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# **INTRODUCTION AND EXPLANATORY FOREWORD**

## INTRODUCTION AND EXPLANATORY FOREWORD

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31<sup>st</sup> March 2008.

The Statement of Accounts is a statutory document providing information on the cost of services provided by Watford Borough Council both to the council tax payer and housing tenant and detailing how those services were financed. In addition it provides information, within the Balance Sheet on page 40 on the value of our assets (what we own), and what we are owed and the value of our liabilities (what we owe). It is in essence a statement of how well we have managed your money over the last twelve months.

For ease of understanding some information is provided in chart format shown on pages 13 to 15 and there is a Glossary of accounting terms shown on pages 95 to 98. The information can be viewed in large print on the Council's website at [www.watford.gov.uk](http://www.watford.gov.uk) where there is also a useful summary. This summary will also be available in the Council's Annual Report which will be published later in the year.

Should you have any comments or wish to discuss this statement in further detail then please contact Paul Julian on 01923 278067, e-mail [paul.julian@watford.gov.uk](mailto:paul.julian@watford.gov.uk).

I hope you find the statement of interest and may I take the opportunity of thanking you for taking time to read it.

Janice Maule CPFA, BA  
Director of Finance

Watford Borough Council  
Town Hall  
Watford  
Hertfordshire  
WD17 3EX

## STATEMENT OF RESPONSIBILITIES

### THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibilities for the administration of those affairs. In this authority, that 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 DIRECTOR OF FINANCE'S RESPONSIBILITIES

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

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 Code of Practice
- 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, set out on pages 5 to 103, presents fairly the financial position of Watford Borough Council as at 31 March 2008 and its Income and Expenditure for the year ended 31 March 2008.

Signed ..... Date .....

Janice Maule CPFA, BA  
Director of Finance

Signed ..... Date .....

Ian Brown  
Chair – Audit Committee

## INTRODUCTION AND 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 accounts.

The Accounts and Audit Regulations 2003 require the Council to produce a Statement of Accounts for each financial year giving certain specified information. The foreword sets out to explain the financial details contained in the Council's accounts. To assist readers, a glossary of accounting terms is included on pages 95 to 98.

During the compilation of the 2007/08 Accounts a small number of presentational adjustments to the 2006/07 comparative figures were identified. These changes have been made in the necessary statements and the word 'restated' has been added to show that there has been a change to last year's published figures.

### 2. FINANCIAL STATEMENTS

The financial statements attached include the following:

#### a. Statement of Accounting Policies

The purpose of the statement of accounting policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

This statement has been prepared using accounting policies which are consistent with the relevant accounting concepts and standards. The approach taken ensures that the accounts present fairly the financial position and transactions of the Council.

#### b. Income and Expenditure Account (I & E Account)

The Income and Expenditure Account brings together all of the functions of the authority and summarises all the resources that the Council has generated, consumed or set aside in providing services during the year.

This statement is fundamental to the understanding of a local authority's activities, in that it reports the gross and net cost for the year of all the functions for which the authority is responsible and demonstrates how those costs have been financed. The net operating expenditure for 2007/08 amounted to £386 million mainly arising from the downward valuation of the council's housing stock on transfer to the Watford Community Housing Trust (WCHT). After reversing items which have no impact on the Council Tax the net surplus was £83,000 after transferring £2.5million to earmarked reserves.

The I & E Account is not aligned with the statutory provision that specifies the net expenditure of local authorities when setting local taxes. In order to give a full presentation of financial performance the I & E Account is then reconciled to the relevant statutory provisions, and this is undertaken in the Statement of Movement on the General Fund Balance. It is within this statement that a further adjustment in respect of the housing transfer is made to remove its impact on the Council's revenue balances.



