31/03/2011 | 9,571 | 0 | 9,571 |
| 31/03/2010 | 5,916 | 0 | 5,916 |
| Total Cost or Valuation | 105,703 | 900 | 106,603 |

20 Capital Expenditure & Financing, Commitments and Changes in Estimates

a) Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 2,974 | Opening Capital Financing Requirement | 2,514 |
| | Capital Investment | |
| 2,577 | Property, Plant and Equipment | 8,887 |
| 421 | Investment Properties | 504 |
| 1,587 | Revenue Expenditure Funded from Capital Under Statute | 3,161 |
| 4,585 | | 12,552 |
| | Sources of Finance | |
| (2,787) | Capital receipts | (7,291) |
| (632) | Government Grants and Other Contributions | (973) |
| (1,166) | S106 Contributions | (2,637) |
| 0 | Capital Fund Reserve | (171) |
| 0 | Development Sites Decontamination Reserve | (35) |
| 0 | Weekly Collection Support Grant Reserve | (1,445) |
| (4,585) | | (12,552) |
| | Minimum Revenue Provision and Voluntary Contributions | |
| (63) | Minimum Revenue Provision from Capital Adjustment Account | (8) |
| (397) | Voluntary Contributions to Reduce the Capital Financing Requirements | 0 |
| (460) | | (8) |
| 0 | Transfer from Deferred Capital Payments relating to Finance Leases | 96 |
| 2,514 | Closing Capital Financing Requirement | 2,602 |

b) Commitments Under Capital Contracts

At 31 March 2014 the Council had contractual commitments totalling £1.998 million (31 March 2013: £1.124 million) relating to the following capital schemes for which the Council has in place the necessary funding. The major commitments are:

| Commit- ments 31 Mar 13 £000 | | Period over which expenditure will take place | Commit- ments 31 Mar 14 £000 |
|---------------------------------------|--|--|---------------------------------------|
| 298 | Playing Fields and open spaces (Land & Buildings) | 2014-15 | 192 |
| 300 | Repairs to Council Buildings (Land & Buildings) | 2014-15 | 303 |
| 217 | Watford Cultural Quarter (Land & Buildings) | 2014-15 | 1,363 |
| 186 | Other Capital Projects (Investment Properties) | 2014-15 | 103 |
| 123 | Cardiff Road Health Campus (Investment Properties) | 2014-15 | 37 |
| 1,124 | Total | | 1,998 |

NOTES TO THE CORE FINANCIAL STATEMENTS

21 Leases

a) Council as Lessee

i) Operating Lease

The Council entered into a number of operating leases relating to operational land and buildings, vehicles and plant and equipment. The total amount paid under these arrangements in 2013/14 was £90,115 (2012/13: £106,149) and are as follows:

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--------------------------------|-----------------|
| 30 | Operational Land and Buildings | 30 |
| 76 | Vehicles, Plant and Equipment | 60 |
| 106 | Total | 90 |

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

| 2012/13 | | | | 2013/14 | | |
|--------------------------|--|---------------|---|--------------------------|--|---------------|
| Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Total £000 | | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Total £000 |
| 0 | 35 | 35 | Not later than one year | 0 | 37 | 37 |
| 30 | 39 | 69 | Later than one year and not later than five years | 30 | 14 | 44 |
| 0 | 0 | 0 | Later than five years | 0 | 0 | 0 |
| 30 | 74 | 104 | Total Liability | 30 | 51 | 81 |

ii) Finance Leases

The following table shows the values of assets held under finance by the Council accounted for under Long-Term Assets:

| 2012/13 Total £000 | | 2013/14 | | |
|------------------------------|-------------------------------|--------------------------|--|---------------|
| | | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Total £000 |
| 787 | Book value at 1 April | 365 | 279 | 644 |
| 50 | Additions | 0 | 0 | 0 |
| 0 | Disposals | 0 | 0 | 0 |
| (95) | Depreciation | (3) | (152) | (155) |
| (98) | Impairment | 0 | 0 | 0 |
| 644 | Book value at 31 March | 362 | 127 | 489 |

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council is committed to making minimum payments under the 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 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|--|-------------------|
| | Finance lease liabilities (net present value of minimum lease payments): | |
| 181 | Annual Payments | 70 |
| 39 | Finance costs payable in future years | 14 |
| 220 | Minimum lease payments | 84 |

The minimum lease payments will be payable over the following periods:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|---|-------------------|
| | Vehicles, Plant and Equipment | |
| 32 | Not later than one year | 14 |
| 188 | Later than one year and not later than five years | 70 |
| 220 | Total | 84 |

The aggregate finance charges made under these finance leases during the year amounted to £29,391 (2012/13: £32,890). This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

b) Council as Lessor

i) Operating Leases

The Council leases out various investment property under operating leases. The gross value of assets which were held under operating leases was £105.703 million (31 March 2013: £113.309 million). The total rental received under these lease agreements and credited to services was £6.486 million (2012/13: £7.312 million).

ii) Finance Leases

The Council has leased out property on finance leases. The Council has a gross investment in the lease made up of 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 compromise 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 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|--------------------------------------|-------------------|
| 425 | Finance Lease Debtor - Long Term | 133 |
| 425 | Gross Investment in the Lease | 133 |

NOTES TO THE CORE FINANCIAL STATEMENTS

22 Debtors & Investments - Long Term

Long-term debtors are debtors which fall due after a period of at least one year. Long-term investments include investments in the Watford Health Campus scheme. They are analysed as follows:

| 31 Mar 13 £000 | | Net Movement in year £000 | 31 Mar 14 £000 |
|-------------------|----------------------------------|------------------------------------|-------------------|
| | Long Term Debtors | | |
| 11 | Loan to YMCA | 0 | 11 |
| 1,044 | Rent to Mortgage | (77) | 967 |
| 135 | Finance Leases as Lessor | (2) | 133 |
| 0 | Charges Registered to Properties | 7 | 7 |
| 1,190 | | (72) | 1,118 |
| | Long Term Investments | | |
| 0 | Watford Health Campus LABV | 457 | 457 |
| 1,190 | Total | 385 | 1,575 |

23 Assets Held For Sale

Current Assets Held For Sale are those being actively marketed where there is an expectation that they will be sold within one year of the balance sheet date.

| 2012/13 Total £000 | | 2013/14 Total £000 |
|--------------------------|---|--------------------------|
| | Cost or valuation | |
| 885 | At 1 April | 0 |
| 0 | Assets reclassified from Operational Land and Buildings | 35 |
| 0 | Assets reclassified from Investment Properties | 9,072 |
| (885) | Disposals | 0 |
| 0 | At 31 March | 9,107 |

24 Inventories

The following inventories were held as at 31st March 2014:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|--------------------------------------|-------------------|
| 20 | Watford Museum (Saleable Items) | 5 |
| 11 | Printing Section (Paper, inks, etc.) | 10 |
| 5 | Fuel Stock | 0 |
| 36 | Total | 15 |

There was no work-in-progress as at 31st March 2014.

NOTES TO THE CORE FINANCIAL STATEMENTS

25 Debtors - Short Term

An analysis of debtors falling due within one year is shown below:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|--|-------------------|
| 3,396 | Central Government Bodies | 14,297 |
| 3,010 | Local Authorities | 4,485 |
| 1 | Public Corporations | 0 |
| 5,933 | Other Entities and Individuals | 10,361 |
| 250 | Payments in Advance | 296 |
| 12,590 | | 29,439 |
| (4,079) | Less: Provision for Bad Debts / Impairment | (7,938) |
| 8,511 | Total | 21,501 |

26 Cash, Cash Equivalents and Short Term Borrowing

The balance of cash, cash equivalents and short term borrowing is made up of the following elements:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|---|-------------------|
| | Current Assets | |
| 4 | Cash held by the Authority | 3 |
| 377 | Bank Current Accounts | 2,908 |
| 0 | Short-term Deposits with Building Societies | 0 |
| 381 | | 2,911 |
| | Current Liabilities | |
| (479) | Bank overdrafts | (1,111) |
| (98) | Total | 1,800 |

NOTES TO THE CORE FINANCIAL STATEMENTS

27 Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements and Investing and Financing Activities

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements and investing and financing activities:

| 2012/13 | | | 2013/14 | |
|---------|--------------|--|----------|----------------|
| £000 | £000 | | £000 | £000 |
| | | Adjustments for non-cash transactions | | |
| 4,183 | | Adjustments involving the Capital Adjustment Account and Revaluation Reserve | (1,842) | |
| 0 | | Adjustments involving NNDR Collection Fund Reserve | 4,402 | |
| (246) | | Adjustments involving Finance Leases | (161) | |
| 29 | | Adjustments involving the Collection Fund Adjustment Account | (4,402) | |
| 22 | | Adjustments involving the Accumulated Absences Reserve | (15) | |
| (829) | | Net charges made for retirement benefits in accordance with IAS19 | (2,716) | |
| | 3,159 | | | (4,734) |
| | | Items on an accruals basis | | |
| 8 | | Increase / (Decrease) in Inventories | (21) | |
| 979 | | Increase / (Decrease) in Debtors and Payments in Advance | 12,990 | |
| (1,146) | | (Increase) / Decrease in Creditors and Receipts in Advance | (11,341) | |
| (430) | | Movement in Provisions | 291 | |
| | (589) | | | 1,919 |
| | | Investing and Financing Activities | | |
| (93) | | Interest payable and similar charges | (82) | |
| 412 | | Interest receivable | 266 | |
| 1 | | Adjustments to the Financial Instruments Reserve | 0 | |
| | 320 | | | 184 |
| | 2,890 | Total | | (2,631) |

28 Creditors - Short Term

An analysis of creditors falling due within one year is shown below:

| 31 Mar 13 | | 31 Mar 14 |
|--------------|--------------------------------|---------------|
| £000 | | £000 |
| 617 | Central Government Bodies | 8,785 |
| 1,739 | Local Authorities | 3,985 |
| 15 | Public Corporations | 0 |
| 3,740 | Other Entities and Individuals | 4,102 |
| 253 | Receipts in Advance | 833 |
| 6,364 | Total | 17,705 |

NOTES TO THE CORE FINANCIAL STATEMENTS

29 Creditors - Long Term

An analysis of creditors falling due in one year or more is shown below:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|---|-------------------|
| 166 | Deferred Liabilities (obligations under finance leases) | 70 |
| 262 | Government Grants Unapplied | 52 |
| 4,876 | Section 106 Contributions Unapplied | 2,788 |
| 0 | Loans (Local Authority) | 6,000 |
| 5,304 | Total | 8,910 |

30 Provisions

Provisions are accumulated funds held where the Council has an obligation which is likely to lead to a payment but the exact amount and timing of the payment is unknown.

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|----------------------------|-------------------|
| 100 | Property Searches | 91 |
| 100 | Municipal Mutual Insurance | 48 |
| 230 | Commercial Rents | 0 |
| 430 | Total | 139 |

Property Searches

The Council is a defendant in proceedings brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. In the current litigation the Council faces a maximum claim of £130k plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none has been intimated at present. The Council believes the provision of £91k is prudent.

Municipal Mutual Insurance

Under Watford Borough Council's agreement with its previous insurer Municipal Mutual Insurance (MMI), the Council is exposed to the possibility of having to repay all or part of its claims already settled, or to be settled, by MMI. At 31 March 2014 the Council was informed by MMI's administrators that the maximum potential repayment stood at £52,000. This figure represents 15% of the total amount of claims paid by MMI to 31 March 2014, less the first £50,000 which is excluded from any levy. During the year, the Council made a payment to MMI of £52,102 to part settle the outstanding claim. The Council believes the provision of £48k is prudent.

Commercial Rents

The Council paid the claim in 2013/14.

NOTES TO THE CORE FINANCIAL STATEMENTS

31 Defined Benefit Pension Scheme

Participation in Pension Scheme

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

The Council participates in the Local Government Pension Scheme administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

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 that is required to be made 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 Account and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|---|-----------------|
| | Comprehensive Income and Expenditure Statement (CI&E) | |
| | <i>Cost of Services:</i> | |
| | <i>Service cost comprising:</i> | |
| 2,158 | current service cost | 1,973 |
| 16 | past service cost | 219 |
| 0 | gain from settlements | 0 |
| | <i>Financing and Investment Income and Expenditure</i> | |
| 2,747 | Net Interest Expense | 2,978 |
| 4,921 | Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 5,170 |
| | Other Post Employment Benefit Charged to the CI&E | |
| | <i>Remeasurement of the net defined benefit liability comprising:</i> | |
| (8,325) | Return on plan assets | (2,640) |
| 0 | Actuarial gains and losses arising on changes in demographic assumptions | (4,954) |
| 16,059 | Actuarial gains and losses arising on changes in financial assumptions | 705 |
| (298) | Other experience | (727) |
| 12,357 | Total Post Employment Benefit Charged to the CI&E | (2,446) |
| | Movement in Reserves Statement | |
| (12,357) | Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | 2,446 |
| 3,509 | Employers' contributions payable to the scheme | 2,454 |
| 3,509 | Actual amount charged against the General Fund Balance for pensions in the year | 2,454 |

NOTES TO THE CORE FINANCIAL STATEMENTS

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

| 2012/13 £000 | | Net Movement in year £000 | 2013/14 £000 |
|-----------------|--|------------------------------------|-----------------|
| (161,713) | Present value of the defined benefit obligation | 423 | (161,290) |
| 95,366 | Fair value of plan assets | 4,477 | 99,843 |
| (66,347) | Net Liability arising from defined benefit obligation | 4,900 | (61,447) |

Reconciliation of the Movements in the Fair Value of Scheme Assets

| Restated 2012/13 £000 | | 2013/14 £000 |
|-----------------------------|--|-----------------|
| 84,113 | Opening fair value of scheme assets at 1 April | 95,366 |
| 3,993 | Interest income | 4,235 |
| 8,325 | Return on plan assets | 2,640 |
| 3,509 | Contributions from employer | 2,454 |
| 687 | Contributions from employees into the scheme | 582 |
| (5,261) | Benefits paid | (5,434) |
| 95,366 | Closing fair value of scheme assets at 31 March | 99,843 |