## INTRODUCTION AND EXPLANATORY FOREWORD

### **c. Statement of Movement on the General Fund Balance**

The opening entry in this Statement is the outturn on the I & E Account, which was a deficit of £370.758million. This arises due to a downward valuation in the value of housing stock transferred to the WCHT. These entries together with other adjustments are reversed out of the General Fund in order that they have no overall impact on Council Tax. The outcome is an increase in the General Fund balance for the year of £83,000 after transfers to reserves of £2.5 million, against a budgeted decrease of £440,000. The General Fund balance was £1.337 million as at 31st March 2008

### **d. Statement of Total Recognised Gains and Losses**

The Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council for the year and shows the aggregate increase or decrease in its net worth.

The statement reveals a decrease in net worth of £358 million, principally due to the transfer of the Council's Housing Stock in September 2007 to Watford Community Housing Trust, and also includes the loss on revaluation of assets, gains recognised on the pension fund, and the deficit on the Statement of Movement on the General Fund Balance

### **e. Balance Sheet**

This shows all the assets and liabilities of the Council at 31 March 2008. The balance sheet total is £152.436 million which represents the net worth of the Council at that date.

The Fixed Assets had a net book value of £137 million at 31 March 2008, a reduction of £381million mainly arising from the stock transfer in the year.

### **f. Cash Flow Statement**

The Cash Flow Statement shows the cash inflows and outflows arising from transactions with third parties for capital and revenue activities. The statement enables the full movements in cash to be identified. The overall outcome was an increase of cash balances of £1.728 million.

### **g. Housing Revenue Account (HRA)**

The Housing Revenue Account records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision. The transactions included in the HRA this year are for the period up to the transfer of the Housing Stock on 10th September 2007. The gross expenditure for this period amounted to £14.6 million, and the deficit is £476,000 compared to a budgeted surplus of £1.637 million.

The accumulated reserve on the Housing Revenue Account decreased from £1.7million to £1.255 million as at 31st March 2008. There are likely to be a small number of adjustments to this sum in 2008/09 as particular items of account are finalised, and it is anticipated that the remaining balance will be transferred to the General Fund at the end of the 2008/09 year, following the necessary approval from the Secretary of State to formally close the HRA.

## INTRODUCTION AND EXPLANATORY FOREWORD

### ***h Collection Fund***

The Collection Fund includes the transactions of the Council as a billing authority in relation to Council Tax and its distribution to the relevant precepting authorities - Hertfordshire County Council, Hertfordshire Police Authority and Watford Borough Council. The total net income from council taxpayers in 2007/08 amounted to £ 44.819 million.

In addition, the Collection Fund also shows the income collected from non-domestic ratepayers in Watford, which is then passed to the Government after a deduction for the cost of collection

The total net income from non-domestic ratepayers in 2007/08 amounted to £57.048 million.

The deficit for the year on the collection fund was £0.034 million, and the final balance a surplus of £0.585 million. Watford Borough Council's proportion of the surplus is shown on the Balance Sheet.

### **3. PENSION COSTS**

Watford Borough Council's share of the assets and liabilities of the Hertfordshire Pension Fund (administered by Hertfordshire County Council) show an estimated £30.438million shortfall as calculated at 31<sup>st</sup> March 2008. While the figure is substantial it should be remembered that:

- The deficit was reduced by £6.365 million during 2007/08
- It is not an immediate deficit that has to be met now. The sum is the current assessment, taking a long term view, of the difference between the projected future assets and liabilities of the Watford element of the Fund, for both existing pensioners and current employees who are accruing pension entitlement.
- It is not a problem unique to Watford Borough Council or indeed local authorities generally. There is a national problem for pension funds in both the private and public sectors.
- The Hertfordshire Pension Fund is reviewed on a three-yearly basis and contribution levels are adjusted accordingly following each review to address the problem over a period of years.

Details of the pension liability and assets can be found on pages 50 to 54 of these statements.

### **4. CAPITAL**

Capital expenditure during 2007/08 amounted to £24.112million. No new material asset was acquired although major works were ongoing on redevelopment of the Council's two main leisure facilities.