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 141,612 | Opening Balance at 1 April | 161,713 |
| 2,158 | Current service costs | 1,973 |
| 6,740 | Interest cost | 7,213 |
| 687 | Contributions by scheme participants | 582 |
| 0 | Actuarial gains and losses arising from changes in demographic assumptions | (4,954) |
| 16,059 | Actuarial gains and losses arising from changes in financial assumptions | 705 |
| (298) | Other experience | (727) |
| 16 | Past service costs | 219 |
| 0 | Curtailements | 0 |
| (5,261) | Benefits paid | (5,434) |
| 161,713 | Closing Balance at 31 March | 161,290 |

NOTES TO THE CORE FINANCIAL STATEMENTS

Local Government Pension Scheme assets comprised

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|------------------------------------|-----------------|
| 3,549.6 | Cash and cash equivalents | 3,249.0 |
| | <i>Equity instruments:</i> | |
| 9,547.6 | Consumer | 10,053.9 |
| 10,720.1 | Manufacturing | 11,503.5 |
| 4,595.5 | Energy and Utilities | 4,435.2 |
| 9,766.9 | Financial Institutions | 10,843.5 |
| 2,187.2 | Health and Care | 1,533.2 |
| 6,512.7 | Information Technology | 7,021.6 |
| 963.7 | Other | 1,138.7 |
| 47,843.3 | Sub-total equity | 49,778.6 |
| | <i>Bonds:</i> | |
| 7,570.3 | Corporate Bonds (investment grade) | 8,276.1 |
| 7,637.0 | UK Government | 6,150.5 |
| 2,587.2 | Other | 2,113.2 |
| 17,794.5 | Sub-total bonds | 16,539.8 |
| | <i>Property:</i> | |
| 4,212.6 | UK Property | 3,865.5 |
| 871.1 | Overseas Property | 2,193.1 |
| 5,083.7 | Sub-total property | 6,058.6 |
| | <i>Private Equity:</i> | |
| 4,014.1 | All | 4,047.5 |
| 4,014.1 | Sub-total private equity | 4,047.5 |
| | <i>Other Investment Funds:</i> | |
| 14,700.6 | Equities | 15,192.0 |
| 1,906.1 | Bonds | 2,434.4 |
| 356.9 | Commodities | 424.1 |
| 3,616.5 | Other | 5,281.4 |
| 20,580.1 | Sub-total other investment funds | 23,331.9 |
| | <i>Derivatives:</i> | |
| 47.3 | Foreign exchange | 86.8 |
| 47.3 | Sub-total derivatives | 86.8 |
| 95,363.0 | Total Assets | 99,843.2 |

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, 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 2013.

NOTES TO THE CORE FINANCIAL STATEMENTS

The significant assumptions used by the actuary have been:

| 31 Mar 13 | | 31 Mar 14 |
|-----------|---|-----------|
| | Total Returns from 1 April 2013 to 31 March 2014 | 7.80% |
| | Mortality Assumptions | |
| | Longevity at 65 for current pensioners | |
| 21.0 | • Men | 22.3 |
| 23.8 | • Women | 24.5 |
| | Longevity at 65 for future pensioners | |
| 22.9 | • Men | 24.3 |
| 25.7 | • Women | 26.7 |
| 5.1% | Rate of increase in salaries | 3.9% |
| 2.8% | Rate of increase in pensions | 2.6% |
| 4.5% | Rate for discounting scheme liabilities | 4.1% |

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. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme.

| | 2013/14 £000 |
|--|-----------------|
| Longevity (increase in 1 year) | 4,839 |
| Rate of increase in salaries (increase by 0.5%) | 3,091 |
| Rate of increase in pensions (increase by 0.5%) | 10,757 |
| Rate for discounting scheme liabilities (decrease by 0.5%) | 13,938 |
| | 32,625 |

NOTES TO THE CORE FINANCIAL STATEMENTS

Information about the Defined benefit obligation

| | Liability Split | Weighted Average Duration |
|-------------------|-----------------|---------------------------|
| Active members | 28.9% | 23.2 |
| Deferred members | 22.9% | 21.5 |
| Pensioner members | 48.2% | 11.2 |
| Total | 100.0% | 16.5 |
| | | |

The estimated Employer's contributions for the period to 31 March 2015 will be approximately £2,990,000.

32 Contingent Assets and Liabilities

Contingent Asset - VAT Shelter Agreement with Watford Community Housing Trust

Watford Borough Council employed a VAT structure scheme when the Council's housing stock was transferred to the Watford Community Housing Trust (WCHT). The scheme involves the Council contracting with WCHT for the Trust to deliver works and this enabled the WCHT to recover VAT on those future major works. Both the WCHT and the Council gain by these arrangements. The recovery of VAT on major works will amount to an estimated £18 million, of which the first £1.1 million was paid to Watford Borough Council along with 50% of the remaining £16.9 million. The rate at which this sum is received will depend on the WCHT work programme. However, £0.541 million was received during 2013/14 (2012/13: £0.515 million) leaving a contingent asset of approximately £3.768 million (2012/13: £4.309 million) which will be received in the future.

Contingent Asset - Mediation involving Sport & Leisure Management (SLM)

The Council have been in dispute with the outsourced operator (Sports & Leisure Management Limited) of its leisure venues since 2009 regarding the annual management fee payable to the Council. The dispute centres on the calculation of the annual fee. After a mediation hearing between the two parties in August 2013, a methodology was agreed which is to be applied from 2009/10 and for the remaining life of the contract, which is scheduled to end in 2018/19.

Applying the methodology for the years 2009/10 to 2013/14 means a difference between the Council's budget position and the calculated payment of £800k, assuming SLM has no further disputed issues.

NOTES TO THE CORE FINANCIAL STATEMENTS

33 Usable Reserves

a) Movement in Usable Reserves

Details of the movements relating to individual usable reserves are shown below:

| Balance at 31 Mar 13 £000 | Reserve | Net Movement in year £000 | Balance at 31 Mar 14 £000 | Further Detail Note |
|---------------------------------|--------------------------|------------------------------------|---------------------------------|---------------------------|
| 12,616 | Capital Receipts Reserve | 1,085 | 13,701 | 33b |
| 13,362 | Earmarked Reserves | 7,263 | 20,625 | 33c |
| 1,350 | General Fund Balance | 0 | 1,350 | 33d |
| 27,328 | Total Net Worth | 8,348 | 35,676 | |

b) Capital Receipts Reserve

The Usable Capital Receipts Reserve holds capital receipts from the sale of assets which have been received and have not yet been used to finance capital expenditure. The balance on the Reserve is restricted by statute from being used other than to fund future years' expenditure in the approved capital budget or set aside to finance historical capital expenditure.

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 12,872 | Balance brought forward at 1 April | 12,616 |
| | Received in year | |
| 1,430 | Proceeds from sale of long-term assets | 4,004 |
| 581 | Shares in preserved Right to Buy (Unattached Capital Receipt) | 3,831 |
| 515 | VAT Shelter compensation (Unattached Capital Receipt) | 541 |
| 5 | Loan repayments (Unattached Capital Receipt) | 0 |
| 2,531 | | 8,376 |
| | Applied in year | |
| (2,787) | Transferred to Capital Adjustment Account to finance new capital expenditure | (7,291) |
| 12,616 | Balance carried forward at 31 March | 13,701 |

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Earmarked Reserves

Earmarked Reserves result from events which have allowed funds to be set aside, surpluses generated from trading undertakings, or decisions causing anticipated expenditure to have been postponed or cancelled.

For each Reserve established the Council identifies:

- the reason/purpose of the reserve
- how and when the reserve can be used
- procedures for the management and control of the reserve
- a process and timescale for review to ensure continuing relevance and adequacy

| Balance at 31 Mar 13 £000 | | Appropriations to Reserve £000 | Appropriations from Reserve £000 | Balance at 31 Mar 14 £000 |
|------------------------------------|--|--------------------------------------|--|------------------------------------|
| 85 | Area Based Grant Reserve | 0 | 0 | 85 |
| 234 | Budget Carry Forward Reserve | 340 | (235) | 339 |
| 1,813 | Capital Fund Reserve | 0 | (171) | 1,642 |
| 597 | Car Parking Zones Reserve | 33 | 0 | 630 |
| 380 | Charter Place Tenants Reserve | 0 | (220) | 160 |
| 37 | Climate Change Reserve | 20 | 0 | 57 |
| 1,310 | Development Sites Decontamination Reserve | 0 | (35) | 1,275 |
| 1,823 | Economic Impact Reserve | 104 | 0 | 1,927 |
| 100 | High Street Innovation | 0 | (10) | 90 |
| 113 | Homelessness Prevention Reserve | 0 | 0 | 113 |
| 996 | Housing Benefit Subsidy Reserve | 0 | 0 | 996 |
| 301 | Housing Planning Delivery Grant Reserve | 0 | (35) | 266 |
| 1,255 | Invest to Save Reserve | 0 | (416) | 839 |
| 613 | LA Business Growth Incentive Reserve (LABGI) | 0 | (43) | 570 |
| 12 | Le Marie Centre Repairs Reserve | 0 | 0 | 12 |
| 423 | Leisure Structured Maintenance Reserve | 0 | 0 | 423 |
| 233 | Local Development Framework Reserve | 0 | 0 | 233 |
| 181 | Multi-Storey Car Park Repair Reserve | 0 | 0 | 181 |
| 542 | New Homes Bonus Reserve | 2,069 | 0 | 2,611 |
| 0 | NNDR Collection Fund Reserve | 4,661 | 0 | 4,661 |
| 0 | Parks, Waste & Street Strategy Reserve | 60 | 0 | 60 |
| 1,375 | Pension Funding Reserve | 874 | 0 | 2,249 |
| 191 | Performance Reward Grant Reserve (Capital) | 0 | 0 | 191 |
| 60 | Performance Reward Grant Reserve (Revenue) | 0 | (28) | 32 |
| 13 | Recycling Reserve | 0 | (13) | 0 |
| 100 | Rent Deposit Guarantee Scheme Reserve | 0 | 0 | 100 |
| 575 | Vehicle Replacement Reserve | 150 | 0 | 725 |
| 0 | Weekly Collection Support Grant Reserve | 2,001 | (1,843) | 158 |
| 13,362 | Total | 10,312 | (3,049) | 20,625 |

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the purpose of each current earmarked reserve are set out below:

| Reserve | Purpose |
|---|---|
| Area Based Grant Reserve | This grant was received to encourage initiatives relating to preventing violent extremism and anti social behaviour. |
| Budget Carry Forward Reserve | This reserve has been created to 'carry forward' unspent revenue budgets for use in the proceeding financial year. |
| Capital Fund Reserve | To provide for funding of key capital projects. |
| Car Parking Zone Reserve | This is a statutory ring-fenced reserve, for future controlled parking related costs. |
| Charter Place Tenants Reserve | Tenants' contributions to meet major works. |
| Climate Change Reserve | To fund energy saving initiatives to reduce energy consumption. |
| Development Sites Decontamination Reserve | To provide for the costs of any decontamination of development sites for which the Council may have liability. |
| Economic Impact Reserve | To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget. |
| High Street Innovation | To assist with regeneration of Town Centres. |
| Homelessness Prevention Reserve | To assist with homelessness among young people. |
| Housing Benefit Subsidy Reserve | This reserve has been created to meet any subsidy clawback by DWP. |
| Housing Planning Delivery Grant Reserve | This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes. |
| Invest to Save Reserve | To support schemes where initial expenditure will produce longer term savings. |
| LA Business Growth Incentive Reserve | Government grant received in respect of business rate growth. |
| Le Marie Centre Repairs Reserve | To help meet the Council's obligation as landlord. |
| Leisure Structural Maintenance Reserve | To fund future structural maintenance needs not covered within the existing Leisure services contract. |
| Local Development Framework Reserve | To help fund the costs of the production of the Local Development Plan. |
| Multi Storey Car Park Repair Reserve | To provide funds towards major structural works. |
| New Homes Bonus Reserve | Government grant received in respect of new homes built. |
| NNDR Collection Fund Reserve | To support the NNDR Collection Fund Deficit. |
| Parks, Waste & Street Strategy Reserve | To support the Council's parks, waste and street cleansing strategy. |
| Pension Funding Reserve | To meet one off pension costs and redundancy programme. |
| Performance Reward Grant Reserve | This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets. |
| Recycling Reserve | This reserve will help to 'smooth out' fluctuations in recycling income in future years. |
| Rent Deposit Guarantee Scheme Reserve | To assist in the provision of homelessness accommodation. |
| Vehicle Replacement Reserve | To provide for the replacement of the Council's refuse freighters. |
| Weekly Collection Support Grant Reserve | Grant received to support the weekly domestic waste collection. |

NOTES TO THE CORE FINANCIAL STATEMENTS

d) General Fund Balance

The General Fund balance are resources available to meet future running costs. The unallocated accumulated balances on the General Fund is set out below:

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 1,350 | Balance brought forward at 1 April | 1,350 |
| 56 | Net increase/(decrease) before transfers to earmarked reserves | 8,914 |
| (56) | Transfer (to)/from earmarked reserves | (8,914) |
| 1,350 | Balance carried forward at 31 March | 1,350 |

34 Unusable Reserves

a) Movement in Unusable Reserves

Details of the movements relating to individual unusable reserves are shown below:

| Balance at 31 Mar 13 £000 | Reserve | Net Movement in year £000 | Balance at 31 Mar 14 £000 | Further Detail Note |
|---------------------------------|-------------------------------|------------------------------------|---------------------------------|---------------------------|
| (89) | Accumulated Absences Reserve | (15) | (104) | 34b |
| 151,477 | Capital Adjustment Account | (5,802) | 145,675 | 34c |
| 31 | Collection Fund Account | (4,402) | (4,371) | 34d |
| (294) | Deferred Capital Payments | 210 | (84) | 34e |
| 1,265 | Deferred Capital Receipts | 9,035 | 10,300 | 34f |
| (75) | Financial Instruments Account | 0 | (75) | 34g |
| (66,347) | Pensions Reserve | 4,900 | (61,447) | 31 |
| 10,595 | Revaluation Reserve | 933 | 11,528 | 34i |
| 96,563 | Total Net Worth | 4,859 | 101,422 | |

b) Accumulated Absences Reserve

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

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| (111) | Balance brought forward at 1 April | (89) |
| 22 | Employee costs accrued | (15) |
| (89) | Balance carried forward at 31 March | (104) |

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from different arrangements for accounting for the consumption of long-term assets and for financing the acquisition, construction or enhancements of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement of property, plant and equipment and credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement of these assets.

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 144,644 | Balance brought forward at 1 April | 151,477 |
| | Reversal of items relating to capital debited or credited to the CIES | |
| (2,220) | Charges for depreciation and impairment of long-term assets | (2,569) |
| 223 | Charges for depreciation against Revaluation Reserve | 220 |
| 5,322 | Revaluation gains / (losses) on Long-term Assets | (352) |
| 52 | Finance Lease Vehicle Additions | 0 |
| (1,587) | Revenue Expenditure Funded from Capital under Statute | (3,161) |
| 0 | Disposals of Property, Plant and Equipment | (3,297) |
| 1,790 | | (9,159) |
| | Capital financing applied in the year: | |
| 2,787 | Capital receipts | 7,291 |
| 632 | Government Grants and Other Contributions | 973 |
| 1,166 | S106 Contributions | 2,637 |
| 0 | Capital Fund Reserve | 171 |
| 0 | Development Sites Decontamination Reserve | 35 |
| 0 | Weekly Collection Support Grant Reserve | 1,445 |
| 4,585 | | 12,552 |
| | Other Movements: | |
| 61 | Minimum Revenue Provision relating to finance lease payments | 8 |
| 160 | Voluntary Contributions to Reduce the Capital Finance Requirement | 0 |
| 237 | Transfer from Deferred Capital Receipts to Reduce the CFR | 0 |
| 0 | Transfer to Deferred Capital Receipts relating to Assets Held For Sale | (9,107) |
| 0 | Transfer from Deferred Capital Payments relating to Finance Leases | (96) |
| 151,477 | Balance carried forward at 31 March | 145,675 |

The credit balance on the Account shows that capital financing has been set aside at a faster rate than long-term assets have been consumed, and the Council has a nominal surplus when comparing financing to consumption of resources.

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. For further details see the Collection Fund Notes within the supplementary financial statements.

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 2 | Balance brought forward at 1 April | 31 |
| 29 | Amount by which council tax income credited to CI&E is different from the council tax income calculated for the year in accordance with statutory requirements | (4,402) |
| 31 | Balance carried forward at 31 March | (4,371) |

e) Deferred Capital Payments

Deferred capital payments are amounts representing capital payments from the purchase of long-term assets that will be paid by the Council in instalments over an agreed number of years.

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|---|-----------------|
| (450) | Balance brought forward at 1 April | (294) |
| 156 | Revenue Contribution to Capital | 114 |
| 0 | Transfer to the Capital Adjustment Account relating to finance leases | 96 |
| (294) | Balance carried forward at 31 March | (84) |

f) Deferred Capital Receipts

Deferred capital receipts are amounts representing capital receipts from the sale of long-term assets that will be repaid to the Council in instalments over an agreed number of years. They have arisen from loans to community groups, which forms part of long term debtors. In addition, equity interest in the rent to mortgage scheme is included in the total deferred credit and amounts to £0.968 million (2012/13 £1.044 million).

NOTES TO THE CORE FINANCIAL STATEMENTS

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|---|-----------------|
| 2,367 | Balance Brought Forward at 1 April | 1,265 |
| (237) | Adjustment for Finance lease payments | (2) |
| (885) | Disposal of Assets Held for Sale (Current Assets) | 0 |
| 0 | Transfer from the Capital Adjustment Account relating to Assets Held For Sale | 9,107 |
| 20 | Disposal of Rent to Mortgage Properties | (77) |
| 0 | Charges Registered to Properties (Other CIES) | 7 |
| 1,265 | Balance carried forward at 31 March | 10,300 |

g) 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.

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| (76) | Balance brought forward at 1 April | (75) |
| 1 | Financing costs written out | 0 |
| (75) | Balance carried forward at 31 March | (75) |

h) Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employments benefits and for funding benefits in accordance with statutory provisions. For further details see Note 31.

i) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. 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
- disposed of and the gains are realised

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

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 10,576 | Balance brought forward at 1 April | 10,595 |
| 242 | Gains / (Losses) on revaluation of long-term assets (Other CIES) | 1,153 |
| (223) | Historical Cost depreciation adjustment | (220) |
| 0 | Heritage Asset Revaluations | 0 |
| 10,595 | Balance carried forward at 31 March | 11,528 |

NOTES TO THE CORE FINANCIAL STATEMENTS

35 Disclosure of Nature and Extent of Risk Arising from Financial Instruments

Financial Instruments - Balances

The Balance Sheet includes the following financial instruments:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|------------------------------------|-------------------|
| | Other Financial Liabilities | |
| (166) | Deferred Liabilities | (70) |
| (6,111) | Short Term Creditors | (16,872) |
| (479) | Short Term Borrowing | (1,111) |
| | Loans and Receivables | |
| 1,190 | Long Term Debtors | 1,575 |
| 8,261 | Short Term Debtors | 21,205 |
| 28,111 | Short Term Investments | 31,496 |
| 381 | Cash and Cash Equivalents | 2,911 |
| 31,187 | Total | 39,134 |

Fair Value

Long term debtors comprise mortgages and finance leases. Short term creditors and debtors arise from charges to and from the Council for goods and services, and short term investments are those made in cash for less than twelve months. These instruments are carried on the balance sheet at amortised cost, which represents their fair value. The Council borrowed on behalf of the LABVI, £6.0m from the Growing Places Fund. At 31 March 2014, the Council had £6.0m external debt.

The Council has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £1,000 (2012/13: £717) is recorded as a gain in the Comprehensive Income and Expenditure Account and reflected as a reduction in the Financial Instruments Adjustment Account.

Key Risks

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

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

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the *Local Government Act 2003* and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services 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 CIPFA Treasury Management Code of Practice
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution
- by approving annually in advance prudential and treasury 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

These are required to be reported and approved at or before the annual meeting where the Council agrees its budget and sets the council tax, or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by the Audit Committee on 13th March 2013 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for 2013/14 was set at £10 million (2012/13: £10 million). This is the maximum limit of external borrowings or other long term liabilities
- the Operational Boundary was expected to be £3 million (2012/13: £7 million). This is the expected level of debt and other long term liabilities during the year

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above.

NOTES TO THE CORE FINANCIAL STATEMENTS

One long-standing investment for £3m, which met the criteria when placed, does not meet the Council's current criteria. However, because it was placed to support local businesses, its continuing use as a counterparty has been approved by Leadership Team. Details of the Investment Strategy for 2013/14, which was approved by the Audit Committee on 13th March 2013 can be found on the Council's website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, and individual credit limits are set where appropriate.

Liquidity risk

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 a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. It currently has no longer term borrowing requirements. 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 does not generally allow credit for its trade debtors, such that £0.297 million (2012/13: £0.412 million) of the £10.361 million (2012/13: £5.933 million) balance is past its due date for payment. The past due amount can be analysed by age as follows:

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|--------------------------------------|-------------------|
| 113 | Less than 3 months | 43 |
| 110 | More than 3 months, less than 1 year | 84 |
| 189 | More than 1 year | 170 |
| 412 | Total | 297 |

Refinancing and Maturity risk

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's 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 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Council maintains a significant investment portfolio and currently has no long-term debt outstanding. The longer-term risk to the Council relates to managing the exposure to replacing its investments as they mature.

The maturity analysis of the Council's investments at 31 March 2014 is as follows:-

| 31 Mar 13 £000 | | 31 Mar 14 £000 |
|-------------------|------------------|-------------------|
| 28,111 | Less than 1 year | 31,496 |
| 28,111 | Total | 31,496 |

Market Risk

Interest Rate Risk

The Council's cash investments are exposed to interest rate movements. For instance, a rise in variable and fixed interest rates would have the effect of increasing the income credited to the Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest 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.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 286 | Increase in interest receivable on investments with consequential change in Income and Expenditure Account | 298 |

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

Price Risk

The Council has no shareholdings that might expose it to this kind of risk.

Foreign Exchange Risk

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

COLLECTION FUND

This account reflects the statutory requirement for the Council, as the billing authority, to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (Business Rates).

| 2012/13 | | | Note | 2013/14 | |
|---------|----------------|---|------|---------|----------------|
| £000 | £000 | | | £000 | £000 |
| | | Income | | | |
| 45,144 | | Council Tax Payers | CF1 | 46,910 | |
| 6,132 | | Transfers from the General Fund - Council Tax Benefit | CF1 | 0 | |
| 63,648 | | Business Rate Payers | CF2 | 66,093 | |
| | | Business Rate Transitional Protection | | (3,455) | |
| | | Contributions towards previous year's deficit | | | |
| 0 | | Council Tax | | 0 | |
| 0 | | Business Rates | | 0 | |
| | 114,924 | Total Income | | | 109,548 |
| | | Expenditure | | | |
| | | Council Tax | | | |
| 50,128 | | Precepts and Demands | CF3 | 44,613 | |
| | | Bad and Doubtful Debts | | | |
| 19 | | Write-offs | | 47 | |
| 950 | | Increase in Provision | | 682 | |
| | | Business Rates | CF4 | | |
| 0 | | Shares to Preceptors and the Council | | 33,386 | |
| 0 | | Central Government Share | | 33,386 | |
| 63,481 | | Payments to National Pool | CF2 | 0 | |
| | | Bad and Doubtful Debts and Appeals | | | |
| 0 | | Write-offs | | 1,139 | |
| 0 | | Increase in Provision | | 6,173 | |
| 167 | | Cost of Collection | | 206 | |
| | | Contributions towards previous year's surplus | | | |
| 0 | | Council Tax | | 0 | |
| 0 | | Business Rates | | 0 | |
| | 114,745 | Total Expenditure | | | 119,632 |
| | (179) | (Increase) / Decrease in Collection Fund Balance | CF5 | | 10,084 |
| | (10) | Fund Balance - (Surplus) / Deficit at 1 April | | | (189) |
| | (189) | Fund Balance - (Surplus) / Deficit at 31 March | CF5 | | 9,895 |

NOTES TO THE COLLECTION FUND

CF1 Council Tax Payers

The charge for council tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts or exemptions apply and is converted into an "equivalent number of Band D dwellings" where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection and contributions in lieu of tax in respect of certain government properties. The table below sets out the calculation of the Council Tax Base for 2013/14.

| 2012/13 | Valuation Band | 2013/14 | | | | |
|---------------------------------------|---|-----------------------------------|---|----------------------------|----------------------------------|---------------------------------------|
| Equivalent Number of Band D Dwellings | | Total Number of Dwellings in Band | Discounts, Exemptions & Disabled Relief | Total Chargeable Dwellings | Conversion Fraction (Proportion) | Equivalent Number of Band D Dwellings |
| 0.00 | A (Disabled Relief) | 0.00 | 0.50 | 0.50 | 5/9 | 0.28 |
| 153.80 | A | 275.00 | (108.90) | 166.10 | 6/9 | 110.73 |
| 2,481.30 | B | 3,867.00 | (1,573.19) | 2,293.81 | 7/9 | 1,784.07 |
| 10,588.90 | C | 13,679.00 | (3,440.73) | 10,238.27 | 8/9 | 9,100.68 |
| 10,969.80 | D | 12,156.00 | (2,340.48) | 9,815.52 | 9/9 | 9,815.52 |
| 3,923.00 | E | 3,509.00 | (447.48) | 3,061.52 | 11/9 | 3,741.86 |
| 2,813.40 | F | 2,128.00 | (186.62) | 1,941.38 | 13/9 | 2,804.22 |
| 2,842.10 | G | 1,826.00 | (124.44) | 1,701.56 | 15/9 | 2,835.93 |
| 131.00 | H | 79.00 | (11.50) | 67.50 | 18/9 | 135.00 |
| 33,903.30 | | 37,519.00 | (8,232.84) | 29,286.16 | | 30,328.30 |
| (847.60) | Less: Allowance for losses on collection | | | | | (909.85) |
| 33,054.70 | Tax Base for Calculation of Council Tax | | | | | 29,418.45 |
| 758.00 | Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons' relief and empty properties | | | | | 1,514.61 |
| 33,812.70 | Council Tax Base for the Year | | | | | 30,933.06 |

Each year, the Council needs to collect enough money from local residents to cover the cost of the services it provides which is not funded by government grants and charges for services. It also collects charges for Hertfordshire County Council and the Hertfordshire Police. The total is divided by the tax base for the purposes of calculating the council tax to arrive at an average Band D tax per dwelling. The Council set an average council tax charge for Band D dwellings of £1,516.49 (£1,516.49 for 2012/13, no change).

Until 31 March 2013, specific reductions in charges - council tax benefits - were made in accordance with government regulations for persons on lower incomes. This reduced the gross amount of council tax due from council tax payers (derived from multiplying the council tax base for the year by the average Band D charge). From 1 April 2013, these reductions became part of the council tax base calculation above, reducing the council tax base.

NOTES TO THE COLLECTION FUND

| 2012/13 £000 | | 2013/14 £000 |
|-------------------|--|-----------------|
| 51,276 (6,132) | Gross Council Tax Charge Less: Council Tax Benefits | 46,910 0 |
| 45,144 | Income from Council Tax Payers | 46,910 |

CF2 Business Rate Payers

In line with the Local Government Act 2003, from 1 April 2005, all business premises are subject to a tax known as National Non-Domestic Rates (NNDR). The tax is calculated using local rateable values which are then multiplied by a uniform rate.

The relevant rateable value and multiplier data is shown below:

| 2012/13 | | 2013/14 |
|--------------|--|--------------|
| £161,536,315 | Total Non-domestic Rateable Value at 31 March | £157,928,359 |
| 45.8 | National Non-domestic Rate Multiplier - Standard | 47.1 |
| 45.0 | National Non-domestic Rate Multiplier - Small | 46.2 |

Small Business Rate Relief came into effect on 1 April 2005. It is generally available to ratepayers who have only one business property with a rateable value of less than £18,000.

Until 31 March 2013, the Council was responsible for collecting the total amount of NNDR payable, less certain reliefs and other deductions, and paying this into a national pool managed by central government who then re-distributed the pool back to local authorities based on a standard amount per head of the local adult population.

From 1 April 2013, the Hertfordshire County Council share, the Borough share and the Central Government share (after allowable deductions) are paid direct from the Collection Fund.