## INTRODUCTION AND EXPLANATORY FOREWORD

### 5. CURRENT BORROWING

At the Council meeting held on 30<sup>th</sup> January 2007, members considered a report on the Prudential Code, which makes provisions for borrowing by local authorities, provided it is within affordable limits.

The Council set authorised limits for borrowing and an operational boundary. The report explained that there was no need to borrow in the short or medium term.

A review of borrowing requirements will be carried out during 2008/09.

### 6. SOURCES OF FUNDS AVAILABLE TO MEET CAPITAL EXPENDITURE

The Council intends to meet capital expenditure through direct grant support and through the use of capital receipts from the sale of surplus assets.

### 7. REVIEW OF THE FINANCIAL YEAR

The following review examines the three main areas of spend namely, the General Fund Revenue Account, Housing Revenue Account and Capital. Further details are shown later in the document.

#### General Fund Revenue Account

The following Income and Expenditure Account shows the resources that have been generated and consumed by the Council in providing services and managing the Council during the year.

Budgeted income and expenditure compared to actual, as set out overleaf, shows a net surplus on the General Fund for the year of £83,000, some £523,000 less than budgeted. This increased the General Fund balance to £1.337 million at 31<sup>st</sup> March 2008. Notable variations to budget included :

- Interest received from the council's investments was £1.6 million higher than budgeted as a result of the stock transfer receipt being higher than expected and interest rates being higher than forecast.
- Housing Benefit payments net expenditure was £539,000 lower than expected (this represents a 2% variation on total budgeted gross spend).
- Planning income was £207,000 above estimate
- Property maintenance was £600,000 less than budgeted.

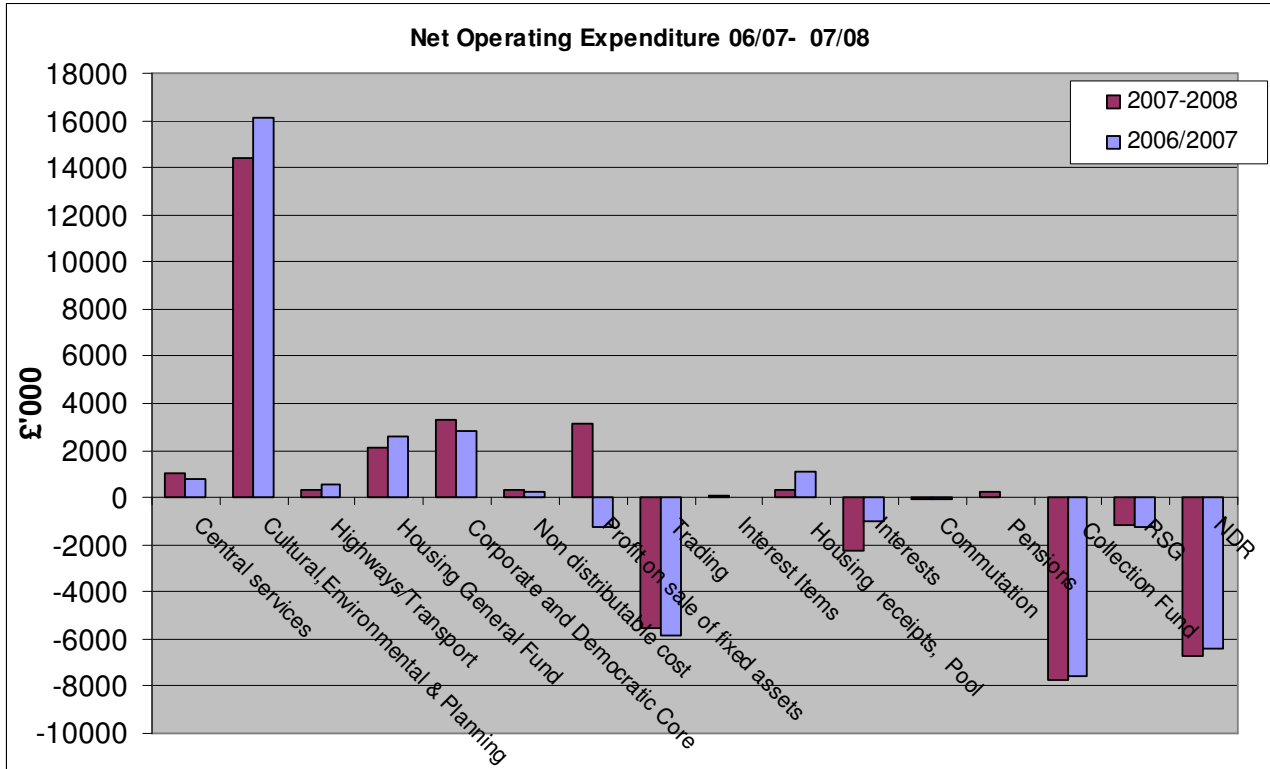
This enabled the transfer of £2.5 million to earmarked reserves for future spending requirements. More details of the transfers to reserves are set out on pages 71 and 72.