NOTES TO THE COLLECTION FUND

CF3 Precepts And Demands - Council Tax

The breakdown of precepts and demands on the Collection Fund are detailed below:

| 2012/13 £000 | Council Tax | 2013/14 £000 |
|-----------------|------------------------------|-----------------|
| 36,983 | Precepts: | 32,914 |
| 4,887 | Hertfordshire County Council | 4,349 |
| | Hertfordshire Police | |
| 8,258 | Demand: | 7,350 |
| | Watford Borough Council | |
| 50,128 | Total | 44,613 |

CF4 Shares - Business Rates

| 2012/13 £000 | Business Rates | 2013/14 £000 |
|-----------------|------------------------------|-----------------|
| N/A | Hertfordshire County Council | 6,677 |
| N/A | Watford Borough Council | 26,709 |
| 63,481 | Central Government | 33,386 |
| 63,481 | Total | 66,772 |

CF5 Distribution of Balances

Based on the precepts and demands made in 2013/14, balances relating to the collection fund have been apportioned between the local authorities and central government, and are reflected on their balance sheets as follows:

| 2012/13 Total £000 | Council Tax | Herts County Council £000 | Herts Police £000 | Watford Borough Council £000 | 2013/14 Total £000 |
|--------------------------|------------------------------|------------------------------------|-------------------------|---------------------------------------|--------------------------|
| 5,124 | Gross Arrears | 4,261 | 563 | 951 | 5,775 |
| (721) | Less: Prepayments | (634) | (84) | (141) | (859) |
| 4,403 | Net Arrears | 3,627 | 479 | 810 | 4,916 |
| 3,538 | Provision for Doubtful Debts | 3,114 | 411 | 695 | 4,220 |
| (189) | Collection Fund Balance | (1,297) | (171) | (290) | (1,758) |

NOTES TO THE COLLECTION FUND

| Central Government 2012/13 £000 | Business Rates | Herts County Council £000 | Watford Borough Council £000 | Central Government £000 | 2013/14 Total £000 |
|---------------------------------------|------------------------------|------------------------------------|---------------------------------------|-------------------------------|--------------------------|
| 4,511 | Gross Arrears | 490 | 1,962 | 2,452 | 4,904 |
| (2,094) | Less: Prepayments & Credits | (227) | (906) | (1,132) | (2,265) |
| 2,417 | Net Arrears | 263 | 1,056 | 1,320 | 2,639 |
| 1,910 | Provision for Doubtful Debts | 204 | 818 | 1,022 | 2,044 |
| 0 | Provision for Appeals | 604 | 2,416 | 3,020 | 6,040 |
| 0 | Collection Fund Balance | 1,165 | 4,661 | 5,827 | 11,653 |

Surpluses/Deficits on the Council Tax element of the Collection Fund balance are distributed/recovered in the subsequent year as an adjustment to the Council Tax charge.

The Borough and County Council shares of Surpluses/Deficits on the Business Rates element of the Collection Fund balance are also distributed/recovered in the subsequent year as an adjustment to the Council Tax charge, but variations are mitigated by use of a Levy or Safety-Net payment to/from Central Government.



GROUP ACCOUNTS

2013/2014

GROUP STATEMENT OF MOVEMENT IN RESERVES

| GROUP STATEMENT OF MOVEMENT IN RESERVES | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Share of JV Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------------|-------------------------------|--|--------------------------------|---|------------------------------|--|
| Balance at 1 April 2012 | 1,350 | 13,306 | 12,872 | 0 | 27,528 | 99,453 | 126,981 |
| Movement in Reserves during 2012/13 | | | | | | | |
| (Surplus) or deficit on provision of services | 4,609 | 0 | 0 | 0 | 4,609 | 0 | 4,609 |
| Other Comprehensive Expenditure and Income | (7,699) | 0 | 0 | 0 | (7,699) | 0 | (7,699) |
| Total Comprehensive Expenditure and Income (CI&E) | (3,090) | 0 | 0 | 0 | (3,090) | 0 | (3,090) |
| Adjustments between accounting basis & funding basis under regulations | | | | | | | |
| <u>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</u> | | | | | | | |
| Charges for depreciation of long-term assets | 2,220 | 0 | 0 | 0 | 2,220 | (2,220) | 0 |
| Revaluation gains / (losses) on long-term assets | (5,317) | 0 | 0 | 0 | (5,317) | 5,317 | 0 |
| Finance Lease Vehicle Additions | (52) | 0 | 0 | 0 | (52) | 52 | 0 |
| (Gains) / Losses on disposal of long-term assets | (445) | 0 | 0 | 0 | (445) | 445 | 0 |
| (Surplus) / Deficit on revaluation of long-term assets | (320) | 0 | 0 | 0 | (320) | 320 | 0 |
| Capital grants & contributions applied | (1,798) | 0 | 0 | 0 | (1,798) | 1,798 | 0 |
| Revenue expenditure funded from capital under statute | 1,587 | 0 | 0 | 0 | 1,587 | (1,587) | 0 |
| Minimum Revenue Provision | (218) | 0 | 0 | 0 | (218) | 218 | 0 |
| Voluntary Contributions to Reduce the Capital Finance Requirement | (160) | 0 | 0 | 0 | (160) | 160 | 0 |
| <u>Adjustments primarily involving the Capital Receipts Reserve</u> | | | | | 0 | | |
| Use of capital receipts reserve to finance new capital expenditure | 0 | 0 | (2,787) | 0 | (2,787) | 2,787 | 0 |
| Proceeds from sale of long-term assets | 0 | 0 | 1,384 | 0 | 1,384 | (1,384) | 0 |
| Unattached capital receipts | (1,147) | 0 | 1,147 | 0 | 0 | 0 | 0 |
| <u>Adjustments primarily involving the Collection Fund Adjustment Account:</u> | | | | | 0 | | |
| Collection Fund adjustment in accordance with statutory requirements | (29) | 0 | 0 | 0 | (29) | 29 | 0 |
| <u>Adjustments primarily involving the Accumulated Absences Reserve:</u> | | | | | 0 | | |
| Accrued employee benefits adjustment in accordance with statutory requirements | (22) | 0 | 0 | 0 | (22) | 22 | 0 |
| <u>Adjustments primarily involving the Pensions Reserve:</u> | | | | | 0 | | |
| Employer's pension contributions and direct payments to pensioners payable in year | (3,509) | 0 | 0 | 0 | (3,509) | 3,509 | 0 |
| Actuarial (gains) / losses on pension fund assets / liabilities | 8,019 | 0 | 0 | 0 | 8,019 | (8,019) | 0 |
| Reversal of items relating to retirement benefits debited or credited to the CI&E | 4,338 | 0 | 0 | 0 | 4,338 | (4,338) | 0 |
| <u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u> | | | | | | | |
| Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans | (1) | 0 | 0 | 0 | (1) | 1 | 0 |
| Net increase / decrease before transfers to earmarked reserves | 56 | 0 | (256) | 0 | (200) | (2,890) | (3,090) |

GROUP STATEMENT OF MOVEMENT IN RESERVES

-continued

| GROUP STATEMENT OF MOVEMENT IN RESERVES | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Share of JV Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|--|------------------------------------|-------------------------------|--|--------------------------------|---|------------------------------|--|
| Transfers to/from earmarked reserves | | | | | | | |
| Budget Carry Forward Reserve | 67 | (67) | 0 | 0 | 0 | 0 | 0 |
| Capital Fund Reserve | 83 | (83) | 0 | 0 | 0 | 0 | 0 |
| Car Parking Zones Reserve | (22) | 22 | 0 | 0 | 0 | 0 | 0 |
| Charter Place Tenants Reserve | 96 | (96) | 0 | 0 | 0 | 0 | 0 |
| Climate Change Reserve | 12 | (12) | 0 | 0 | 0 | 0 | 0 |
| High Street Innovation | (100) | 100 | 0 | 0 | 0 | 0 | 0 |
| Economic Impact Reserve | (286) | 286 | 0 | 0 | 0 | 0 | 0 |
| Insurance Fund Reserve | 100 | (100) | 0 | 0 | 0 | 0 | 0 |
| Invest to Save Reserve | 165 | (165) | 0 | 0 | 0 | 0 | 0 |
| LA Business Growth Incentive Reserve | 28 | (28) | 0 | 0 | 0 | 0 | 0 |
| Local Development Framework Reserve | 80 | (80) | 0 | 0 | 0 | 0 | 0 |
| Multi-Storey Car Park Repair Reserve | 2 | (2) | 0 | 0 | 0 | 0 | 0 |
| Performance Reward Grant Reserve (capital) | (191) | 191 | 0 | 0 | 0 | 0 | 0 |
| Performance Reward Grant Reserve (revenue) | 60 | (60) | 0 | 0 | 0 | 0 | 0 |
| Vehicle Replacement Reserve | (150) | 150 | 0 | 0 | 0 | 0 | 0 |
| Transfers to/from earmarked reserves | (56) | 56 | 0 | 0 | 0 | 0 | 0 |
| Increase / Decrease in 2012/13 | 0 | 56 | (256) | 0 | (200) | (2,890) | (3,090) |
| Balance as at 31 March 2013 | 1,350 | 13,362 | 12,616 | 0 | 27,328 | 96,563 | 123,891 |

GROUP STATEMENT OF MOVEMENT IN RESERVES

-continued

| GROUP STATEMENT OF MOVEMENT IN RESERVES | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Share of JV Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|------------------------------------|-------------------------------|--|--------------------------------|-------------------------------------|------------------------------|--|
| Balance at 1 April 2013 | 1,350 | 13,362 | 12,616 | 0 | 27,328 | 96,563 | 123,891 |
| Movement in Reserves during 2013/14 | | | | | | | |
| (Surplus) or deficit on provision of services | 4,388 | 0 | 0 | 0 | 4,388 | 0 | 4,388 |
| Other Comprehensive Expenditure and Income (OCIE) | 8,776 | 0 | 0 | 0 | 8,776 | 0 | 8,776 |
| Total Comprehensive Expenditure and Income (CI&E) | 13,164 | 0 | 0 | 0 | 13,164 | 0 | 13,164 |
| Adjustments between accounting basis & funding basis under regulations | | | | | | | |
| <u>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</u> | | | | | | | |
| Charges for depreciation of long-term assets | 2,569 | 0 | 0 | 0 | 2,569 | (2,569) | 0 |
| Revaluation (gains) / losses on long-term assets | 352 | 0 | 0 | 0 | 352 | (352) | 0 |
| (Gains) / Losses on disposal of long-term assets | (630) | 0 | 0 | 0 | (630) | 630 | 0 |
| (Surplus) / Deficit on revaluation of long-term assets (OCIE) | (1,160) | 0 | 0 | 0 | (1,160) | 1,160 | 0 |
| Capital grants & contributions applied | (3,610) | 0 | 0 | 0 | (3,610) | 3,610 | 0 |
| Revenue expenditure funded from capital under statute | 3,161 | 0 | 0 | 0 | 3,161 | (3,161) | 0 |
| Minimum Revenue Provision | (236) | 0 | 0 | 0 | (236) | 236 | 0 |
| Revenue Contribution to Capital | 114 | 0 | 0 | 0 | 114 | (114) | 0 |
| Adjustment for Finance lease payments | 2 | 0 | 0 | 0 | 2 | (2) | 0 |
| <u>Adjustments primarily involving the Capital Receipts Reserve</u> | | | | | | | |
| Use of capital receipts reserve to finance new capital expenditure | 0 | 0 | (7,291) | 0 | (7,291) | 7,291 | 0 |
| Proceeds from sale of long-term assets | 0 | 0 | 4,004 | 0 | 4,004 | (4,004) | 0 |
| Unattached capital receipts | (4,372) | 0 | 4,372 | 0 | 0 | 0 | 0 |
| <u>Adjustments primarily involving the Collection Fund Adjustment Account:</u> | | | | | | | |
| Collection Fund adjustment in accordance with statutory requirements | 4,402 | 0 | 0 | 0 | 4,402 | (4,402) | 0 |
| <u>Adjustments primarily involving the Accumulated Absences Reserve:</u> | | | | | | | |
| Accrued employee benefits adjustment in accordance with statutory requirements | 15 | 0 | 0 | 0 | 15 | (15) | 0 |
| <u>Adjustments primarily involving the Pensions Reserve:</u> | | | | | | | |
| Employer's pension contributions and direct payments to pensioners payable in year | (2,454) | 0 | 0 | 0 | (2,454) | 2,454 | 0 |
| Actuarial (gains) / losses on pension fund assets / liabilities (OCIE) | (7,616) | 0 | 0 | 0 | (7,616) | 7,616 | 0 |
| Reversal of items relating to retirement benefits debited or credited to the CI&E | 5,170 | 0 | 0 | 0 | 5,170 | (5,170) | 0 |
| <u>Adjustments primarily involving the Financial Instruments Adjustment Account:</u> | | | | | | | |
| Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| <u>Adjustments primarily involving the Share of Joint Venture Reserve:</u> | | | | | | | |
| Share of (Surplus) / Deficit on Provision of Services by Joint Venture | 42 | 0 | 0 | (42) | 0 | 0 | 0 |
| Net increase / decrease before transfers to earmarked reserves | 8,913 | 0 | 1,085 | (42) | 9,956 | 3,208 | 13,164 |

GROUP STATEMENT OF MOVEMENT IN RESERVES

-continued

| GROUP STATEMENT OF MOVEMENT IN RESERVES | General Fund Balance £000 | Earmarked Reserves £000 | Capital Receipts Reserve £000 | Share of JV Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|--|------------------------------------|-------------------------------|--|--------------------------------|---|------------------------------|--|
| Transfers to/from earmarked reserves | | | | | | | |
| Budget Carry Forward Reserve | (105) | 105 | 0 | 0 | 0 | 0 | 0 |
| Capital Fund Reserve | 0 | (171) | 0 | 0 | (171) | 171 | 0 |
| Car Parking Zones Reserve | (33) | 33 | 0 | 0 | 0 | 0 | 0 |
| Charter Place Tenants Reserve | 220 | (220) | 0 | 0 | 0 | 0 | 0 |
| Climate Change Reserve | (20) | 20 | 0 | 0 | 0 | 0 | 0 |
| Development Sites Decontamination Reserve | 0 | (35) | 0 | 0 | (35) | 35 | 0 |
| Economic Impact Reserve | (104) | 104 | 0 | 0 | 0 | 0 | 0 |
| High Street Innovation | 10 | (10) | 0 | 0 | 0 | 0 | 0 |
| Housing Planning Delivery Grant Reserve | 35 | (35) | 0 | 0 | 0 | 0 | 0 |
| Invest to Save Reserve | 416 | (416) | 0 | 0 | 0 | 0 | 0 |
| LA Business Growth Incentive Reserve (LABGI) | 43 | (43) | 0 | 0 | 0 | 0 | 0 |
| New Homes Bonus Reserve | (2,069) | 2,069 | 0 | 0 | 0 | 0 | 0 |
| NNDR Collection Fund Reserve | (4,661) | 4,661 | 0 | 0 | 0 | 0 | 0 |
| Parks, Waste & Street Strategy Reserve | (60) | 60 | 0 | 0 | 0 | 0 | 0 |
| Pension Funding Reserve | (874) | 874 | 0 | 0 | 0 | 0 | 0 |
| Performance Reward Grant Reserve (Revenue) | 28 | (28) | 0 | 0 | 0 | 0 | 0 |
| Recycling Reserve | 13 | (13) | 0 | 0 | 0 | 0 | 0 |
| Vehicle Replacement Reserve | (150) | 150 | 0 | 0 | 0 | 0 | 0 |
| Weekly Collection Support Grant Reserve | (1,603) | 158 | 0 | 0 | (1,445) | 1,445 | 0 |
| Transfers to/from earmarked reserves | (8,914) | 7,263 | 0 | 0 | (1,651) | 1,651 | 0 |
| Increase / Decrease in 2013/14 | 0 | 7,263 | 1,085 | (42) | 8,305 | 4,859 | 13,164 |
| Balance as at 31 March 2014 | 1,350 | 20,625 | 13,701 | (42) | 35,634 | 101,422 | 137,056 |

0 0

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| 2012/13 NET EXPEND- ITURE £000 | GROUP CIES STATEMENT | Note | 2013/14 | | |
|--|--|------|-----------------------------------|-------------------------|---------------------------------|
| | | | GROSS EXPEND- ITURE £000 | GROSS INCOME £000 | NET EXPEND- ITURE £000 |
| | Central Services to the Public: | | | | |
| 1,105 | Local Taxation Collection | | 1,100 | (317) | 783 |
| 718 | Other Central Services | | 992 | (431) | 561 |
| | Cultural and Related Services: | | | | |
| 4,043 | Leisure Services | | 4,957 | (249) | 4,708 |
| 1,104 | Other Services | | 870 | (143) | 727 |
| | Environmental and Regulatory Services: | | | | |
| 347 | Cemeteries and Crematoria | | 538 | (245) | 293 |
| 2,616 | Environmental Health | | 2,710 | (445) | 2,265 |
| 3,469 | Waste Collection and Disposal | | 5,296 | (941) | 4,355 |
| 3,487 | Planning and Economic Development | | 10,258 | (1,377) | 8,881 |
| 0 | Highways and Transport Services | | 2,543 | (2,655) | (112) |
| 2,715 | Other Housing Services | | 42,487 | (40,053) | 2,434 |
| 3,403 | Corporate and Democratic Core | | 2,850 | (35) | 2,815 |
| 0 | Central Support Services | | 162 | (162) | 0 |
| 138 | Non-distributed Costs | | 104 | 0 | 104 |
| 23,145 | Net Cost of Services | | 74,867 | (47,053) | 27,814 |
| | Other Operating (Income) and Expenditure | | | | |
| (445) | (Gains) / Losses on disposal of long-term assets | | | | (631) |
| (1,147) | Unattached capital receipts | | | | (4,372) |
| 0 | Other Operating (Income) and Expenditure | | | | (61) |
| | Financing and Investment (Income)/Expenditure | | | | |
| 93 | Interest payable and similar charges | | | | 82 |
| 2,164 | Pension interest costs & expected return on assets | | | | 2,978 |
| (412) | Interest receivable and similar income | | | | (266) |
| | (Surplus) or deficit on trading undertakings not included in Net | | | | 0 |
| (4,746) | Cost of Services | | | | (5,131) |
| (6,086) | Changes in the fair value of Investment Properties | | | | (3,912) |
| 100 | Other Investment (Income) / Expenditure | | | | 0 |
| | Taxation and Non-Specific Grant Income | | | | |
| (8,288) | Council Tax Income | | | | (7,350) |
| (5,316) | Non-domestic Rates Redistribution | | | | (1,725) |
| (1,496) | Non-ringfenced Government Grants | | | | (8,454) |
| (2,175) | Capital Grants and Contributions | | | | (3,402) |
| (4,609) | (Surplus) or Deficit on Provision of Services | | | | (4,430) |
| 0 | Share of (Surplus) / Deficit on Provision of Services by Joint Venture | 2 | | | 42 |
| (4,609) | Group (Surplus) / Deficit | | | | (4,388) |
| (320) | (Surplus) / Deficit on revaluation of long-term assets | | | | (1,160) |
| 8,019 | Actuarial (gains) or losses on pension assets and liabilities | | | | (7,616) |
| 7,699 | Other Comprehensive (Income) and Expenditure | | | | (8,776) |
| 3,090 | Total Comprehensive (Income) and Expenditure | | | | (13,164) |

GROUP BALANCE SHEET

| 31 March 2013 | GROUP BALANCE SHEET AS AT | | Note | 31 March 2014 |
|---------------|---------------------------|---|------|-----------------|
| £000 £000 | | | | £000 £000 |
| 40,236 | | Land and Buildings | | 41,082 |
| 5,966 | | Vehicles, Plant and Equipment | | 8,496 |
| 2,130 | | Infrastructure Assets | | 1,998 |
| 2,045 | | Heritage Assets | | 2,045 |
| 113,309 | | Investment Properties | | 105,703 |
| 900 | | Surplus Assets | | 900 |
| 1,190 | | Long Term Debtors & Investments | | 1,118 |
| | 165,776 | Long Term Assets | | 161,342 |
| 0 | | Assets Held for Sale | | 9,107 |
| 36 | | Inventories and Work In Progress | | 88 |
| 8,511 | | Short Term Debtors | | 21,518 |
| 28,111 | | Short Term Investments | | 31,496 |
| 381 | | Cash and Cash Equivalents | | 3,419 |
| | 37,039 | Current Assets | | 65,628 |
| (6,364) | | Short Term Creditors | | (18,457) |
| (479) | | Short Term Borrowing | | (1,111) |
| | (6,843) | Current Liabilities | | (19,568) |
| (5,138) | | Government Grants & Other Contributions in Advance | | (2,690) |
| (166) | | Deferred Liabilities | | (70) |
| 0 | | Loans | | (6,000) |
| (430) | | Provisions | | (139) |
| (66,347) | | Liability related to Defined Benefit Pension Scheme | | (61,447) |
| | (72,081) | Long Term Liabilities | | (70,346) |
| | 123,891 | Net Assets | | 137,056 |
| 12,616 | | Capital Receipts Reserve | | 13,701 |
| 13,362 | | Earmarked Reserves | | 20,625 |
| 1,350 | | General Fund Balance | | 1,350 |
| 0 | | Share of Joint Venture Reserve | | (42) |
| | 27,328 | Usable Reserves | | 35,634 |
| (89) | | Accumulated Absences Reserve | | (104) |
| 151,477 | | Capital Adjustment Account | | 145,675 |
| 31 | | Collection Fund Adjustment Account | | (4,371) |
| (294) | | Deferred Capital Payments | | (84) |
| 1,265 | | Deferred Capital Receipts | | 10,300 |
| (75) | | Financial Instruments Adjustment Account | | (75) |
| (66,347) | | Pensions Reserve | | (61,447) |
| 10,595 | | Revaluation Reserve | | 11,528 |
| | 96,563 | Unusable Reserves | | 101,422 |
| | 123,891 | Total Reserves | | 137,056 |

The Group Balance Sheet shows the Council's position at the end of the year for all activities and services, all internal transactions have been eliminated.

Signed
Joanne Wagstaffe CPFA
Director of Finance

Date: 29 September 2014

Signed
Ian Brown
Chairman of Audit Committee

Date: 29 September 2014

GROUP CASH FLOW STATEMENT

| 2012/13 | | GROUP CASH FLOW STATEMENT | Note | 2013/14 | |
|-----------|----------------|--|------|-----------|----------------|
| £000 | £000 | | | £000 | £000 |
| 4,609 | | Net (surplus) or deficit on the provision of services | | 4,631 | |
| (2,570) | | Adjustments to net surplus or deficit on the provision of services for non cash movements | | 2,815 | |
| (320) | | Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities | | (184) | |
| | 1,719 | | | | 7,262 |
| (93) | | Interest element of finance lease payments | | (82) | |
| 412 | | Interest received | | 266 | |
| | 319 | | | | 184 |
| | 2,038 | Net cash flows from Operating Activities | | | 7,446 |
| | | Investing and Financing Activities | | | |
| (2,577) | | Purchase of Long Term Assets | | (8,887) | |
| (2,008) | | Other payments for investing activities | | (3,365) | |
| 1,798 | | Grants and Contributions Applied to Capital Expenditure | | 3,610 | |
| (167,934) | | Purchase of short term and long term investments | | (280,325) | |
| 168,935 | | Proceeds from the sale of investments | | 276,947 | |
| 1,384 | | Proceeds from the sale of Long Term Assets | | 3,374 | |
| (956) | | Movement in Grants and Contributions Unapplied | | (2,094) | |
| 0 | | Long Term Loans | | 5,700 | |
| | (1,358) | | | | (5,040) |
| | 680 | Net increase/(decrease) in cash and cash equivalents | | | 2,406 |
| | (778) | Cash and Cash equivalents at the beginning of the reporting period | | | (98) |
| | (98) | Cash and Cash equivalents at the end of the reporting period | 26 | | 2,308 |

NOTES TO THE GROUP ACCOUNTS

1 The Group Accounting Policies

The Group Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2013/14 using the equity method for Joint Ventures under International Accounting Standard 31, Interests in Joint Ventures, and using the line-by-line consolidation method for subsidiaries under International Accounting Standard 27, Consolidated and Separate Financial Statements. There are no material subsidiaries or associated organisations excluded from the Group Accounts. There are no material differences in the accounting policies of the Council or any of the companies or organisations forming part of the Group Accounts.

2 Watford Borough Council's Share in Joint Venture Company Within the Group

On 7th May 2013, the Council took a 50% stake in the Watford Health Campus Partnership Limited Liability Partnership ("the LLP"). The other 50% stake is held by Kier Property Investment Limited. Watford Borough Council's share in the LLP is below:

| 2012/13 £000 | | 2013/14 £000 |
|-----------------|--|-----------------|
| 0 | Administrative Expenses | (42) |
| 0 | Loss for the period | (42) |
| 0 | Project under Development (Long Term Assets) | 420 |
| 0 | Work in Progress (Current Assets) | 73 |
| 0 | Debtors (Current Assets) | 17 |
| 0 | Cash and Cash Equivalents (Current Assets) | 508 |
| 0 | Creditors (Current Liabilities) | (752) |
| 0 | Creditors (Long Term Liabilities) | (307) |
| 0 | Net Assets | (42) |

3 Related Party Transactions

During the Period, the LLP entered into transactions with Kier Project Investments, Kier Project Development, Watford Borough Council and the West Hertfordshire Hospital Trust:

| 2012/13 | | | 2013/14 | |
|-------------------|--|-----------------------------------|-------------------|--|
| Purchases £000 | Amounts Outstand- ing at 31 March £000 | | Purchases £000 | Amounts Outstand- ing at 31 March £000 |
| 0 | 0 | Kier Project Investment Limited | 32 | 0 |
| 0 | 0 | Kier Property Development Limited | 61 | 6 |
| 0 | 0 | Watford Borough Council | 3 | 300 |

NOTES TO THE GROUP ACCOUNTS

Members' Capital Contributions (Loan Notes)

Watford Borough Council and Kier Property Development Limited made capital contributions of £150,000 each during the period through Loan Notes A's. Interest of £14,000 has been accrued in respect of these contributions.

Grant and interest free loans

The project has a committed grant of £9.0m from West Hertfordshire Hospital Trust (WHHT) to be used towards the development of infrastructure phase including construction of road and a bridge. The project also includes a committed interest free loan of £3.0m payable in 5 years from the date of first drawdown. The grant and interest free loan are subject to restrictive covenants on utilisation and can only be used to fund infrastructure, planning and other development expenditure. These monies cannot be used to fund property development zones returning profit.

The £0.3m interest free loan received from Watford Borough Council from Growing Places Funding during the period are categorised as a long term liability.

GLOSSARY OF TERMS AND ABBREVIATIONS

Accounting Period

The period of time covered by the accounts, normally a period of 12 months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accruals

Sums included in the final accounts of the Council to cover income or expenditure attributable to the accounting period for which payment has not been received/made in the financial year. Local authorities accrue for both revenue and capital expenditure.

Amortisation

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

Billing Authority

A local authority responsible for collecting Council Tax and National Non-Domestic Rates.

Capital Expenditure

Spending which produces or enhances an asset, like land, buildings, roads, vehicles, plant and machinery, and intangible assets such as computer software. Definitions are set out in Section 40 of the Local Government and Housing Act 1989. Any expenditure which does not fall within the definition must be charged to a revenue account.

Capital Receipts

The proceeds from the sale of Long Term Assets such as land and buildings. Capital receipts can be used to repay any outstanding debt on Long Term Assets or to finance new capital expenditure, within rules set down by government. Capital receipts cannot, however, be used to finance revenue expenditure.

Chartered Institute of Public Finance and Accountancy (CIPFA)

The professional accountancy body concerned with local authorities and the public sector.

Code of Practice on Local Authority Accounting in the United Kingdom (the Code)

The annual Code of Practice, produced by CIPFA, which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a Local Authority.

Collection Fund

The Collection Fund is a statutory fund set up under the provisions of the Local Government Finance Act 1988. It includes the transactions of the charging Authority in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which the fund balance is distributed to preceptors and the General Fund.

Contingent Assets/Liabilities

Potential gains and losses for which a future event will establish whether a liability exists and for which it is inappropriate to set up a debtor or provision in the accounts.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful life of a Long Term Asset.

GLOSSARY OF TERMS AND ABBREVIATIONS

Earmarked Reserves

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

Finance Lease

Arrangement whereby the lessee is treated as the owner of the leased asset, and is required to include such assets within Long Term Assets on the balance sheet.