## INTRODUCTION AND EXPLANATORY FOREWORD

	Net Expenditure 2007/08		
	Original Budget	Actual	Over/under
	£'000	£'000	£'000
<b>SERVICE</b>			
Central Services to the public	1,048	1,015	(33)
Cultural, Environmental and Planning Services	14,366	14,400	34
Highways, Roads & Transport Services	652	304	(348)
Other Housing services	2,816	2,096	(720)
Corporate and Democratic Core	4,953	3,277	(1,676)
Non-distributed Costs	215	333	118
Exceptional Items	-	-	-
<b>Net cost of services</b>	<b>24,050</b>	<b>21,425</b>	<b>(2,625)</b>
Gains/losses on sale of fixed assets	-	3,169	3,169
Surplus on trading accounts	(5,256)	(5,510)	(254)
Interest payable and similar charges	-	80	80
Contribution to Housing Pooled receipts	-	310	310
Interest and investment income	(557)	(2,224)	(1,667)
Commutation of improvement grants	(60)	(60)	-
Pensions Interest and Expected return	544	226	(318)
<b>Net operating expenditure</b>	<b>18,721</b>	<b>17,416</b>	<b>(1,305)</b>
<b>Less Funding</b>			
Council Tax	7,652	7,652	-
General Government Grant	1,130	1,130	-
Non Domestic Rate Redistributed	6,735	6,735	-
Collection Fund Surplus	90	90	-
	15,607	15,607	-
<b>(Surplus)/Deficit for the year</b>	<b>3,114</b>	<b>1,809</b>	<b>(1,305)</b>
Less amounts required by statute to be excluded from General Fund Balance	(2,862)	(5,153)	(2,291)
Add amounts required by statute to be included in General Fund Balance	-	-	-
Transfers to/(from) reserves	188	3,261	3,073
<b>(Increase)/Decrease in General Fund Balance in Year</b>	<b>440</b>	<b>(83)</b>	<b>(523)</b>
General Fund Revenue Balance 1 April 2007	(1,254)	(1,254)	-
General Fund Revenue Balance 31 March 2008	<b>(814)</b>	<b>(1,337)</b>	<b>(523)</b>

## INTRODUCTION AND EXPLANATORY FOREWORD

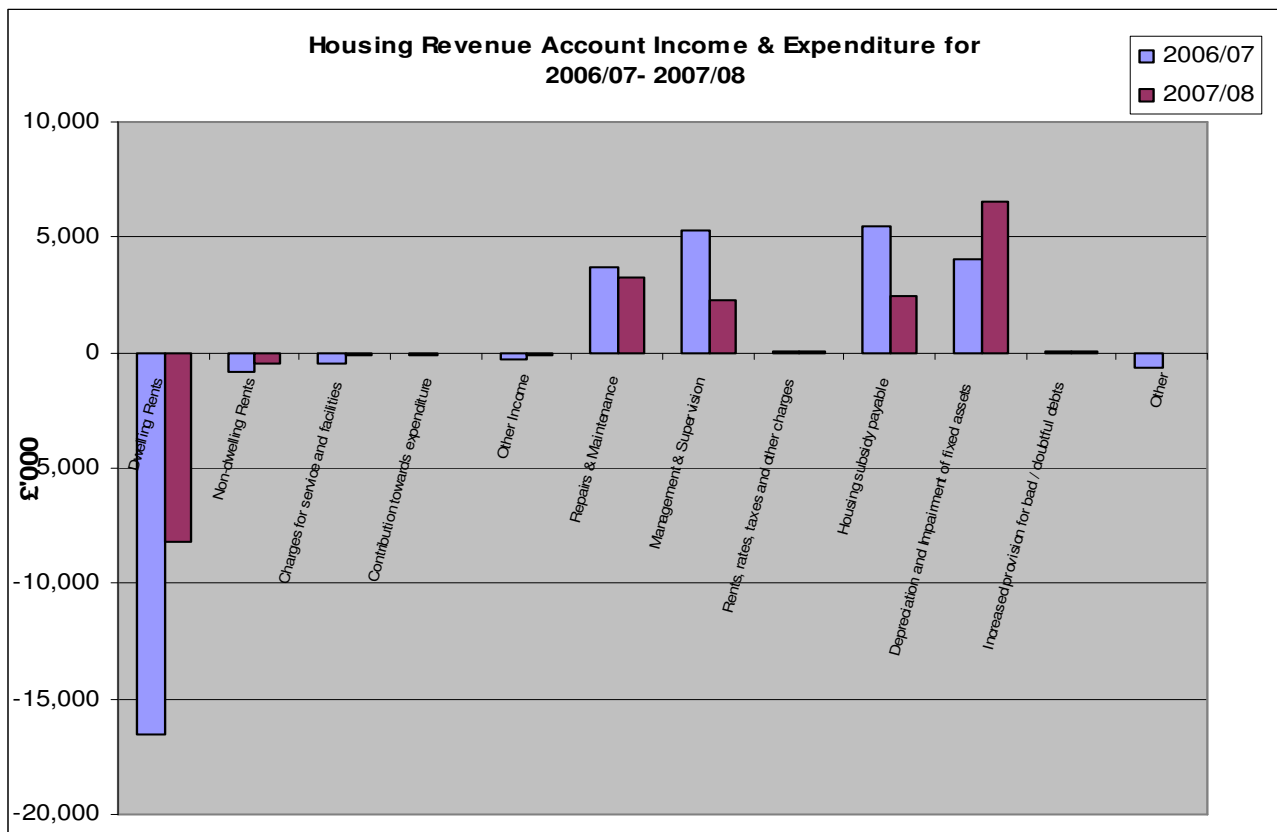
A comparison of Net Expenditure for 2006/07 and 2007/08 is shown below in graphical form.



## INTRODUCTION AND EXPLANATORY FOREWORD

### Housing Revenue Account (HRA)

The Local Government Act 1989 requires that all income and expenditure relating to the landlord role of managing the Council's housing is contained within the Housing Revenue Account (HRA). The Housing Revenue Account is detailed on pages 84 – 89. With the transfer of the housing stock to Watford Community Housing Trust, income and expenditure after the date of transfer is accounted for outside of the Council's accounts, although the council will continue to maintain a HRA until formal approval has been given to close the account in 2008. At the beginning of the year the Council budgeted for a surplus on its HRA of £1.637 million with the outturn being a net deficit of £476,000. Analysis of Income and expenditure is as follows:



The original budget took no account of the transfer of the stock on the 10<sup>th</sup> September 2007. The result would have reduced the anticipated surplus to about £724k. However the expenditure in the first part of the year on repairs was £1,900k higher than profiled, this being offset partly with higher dwelling rents income of £445k, lower expenditure on supervision and management of £400k together with a reduction in negative subsidy £85k payable