Financial Reporting Standard (FRS)

A statement of accounting practice issued by the Accounting Standards Board.

Group Accounts

Group Accounts are prepared using consistent accounting policies which will require authorities to align their financial statements more closely with International Financial Reporting Standards.

Watford Borough Council has not used acquisitions or mergers accounting methodologies following consideration of the level of involvement with companies, voluntary organisations and other public bodies to determine if there is a requirement to undertake group accounts. There are no subsidiaries, associates or joint ventures.

Heritage Assets

Heritage Assets are held with the objective of increasing knowledge, understanding and the appreciation of the Council's history and local area.

IFRS

International Financial Reporting Standards.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investments

Deposits for with approved institutions.

Infrastructure Assets

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

Long Term Assets – Tangible

Tangible assets (i.e. land and buildings) that yield benefits to the Council and the services it provides for a period of more than one year.

Long Term Assets – Intangible

Assets which are of benefit to the organisation, but have no physical presence such as software licences.

Long Term Debtors

Amounts due to the Council more than one year after the Balance Sheet date.

GLOSSARY OF TERMS AND ABBREVIATIONS

National Non-Domestic Rates (NNDR)

Under the arrangements for uniform business rates, which came into effect on 1 April 1990, the Council collected Non-Domestic Rates for its area based on local rateable values, multiplied by nationally set rates. The total amount, less certain reliefs and deductions, was paid to a central pool managed by the Government, which in turn, paid back to Authorities their share of the pool based on a standard amount per head of the local adult population.

New arrangements for the distribution of NNDR came into force on 1 April 2013.

Operational Assets

Long Term Assets held by the Council and used or consumed in the delivery of its services.

Operating Lease

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the leasing company.

Pension Fund

An employees' pension fund maintained by an authority, 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.

Precept

The amount by which a Precepting Authority (e.g. a County Council) requires from a Billing Authority (e.g. a District Council) to meet its expenditure requirements.

Profit on the Sale of Long Term Assets

The book value of an asset sold is compared to the net proceeds to calculate the profit or loss on the transaction.

Provisions

Sums set aside to meet future expenditure where a specific liability is known to exist but cannot be measured accurately.

Revenue Expenditure Funded From Capital Under Statute

Capital expenditure which is allowable by statute to be funded from capital resources but which does not fall within the Code of Practice definition of Long Term Assets. Examples include grants and similar advances made to other parties to finance capital investment.

Revenue Support Grant

This funding is a Government Grant provided by the Department for Communities and Local Government (DCLG), which is based on the Government's assessment as to what should be spent on local services. The amount provided by the DCLG is fixed at the beginning of each financial year.

Surplus Assets

Long Term Assets held by an organisation but not directly occupied, used or consumed in the delivery of services, or held as an investment.

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATFORD BOROUGH COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of Watford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

In addition, we read all the financial and non-financial information in the foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

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

Paul Dossett, Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston
London
NW1 2EP

30 September 2014

INDEX OF NOTES TO THE CORE FINANCIAL STATEMENT

| Note Description | Note | Page |
|--|------|------|
| Accounting Policies | 1 | 25 |
| Accounting Standards that Have Been Issued but Have Not Yet Been Adopted | 2 | 41 |
| Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements and Investing and Financing Activities | 27 | 63 |
| Amounts Reported for Resource Allocation Decisions | 7 | 42 |
| Assets Held For Sale | 23 | 61 |
| Assumptions Made About the Future and Other Major Sources of Uncertainty | 6 | 41 |
| Capital Expenditure & Financing, Commitments and Changes in Estimates | 20 | 57 |
| Cash, Cash Equivalents and Short Term Borrowing | 26 | 62 |
| Contingent Assets and Liabilities | 32 | 69 |
| Creditors - Long Term | 29 | 64 |
| Creditors - Short Term | 28 | 63 |
| Critical Judgements in Applying Accounting Policies | 3 | 41 |
| Debtors & Investments - Long Term | 22 | 61 |
| Debtors - Short Term | 25 | 62 |
| Defined Benefit Pension Scheme | 31 | 65 |
| Disclosure of Nature and Extent of Risk Arising from Financial Instruments | 35 | 77 |
| Events After the Reporting Period | 5 | 41 |
| External Audit Costs | 10 | 46 |
| Grant Income | 8 | 45 |
| Heritage Assets | 18 | 54 |
| Intangible Assets | 16 | 51 |
| Inventories | 24 | 61 |
| Investment Properties and Surplus Assets | 19 | 55 |
| Leases | 21 | 59 |
| Members' Allowances | 11 | 47 |
| Officers' Remuneration | 12 | 47 |
| Partnership Working | 15 | 50 |
| Prior Period Adjustments | 4 | 41 |
| Property, Plant and Equipment | 17 | 51 |
| Provisions | 30 | 64 |
| Related Party Transactions | 14 | 49 |
| Termination Benefits | 13 | 48 |
| Trading Operations | 9 | 46 |
| Unusable Reserves | 34 | 73 |
| Usable Reserves | 33 | 70 |



The Audit Findings for Three Rivers and Watford Shared Service Joint Committee

DRAFT

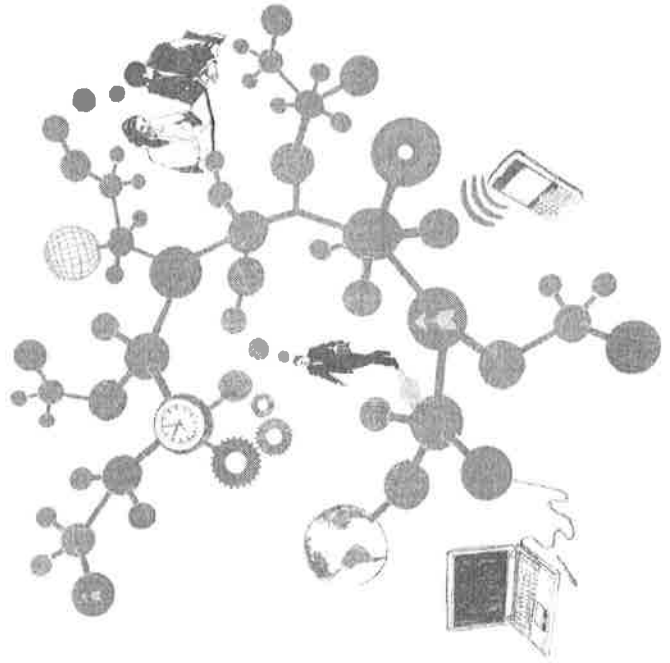
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Year ended 31 March 2014
22 September 2014

Paul Dossett
Engagement Lead
T +44 (0)207 728 3180
E paul.dossett@uk.gt.com

Richard Lawson
Manager
T 07766 442038
E richard.lawson@uk.gt.com

Rob Brearley
Audit Executive
T +44 (0)207 728 5100
E robert.j.brearley@uk.gt.com



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

| Section | Page |
|--|-------------|
| 1. Executive summary | 4 |
| 2. Audit findings | 7 |
| 3. Value for Money | 19 |
| 4. Fees, non audit services and independence | 24 |
| 5. Communication of audit matters | 26 |
| Appendices | |
| A Action plan | |
| B Audit opinion | |

Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Three Rivers and Watford Shared Service Joint Committee's ('the Committee') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Committee's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 12 June 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have identified no adjustments affecting the Committee's reported financial position (details are recorded in section 2 of this report). We have also identified a number of adjustments to improve the presentation of the financial statements.

Value for Money conclusion

We are pleased to report that, based on our review of the Committee's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on Value for Money is set out in section 3 of this report.

Controls

The Committee's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Committee.

Executive summary

The way forward

Matters arising from the financial statements audit and review of the Committee's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The working papers were of a good quality.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Audit findings

Design effectiveness of internal controls

Accounting systems and internal controls

We have placed reliance on the work undertaken on key financial controls at Watford Borough Committee and Three Rivers and Watford Shared Service Joint Committee (the Committees) for the purpose of designing our programme of work for the financial statements audit. The audit of the key controls of the Committees' financial systems found the controls in place to be robust and there was no amendment of the programme of work for the financial statements audit.

Management of the risk of fraud

We have considered the processes in place to identify and respond to the risk of fraud at the Committee.

The Committee considers that there are adequate processes in place to mitigate against the risk of fraud occurring at the Committee and that those charged with governance have sufficient oversight over those processes to give them the assurances they require in this area

Other reporting

Annual governance statement

We have examined the Committee's arrangements and processes for compiling the AGS. In addition, we have read the AGS and considered whether the statement is in accordance with the requirements of the Code and consistent with our knowledge of the Committee.

We have concluded that the Joint Committee places reliance on the arrangements in place at Watford BC and Three Rivers DC, which were reported to have satisfactory arrangements in place to produce robust Annual Governance Statements and provide a strong audit trail for the Three Rivers Chief Executive and Chair of the Joint Committee to sign the statement.

The draft Annual Governance Statement submitted for audit on 25th June 2014 did not include the significant governance issues highlighted in the Watford BC and Three Rivers DC Annual Governance Statements. It is a CIPFA code of practice requirement that the Committee comments upon the prior year significant governance issues and provides an update on the latest position commenting what action has been put in place to address the issue and if the issue still remains significant

Next Steps

The Joint Committee is required to approve the financial statements for the year ended 31 March 2014. In forming its conclusions the Committee's attention is drawn to the financial statements and the Letter of Representation.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

| Detail | Comprehensive Income and Expenditure Account £'000 | Balance Sheet £'000 | Impact on total net expenditure £000 |
|-----------------------|---|------------------------|---|
| 1 None | | | |
| Overall impact | £0 | £0 | £0 |

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Adjustment type | Value £'000 | Account balance | Impact on the financial statements |
|-----------------|----------------|-----------------|--|
| 1 Disclosure | - | - | There were a number of presentational changes that arose during the course of the audit that have been made to the financial statements. |

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

| Issue | Commentary |
|---|---|
| 1. Matters in relation to fraud | <ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and we have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit. |
| 2. Matters in relation to laws and regulations | <ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations. |
| 3. Written representations | <ul style="list-style-type: none"> A letter of representation has been requested from the Committee. |
| 4. Disclosures | <ul style="list-style-type: none"> Our review found no material omissions in the financial statements |
| 5. Matters in relation to related parties | <ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed |
| 6. Going concern | <ul style="list-style-type: none"> Our work has not identified any reason to challenge the Committee's decision to prepare the financial statements on a going concern basis. |

Section 3: Value for Money

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money**
- 04. Fees, non audit services and independence
- 05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Committee's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Committee has proper arrangements in place for securing financial

resilience - the Committee has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Committee has proper arrangements for challenging how it secures

economy, efficiency and effectiveness - the Committee is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Committee's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

- The Revenue and Benefits services have improved performance during the year recording a 22% drop and 63% reduction in the level of Local Authority Error overpayments whilst reducing the average time taken to process new claims and changes in circumstances.

Overall our work highlighted the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Challenging economy, efficiency and effectiveness

We have considered the Committee's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted organisation is prioritising its resources within tighter budgets.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Committee has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014

Section 4: Fees, non audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence**
- 05. Communication of audit matters

Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

| | Per Audit plan £ | Actual fees £ |
|-------------------------|---------------------|------------------|
| Total audit fees | 10,000 | 10,000 |

Fees for other services

| Service | Fees £ |
|---------|--------|
| None | - |

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Fees, non audit services and independence
- 05. Communication of audit matters**

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Committee's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Committee's key risks when reaching our conclusions under the Code.

It is the responsibility of the Committee to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Committee is fulfilling these responsibilities.

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | ✓ | |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ | |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged | | |
| Details of safeguards applied to threats to independence | | |
| Material weaknesses in internal control identified during the audit | | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | | ✓ |
| Compliance with laws and regulations | | ✓ |
| Expected auditor's report | | ✓ |
| Uncorrected misstatements | | ✓ |
| Significant matters arising in connection with related parties | | ✓ |
| Significant matters in relation to going concern | | ✓ |

Appendices

Appendix B: Audit opinion

We anticipate we will provide the Committee with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THREE RIVERS AND WATFORD SHARED SERVICES JOINT COMMITTEE

Opinion on the Authority financial statements

We have audited the financial statements of Three Rivers and Watford Shared Service Joint Committee for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. 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 2013/14.

This report is made solely to the members of Three Rivers and Watford Shared Service Joint Committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Finance Officer and auditor

As explained more fully in the Statement of Finance Officer Responsibilities, the Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Finance Officer and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements give a true and fair view of the financial position of Three Rivers and Watford Shared Service Joint Committee as at 31 March 2014 and of its expenditure and income for the year then ended, and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for securing financial resilience; and challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Three Rivers and Watford Shared Service Joint Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in

We certify that we have completed the audit of the financial statements of Three Rivers and Watford Shared Service Joint Committee in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Dosssett, Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston
London
NW1 2EP

26 September 2014

DRAFT



© 2014 Grant Thornton UK LLP. All rights reserved.
'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

My Ref : DoF/DMAR
Your Ref :
Date : 29 September 2014
Contact : Joanne Wagstaffe
Tel No : 01923 727200
E-mail Add : Joanne.wagstaffe@threerivers.gov.uk
Department :

Dear Sirs

Three Rivers and Watford Shared Service Joint Committee – financial statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Three Rivers and Watford Shared Service Joint Committee for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vii Except as stated in the financial statements:
 - a. There are no unrecorded liabilities, actual or contingent
 - b. None of the assets of the Council has been assigned, pledged or mortgaged
 - c. There are no material prior year charges or credits, nor exceptional or non recurring items requiring disclosure
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- x All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code would require adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a. 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;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.

- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii 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.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 29 September 2014.

Signed on behalf of the committee

.....
 Name: Sarah Nelmes
 Position: Chairman
 Audit Committee - Three Rivers

.....
 Name: Joanne Wagstaffe, CPFA
 Position: Director of Finance
 and Section 151 officer

Date: 29 September 2014

Date: 29 September 2014

.....
 Name: Ian Brown
 Position: Chairman
 Audit Committee - Watford

Date: 29 September 2014

This page is intentionally left blank



THE THREE RIVERS & WATFORD
SHARED SERVICES

STATEMENT OF ACCOUNTS

2013/2014

CONTENTS

| | Page |
|--|-----------|
| STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS | 2 |
| This statement sets out the respective responsibilities of the Joint Committee and its Finance Officer for the Statement of Accounts. | |
| EXPLANATORY FOREWORD | 3 |
| The foreword gives a brief explanation of what is included within the Statement of Accounts, as well as providing a summary of the main financial results for 2013/14. | |
| ANNUAL GOVERNANCE STATEMENT | 6 |
| This statement is required by <i>The Accounts and Audit Regulations (England) 2011</i> . | |
| CORE FINANCIAL STATEMENTS | |
| Statement of Movement in Reserves | 13 |
| Each council raises council tax on a different accounting basis to the way financial performance is measured in the Comprehensive Income and Expenditure Account. In each council's accounts, this Statement shows the movement in the year on different reserves held by the Council and which contribute to their General Fund balances. There are no adjustments needed to the shared services income and expenditure account before consolidation into the accounts of the two councils, therefore there is nothing to record in this account. | |
| Comprehensive Income and Expenditure Statement | 13 |
| This statement summarises the resources that have been generated and consumed in providing and managing the shared services during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year. | |
| Balance Sheet | 14 |
| Balance Sheet represents the overall financial position of Shared Services. In addition to containing the revenue balances and reserves at the Council's disposal, it shows its long-term indebtedness and the fixed and net current assets employed in its operations. | |
| Cash Flow Statement | 14 |
| The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. | |
| NOTES TO THE CORE FINANCIAL STATEMENTS | 15 |
| These include the Statement of Accounting Policies which explains the basis upon which the figures in the accounts have been prepared. Further explanatory notes explain in more detail the contents of the core financial statements. | |
| GLOSSARY OF TERMS | 19 |
| INDEPENDENT AUDITORS' REPORT AND CERTIFICATE | 21 |

STATEMENT OF RESPONSIBILITIES

The Code of Practice on Local Authority Accounting in The United Kingdom reflects the requirements of the Accounts and Audit Regulations (England) 2011. The Authority must provide a Statement of Responsibilities for the Statement of Accounts which sets out the responsibilities of the Authority and the Chief Financial Officer for the Accounts.

The Councils' Responsibilities

The Councils are required:

- (a) To make arrangements for the proper administration of its financial affairs and to secure that one of its officers had the responsibility for the administration of those affairs. For the Shared Services Joint Committee the Finance Officer was the Head of Finance for Shared Services.
- (b) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (c) To approve this Statement of Accounts.

Signed:

Councillor Ian Brown
Chairman of Watford Borough Council Audit Committee
Date: 29 September 2014

Signed:

Councillor Sarah Nelmes
Chairman of Three Rivers District Council Audit Committee
Date: 29 September 2014

The Finance Officer's Responsibilities

The Joint Committee's Finance Officer was responsible for the preparation of the Joint Committee's Statement of Accounts in accordance with proper practices as set out in the Code of Practice.

In preparing this Statement of Accounts the Head of Finance Shared Services had:

- (a) Selected suitable accounting policies and then applied them consistently;
- (b) Made judgements and estimates that were reasonable and prudent;
- (c) Complied with the Code of Practice (except where disclosed otherwise);
- (d) Kept proper accounting records which were up to date; and
- (e) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE FINANCE OFFICER

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Joint Committee at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Signed:

Joanne Wagstaffe CPFA
Director of Finance Shared Services
Date: 29 September 2014

EXPLANATORY FOREWORD

1. Introduction

The purpose of the Statement of Accounts was to give information to interested parties on how the Joint Committee had used the resources available to it to provide services to Three Rivers and Watford councils. The Shared Services arrangement commenced on the 1 April 2009 for the provision of Finance, Human Resources, ICT and Revenues & Benefits services. From April 2014, the Governance arrangements for Shared Services has changed. A new agreement between Watford Borough Council and Three Rivers District Council has introduced a lead authority model.

This foreword gives a brief explanation of what is included within the Statement of Accounts, as well as providing a summary of the main financial results for 2013/14.

The Joint Committee were required to prepare 'group accounts' where there were significant interests in other organisations. A review was carried out and it was determined that no other organisations exist that would require group accounts to be prepared.

2. Accounting Framework

The *Code of Practice on Local Authority Accounting in the United Kingdom* defines the proper accounting practices for local authorities in England. The Code has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA) based on International Financial Reporting Standards (IFRS). The Accounts and Audit Regulations (England) 2011 define the Three Rivers and Watford Shared Services Joint Committee as a Larger Relevant Body.

3. Changes in Functions

In May 2013, ICT Shared Services were outsourced to Capita Secure Information Solutions Limited.

4. Revenue Activities

Revenue Out-turn 2013/14

Revenue expenditure is the day-to-day expenditure incurred by the Councils to deliver shared services. Total revenue expenditure amounted to £7.43m. The Three Rivers and Watford Shared Services Joint Committee was not a separate legal entity and did not have capacity to enter into contracts of employment or contracts for goods and services. The Joint Committee had no employees, assets or liabilities - these were the responsibility of the constituent councils. Shared Services costs and incomes were reported separately to the Joint Committee for management, performance and accounting purposes.

EXPLANATORY FOREWORD

Comparison of the original budget with the out-turn for each of the shared services:-

| | 2013/14 Original Estimate £000s | 2013/14 Out-turn £000s | 2013/14 Variance £000s |
|---------------------|--|------------------------------|------------------------------|
| ICT | 1,411 | 1,957 | 546 |
| Finance | 1,556 | 1,332 | (224) |
| Human Resources | 744 | 635 | (109) |
| Revenues & Benefits | 2,947 | 3,510 | 563 |
| | 6,658 | 7,434 | 776 |

Comparison of the original budget with the out-turn analysed against the CIPFA subjective classification:-

| | 2013/14 Original Estimate £000s | 2013/14 Out-turn £000s | 2013/14 Variance £000s |
|-----------------------|--|------------------------------|------------------------------|
| Employees | 5,640 | 4,720 | (920) |
| Transport | 49 | 27 | (22) |
| Supplies and Services | 982 | 2,694 | 1,712 |
| Premises | 0 | 0 | 0 |
| Income | (13) | (7) | 6 |
| | 6,658 | 7,434 | 776 |

Comparison of the income from the partner councils in the original budget with the out-turn:-

| | 2013/14 Original Estimate £000s | 2013/14 Out-turn £000s | 2013/14 Variance £000s |
|-------------------------------|--|------------------------------|------------------------------|
| Three Rivers District Council | 2,639 | 2,963 | 324 |
| Watford Borough Council | 4,019 | 4,471 | 452 |
| | 6,658 | 7,434 | 776 |

During the year the provision of ICT Services were outsourced to Capita for five years. The result of this change was to reduce the ICT employee budgets by £732k and increase the ICT services budgets by £1,282k, a net increase of £550k. The contract costs were frontloaded in 2013/14 to improve service levels. Over the five years of the contract for ICT, the councils will make overall savings.

For Revenues and Benefits, additional costs of £215k were incurred for agency staff to cover vacant posts, £135k to upgrade the Academy Software (New Burdens funding £73k received to offset against this cost) and £225k for printing and stationery, consultancy, licences, postage and legal fees due to increased demand on services.

EXPLANATORY FOREWORD

5. Future Revenue Expenditure & Its Funding

Expenditure on the services was under the control of the partner councils. The Joint Committee received quarterly financial and performance monitoring reports. Arrangements were in place to refer variances to the councils.

6. Governance

This Statement of Accounts was one way in which the Three Rivers and Watford Shared Services Joint Committee tried to demonstrate that it was making good use of public funds and providing value for money. The Councils were constantly looking to improve financial management and internal control within the Shared Services arrangement. The External Auditor carries out value for money reviews in partner councils as part of their reporting.

7. Further Information

Further information on the joint service accounts is available from the Head of Finance (Shared Services) based at Three Rivers Council Offices, Northway, Rickmansworth, Herts., WD3 1RL. Information on both councils' policies and their Statements of Accounts can be found on their websites or in hard copy by request. Please visit www.threerivers.gov.uk and www.watford.gov.uk

Joanne Wagstaffe CPFA
Director of Finance
Shared Services
29 September 2014

ANNUAL GOVERNANCE STATEMENT

1. Scope of Responsibility

The Three Rivers and Watford Shared Services Joint Committee was responsible for ensuring that its business was conducted in accordance with the law and proper standards, and that public money was safeguarded and properly accounted for, and used economically, efficiently and effectively. The Joint Committee also had 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.

In discharging this overall responsibility, the Joint Committee was responsible for putting in place proper arrangements for the governance of affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

Three Rivers District Council and Watford Borough Council have approved and adopted codes of corporate governance, which are consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework 'Delivering Good Governance in Local Government'. Copies of both codes can be found on the websites:

for Three Rivers: <http://www.threerivers.gov.uk/Default.aspx/Web/CorporateGovernance>

for Watford: <http://www.watford.gov.uk/ccm/content/finance/local-code-of-corporate-governance.en>
or be obtained from the councils.

These statements explain how the Councils have complied with the Code and also meet the requirements of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Joint Committee was directed and controlled and its activities through which it accounted to, engaged with and leads the community. It enabled the Joint Committee to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control was a significant part of that framework and was designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Joint Committee's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance frameworks described in the reports to Audit Committees for Three Rivers and for Watford have been in place at the Councils for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The key elements of the systems and processes that comprise the Joint Committee's governance arrangements are:-

- Identifying and communicating the vision of the Shared Services Joint Committee's purpose and intended outcomes for citizens and service users.
- Reviewing the councils' vision and its implications for the governance arrangements of the Shared Services Joint Committee.
- Measuring the quality of services for users and ensuring they are delivered in accordance with the Joint Committee's objectives for ensuring they represent the best use of resources.
- Defining and documenting roles and responsibilities of the Joint Committee and officer functions with clear delegation arrangements and protocols for effective communication.
- Developing, communicating and embedding codes of conduct for standards of behaviour for members and staff.
- Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes which clearly define how decisions are taken and the process and controls to manage risks.
- Undertaking the core functions of an audit committee as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities.
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
- Whistle-blowing and arrangements for receiving and investigating complaints from the public.
- Identifying the development needs of members and senior officers.
- Establishing clear channels of communication with all sections of the community.
- Incorporating good governance arrangements in respect of partnerships.

4. Review of Effectiveness

The Joint Committee had responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers who have responsibility for the development and maintenance of the governance environment, the Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Councils have procedures in place to ensure the maintenance and review of the effectiveness of the governance frameworks which includes reports to and reviews by the following:-

- The Audit Committee of Three Rivers, the Audit Committee of Watford and the Standards Committee of each Council.
- Internal Audit and External Audit.
- Other review / assurance mechanisms.

ANNUAL GOVERNANCE STATEMENT

5. Significant Governance Issues

5.1 Three Rivers District Council

Over the coming year the Council proposes to take steps to address the matters shown in the table below to further enhance its governance arrangements. It is satisfied that these steps will address the need for improvements that were identified in its review of effectiveness. It will monitor their implementation and operation through regular reporting to the Audit Committee.

| <i>Action</i> | <i>Priority</i> | <i>Officer Responsibility</i> | <i>Action to date / Action Required</i> | <i>Resolved</i> | <i>Original Implementation Date</i> |
|---|-----------------|-------------------------------|--|-----------------|-------------------------------------|
| Monitor the performance of the out-sourced ICT service to ensure it is achieving service and budgetary targets. The disaster recovery plan should be tested. | High | Shared Director of Finance | The ICT service is being monitored monthly and has a range of PIs against which performance is measured. In addition there are fortnightly meetings to discuss ongoing issues. Backup solution architect is currently assessing ability to recover. This is all feeding into the data centre migration project. The disaster recovery test is scheduled prior to the data centre move | ✘ | September 2014 |
| The housing service should develop action plans to address significant unmitigated risks. | High | Head of Community Services | Strategic, Service and Financial Planning for 2014 – 2017 has considered these and potential risks in line with the Risk Management Framework. | ✔ | March 2014 |
| Monitor the transition to 39 councillors and a revision to a traditional committee system with effect from May 2014 to ensure sound governance arrangements are maintained. | High | Management Board | New Constitution and committee system was reported to and agreed by Council in February 2014. Elections to thirty-nine seats will take place in May 2014. | ✔ | March 2014 |

ANNUAL GOVERNANCE STATEMENT

| | | | | | |
|---|------|------------------|---|---|------------|
| <p>Continue to monitor the following risks for their impact on the budget and quality of service:</p> <ul style="list-style-type: none"> • continued reductions in central government funding • employer's pension contributions • the implications of the local scheme of support to council tax • the retention of business rates • the introduction of universal credit | High | Management Board | <p>The medium term financial plan is updated each month. Planning takes into consideration known information and forecasts for government funding, pay and pension increases.</p> <p>Regular monitoring processes are in place for forecasting the council tax base, the council tax support scheme and the non-domestic rates tax base.</p> <p>The introduction of universal credit is regularly monitored and reported to Management Board where risks are identified and reviewed.</p> <p>The September Executive Committee received a report commencing the process for Strategic, Service and Financial Planning for 2014–2018</p> <p>Strategic, Service and Financial Planning for 2014–2017 has considered these and potential risks in line with the Risk Management Framework.</p> <p>Reductions in government funding have been allowed for in each of the next three years.</p> <p>Increases in pension contributions have been included in budgets and the three year medium term financial strategy.</p> <p>The council tax support scheme remains unchanged for 2014/15.</p> <p>The localisation of business rates and its impacts are regularly monitored.</p> <p>The Government's progress with the introduction of the Universal Credit scheme is regularly monitored.</p> | ✓ | March 2014 |
|---|------|------------------|---|---|------------|

ANNUAL GOVERNANCE STATEMENT

| | | | | | |
|---|--------|--|--|---|---------------|
| The financial procedure rules and contracts procedure rules should be reviewed and updated. Specifically, they should be amended for the lessons learned from the William Penn project. | High | Shared Director of Finance | Financial Procedure Rules and Contract Procedure Rules have been reviewed, revised and adopted. | ✓ | March 2014 |
| Put in place compensating controls to mitigate risks arising from reduced staffing levels and separation of duties. | Medium | Heads of Service | Strategic, Service and Financial Planning for 2014 – 2017 has considered these and potential risks in line with the Risk Management Framework. The Shared Internal Audit Service and Grant Thornton, the external auditors, have not identified staffing as a risk concern in Reports received during the year. | ✓ | March 2014 |
| Monitor the capacity of the shared Director of Finance. | Medium | Chief Executive and Managing Director (Watford BC) | The position of Shared Director of Finance has been regularly monitored over the last nine months and there are no capacity concerns to be addressed. | ✓ | December 2013 |

5.2 Watford Borough Council

The 'normal' running of Council business has and can be controlled through the governance framework detailed at sections 4 to 9 of this report. Specific issues identified within the 2012/2013 Governance Statement have been resolved as below:

| No. | Issue | Action | Resolved | Lead | Update |
|-----|---|--|----------|--|---|
| 1 | Continued reductions in Central Government funding will place pressures upon the delivery of services | The MTFS will be updated quarterly and planned efficiencies through the Council's Road Map will be monitored | ✓ | Shared Director of Finance and Leadership Team | Central Government funding changes have been allowed for and included in the updated Medium Terms Financial Strategy. The position is continuously monitored and reported to Leadership Team and Council. |

ANNUAL GOVERNANCE STATEMENT

| | | | | | |
|---|---|--|---|---|--|
| 2 | The outsourcing of ICT and waste, street cleansing, recycling, parks and open spaces can result in an unacceptable fall in levels of service. | Detailed key performance indicators have been included within contract documentation and need to be rigorously monitored | ✓ | Head of Cultural and Client Services | <p>Audit report received and an overall moderate assurance that there are effective controls in operation was awarded. Of the 7 recommendations made 4 were in the “medium” category and 3 in the “merits attention” category. None were in the “high” category. One of the recommendations has been completed and 2 will be ongoing in relation to reducing the number of PIs over the life of the contract and building relationships with other councils contract managers. The remainder have target dates set which will be monitored quarterly.</p> <p>An Audit on the ICT Capita contract management will be undertaken in 2014/15.</p> |
| 3 | Welfare Benefit changes and the preparation for Universal Credit needs to ensure no unacceptable impact upon benefit recipients | Monitoring of existing client base needs to identify where distortions occur. Testing of current ICT systems need to ensure a seamless transfer of caseloads to central government | ✓ | Head of Shared Services Revenues and Benefits | The Minister has announced that only 40,000 claims will be out into Universal Credit this year and there are further exemptions. We are undertaking no further planning work on this until we are provided with a proper timeline from central government and clarity about what cases are and are not included. We are simply maintaining a watching brief. |
| 4 | Deletion of senior management posts may result in a breakdown in governance processes. | Transfer of responsibilities to named officers should ensure future accountability | ✓ | Managing Director and Leadership Team | The constitution has been amended to reflect the new council structure. Policies have also been amended as necessary. |

ANNUAL GOVERNANCE STATEMENT

| | | | | | |
|---|--|---|---|-------------------------------------|--|
| 5 | Ensuring investment partnerships at the Health Campus and Charter Place achieve planned objectives | Detailed development agreements are in place and will be monitored through Partnership Boards | ✓ | Managing Director and Elected Mayor | <p>Charter Place planning application for redevelopment submitted by Intu to be determined in January.</p> <p>Meeting with Intu regularly to progress land assembly.</p> <p>Watford Health Campus Partnership LLP Boards meet regularly.</p> |
| 6 | The effect of demographic changes need to be identified at an early stage | The composition of the Council's client base is kept under continuous review. Pressures upon services such as housing and welfare entitlement will be known | ✓ | Leadership Team | <p>The council is developing a corporate approach to managing information on its community and clients and bringing together the significant work done to assess / analyse data in this field.</p> <p>Partnerships and Performance Section Head will be leading on an intelligence gathering approach to be developed in 2014.</p> |
| 7 | The Council's Pension Fund needs to be adequately funded in order to meet current and future liabilities | In December 2013 the triennial review of the Pension Fund will be reported by the Actuary. The Council will need to respond to the main features of that report | ✓ | Shared Director of Finance | <p>The Actuary has reported the position following the triennial review. The details will be included in the Financial Planning (Revenue and Capital Estimates 2014 – 16) to Budget Panel, Cabinet and Council in January 2014</p> |

Signed

Date: 29 September 2014

Councillor Ian Brown

Chairman of Watford Borough Council Audit Committee

Signed

Date: 29 September 2014

Councillor Sarah Nelmes

Chairman of Three Rivers District Council Audit Committee

STATEMENT OF MOVEMENT IN RESERVES

The Comprehensive Income and Expenditure Account (I&E) shows the Joint Committee's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. Each Council is required to raise Council Tax on a different accounting basis.

There are no adjustments required to the Shared Service Income and Expenditure Account before consolidation into the accounts of each Council's General Fund Balances.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement summarises the resources that have been generated and consumed in providing services and managing the Shared Service during the last year. It includes all day-to-day expenses and related income on an accruals basis.

| 2012/13 | | 2013/14 | | |
|--|---|-------------------------------|--------------------------|--|
| Net Expenditure /Income £000s | | Gross Expenditure £000s | Gross Income £000s | Net Expenditure /(Income) £000s |
| | Expenditure on Continuing Services | | | |
| 1,436 | Local Tax Collection | 1,628 | (1) | 1,627 |
| 1,724 | Housing Benefits | 1,883 | 0 | 1,883 |
| 3,576 | Central Support Services (HR, Finance & ICT) | 3,930 | (6) | 3,924 |
| 6,736 | Cost of Services/Operating Expenditure | 7,441 | (7) | 7,434 |
| (2,623) | Income from Three Rivers District Council | | | (2,963) |
| (4,113) | Income from Watford Borough Council | | | (4,471) |
| 0 | (Surplus)/Deficit For The Year | | | 0 |

BALANCE SHEET AS AT 31 MARCH 2014

| 31 March 2013 £000s | | Note | 31 March 2014 £000s | |
|------------------------|--------------------------------------|------|------------------------|-------|
| | | | £000s | £000s |
| | Current Assets | | | |
| 31 | Debtors | 5 | 73 | |
| 19 | Cash & Bank (Three Rivers DC) | | 14 | |
| 77 | Cash & Bank (Watford BC) | | 61 | 148 |
| 127 | | | | |
| | Current Liabilities | | | |
| (127) | Creditors | 6 | (148) | (148) |
| 0 | Total Assets Less Liabilities | | | 0 |
| | Financed By | | | |
| 0 | Revenue Fund Balance | | | 0 |
| | | | | |

Signed
Joanne Wagstaffe CPFA
 Director of Finance Shared Services

Date: 29 September 2014

Signed
Councillor Sarah Nelmes
 Chairman of Three Rivers District Council Audit Committee

Date: 29 September 2014

Signed
Councillor Ian Brown
 Chairman of Watford Borough Council Audit Committee

Date: 29 September 2014

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

| 2012/13 £000s | | 2013/14 £000s |
|------------------|--------------------------------------|------------------|
| | Revenue Activities | |
| | Cash Outflows | |
| 6,855 | Operating Cash Payments | 7,420 |
| | Cash Inflows | |
| (6,890) | Cash Received for Goods And Services | (7,399) |
| (35) | (Increase)/Decrease In Cash | 21 |
| | | |

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Statement Of Accounting Policies

The Statement of Accounting Policies explains the basis for the recognition, measurement and disclosure of transactions and other events in the Accounts.

1.1 General Principles

The Statement of Accounts summarises the Joint Committee's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Joint Committee is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.2 Debtors and Creditors, Income and Expenditure

The accounts of Shared Services are shown on an accruals basis in accordance with the Code of Practice. That is to say, actual expenditure and income incurred during the year is recorded in the accounts, rather than the cash sums paid or received. Where actual costs are not available, accruals are made on a best estimate basis.

1.3 Support Services

The policies adopted for Shared Services by Three Rivers and Watford Councils is to charge costs directly to partner councils.

1.4 Basis of Preparation

No separate accounting records were kept by the Shared Services Joint Committee. As a result the accounts have been prepared from the records maintained by Three Rivers District Council and Watford Borough Council.

1.5 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues and Customs and all VAT paid is recoverable from them.

VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

NOTES TO THE CORE FINANCIAL STATEMENTS

2. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However decisions about resource allocation are taken by the Joint Committee on the basis of budget reports analysed across services, as below:

| 2012/13 £000s | SERVICE AREA | 2013/14 £000s |
|------------------|--|------------------|
| 1,436 | Information Technology | 1,957 |
| 1,420 | Finance | 1,332 |
| 719 | Human Resources | 635 |
| 3,161 | Revenues & Benefits | 3,510 |
| 6,736 | Net Shared Services | 7,434 |
| | | |
| | FUNDING | |
| (2,623) | Three Rivers District Council Contribution | (2,963) |
| (4,113) | Watford Borough Council Contribution | (4,471) |
| (6,736) | Total Funding | (7,434) |
| | | |
| 0 | Net Expenditure Less Funding | 0 |
| 0 | Surplus/Deficit Shared Services | 0 |
| | | |

Reconciliation of Service Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

As the shared service accounts do not include any adjustments under Statute, the figures presented to the Joint Committee agree to those shown on the face of the Comprehensive Income and Expenditure Account, so no reconciliation of the figures is required.

3. Local Authorities Goods and Services Act 1970

The Shared Service provides HR support to the West Herts Crematorium Joint Committee.

NOTES TO THE CORE FINANCIAL STATEMENTS

4. Related Parties

The Shared Service is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Joint Committee or to be controlled or influenced by the Joint Committee. Disclosure of these transactions in this Statement of Accounts allows the readers to assess the extent to which the Joint Committee 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 Joint Committee.

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

Related parties to the Joint Committee would include:

- ◆ central government;
- ◆ local authorities and other bodies precepting or levying demands on the council tax;
- ◆ its councillors;
- ◆ its chief officers; and
- ◆ its pension fund.

The Three Rivers and Watford Shared Services Joint Committee was established under the Local Government Act 1972 and the Local Government Act 2000. The Agreement between the two councils was to establish and facilitate the joint delivery of certain functions in accordance with the terms of the Agreement. The Joint Committee was empowered to arrange for the discharge of these functions. Three Rivers and Watford councils each nominated three Members with full voting rights to the Joint Committee.

5. Debtors

| Balance at 31 March 13 £000s | | Balance at 31 March 14 £000s |
|------------------------------------|----------------|------------------------------------|
| 31 | Sundry Debtors | 73 |
| 31 | | 73 |

There is no provision for bad debts, as all of the debts are less than a year old.

The Shared Service considers that the carrying amount of trade and other debtors approximates to their fair value.

NOTES TO THE CORE FINANCIAL STATEMENTS

6. Creditors

| Balance at 31 March 13 £000s | | Balance at 31 March 14 £000s |
|------------------------------------|----------------------------|------------------------------------|
| 127 | Sundry and Other Creditors | 148 |
| 127 | | 148 |

Sundry and Other Creditors are the Shared Service's trade creditors and payments in advance.

7. Disclosure of Audit Costs

In 2013/14 the Joint Committee incurred the following Audit Commission fees relating to external audit

| 2012/13 £000s | | 2013/14 £000s |
|------------------|------------|------------------|
| 10 | Audit Fees | 10 |
| 10 | | 10 |

8. Authorisation Of The Accounts For Issue

The Statement of Accounts was authorised for issue by Joanne Wagstaffe, the Director of Finance Shared Services, on 29 September 2014.

9. Events After The Balance Sheet Date

There are no post balance sheet events requiring disclosure. In determining if an event requires disclosure consideration has been given to events occurring up to 29 September 2014.

GLOSSARY

Accounting Period

The period of time covered by an authority's accounts, normally twelve months, beginning on 1 April. Also known as the Financial Year.

Accounting Policies

The principles, bases, conventions, rules and practices applied that specify how the effects of transactions and other events are reflected in the financial statements.

Accrual

A sum included in the final accounts attributable to that accounting period but for which an actual payment is yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

Asset

An item having measurable value in monetary terms. Assets can be defined as fixed or current. A fixed asset has use and value for more than one year where current assets can be readily converted into cash.

Audit Commission

The body responsible for appointing external auditors to local authorities and for setting the standards that those auditors are required to follow. The Commission will also carry out studies designed to promote the effective and efficient provision of local authority services.

Council Tax

A local tax set by local authorities in order to meet their budget requirements. There are eight Council Tax bands (Band A to Band H); the amount of Council Tax each household pays depends on the value of their homes.

Creditors

Amounts owed by an authority for works done, goods received or services rendered before the end of an accounting period, but for which actual payments had not been made by the end of that accounting period.

Debtors

Amounts due to an authority for works done, goods supplied or service rendered before the end of an accounting period, but for which actual payments had not been received by the end of that accounting period.

Exceptional Items

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence.

External Audit

The auditor is appointed by the Audit Commission and is required to verify that all statutory and regulatory requirements have been met during the production of the authority's accounts. There is also a requirement to review the arrangements in place to ensure the economic and effective use of resources.

Extraordinary Items

Material items that derive from events or transactions that fall outside the ordinary activities of the authority.

GLOSSARY

FRS

A statement of accounting practice issued by the Accounting Standards Board in the UK.

General Fund

The common name for the account which accumulates balances for all services.

IFRS

International Financial Reporting Standards.

Liability

An amount owed by an authority that will be paid at some time in the future.

Outturn

Actual income and expenditure in an accounting period.

Reserves

This is the accumulated surplus income (in excess of expenditure), which can be used to finance future spending.

Revenue Expenditure

Expenditure on day-to-day running costs such as salaries, heating, printing and stationery and debt charges. Revenue items will either be expended immediately, like salaries, or within one year of purchase.

Support Services

These are functions that provide support to service departments. They include accountancy, internal audit, information technology, human resources, general administration and office accommodation.

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THREE RIVERS AND WATFORD SHARED SERVICES JOINT COMMITTEE

Opinion on the Authority financial statements

We have audited the financial statements of Three Rivers and Watford Shared Services Joint Committee for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. 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 2013/14.

This report is made solely to the members of Three Rivers and Watford Shared Services Joint Committee in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of the Director of Finance Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Three Rivers and Watford Shared Services Joint Committee as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Three Rivers and Watford Shared Services Joint Committee put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We certify that we have completed the audit of the financial statements of Three Rivers and Watford Shared Service Joint Committee in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Dossett, Partner
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House
Melton Street
Euston
London
NW1 2EP

29 September 2014

This page is intentionally left blank