The Housing Revenue Account Balance as at 31<sup>st</sup> March 2008 was £1.255 million

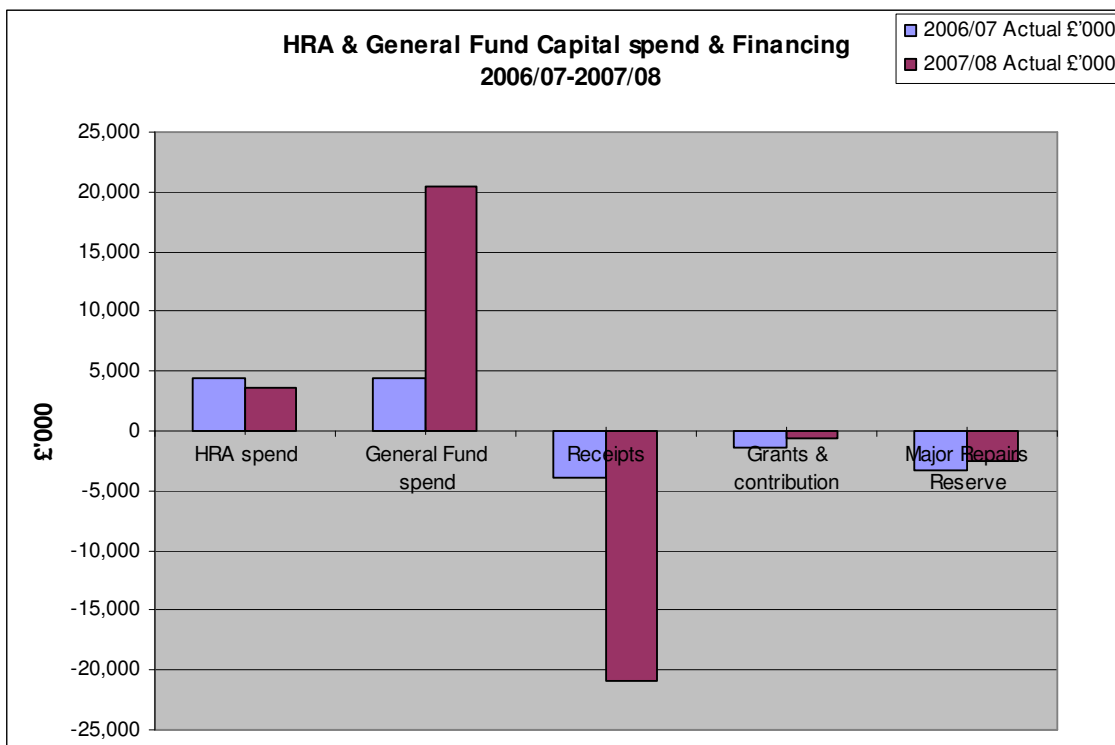
## INTRODUCTION AND EXPLANATORY FOREWORD

### Capital

The Council's capital expenditure consists of two main elements the Housing Programme (mainly spend on the housing stock up until the date of transfer) and the General Fund Programme. Estimated expenditure was £29.041million. Actual expenditure in the year was £24.112 million, mainly due to slippage. Further details are found on pages 66 to 69 with notable variations including:

- £2.428 million under spend on works related to Council Housing as a result of the Housing Stock transfer.
- £0.94 million above the budget for the year in relation to the construction of leisure facilities, although overall the project is on budget.
- £1.6 million budget variance on the stock transfer costs due to a number of items of expenditure being paid for by WCHT.

An analysis of spend and the resources used to finance the spend, compared to the previous year is as follows:



## INTRODUCTION AND EXPLANATORY FOREWORD

### 8. KEY CHANGES IN THIS YEAR'S FINANCIAL STATEMENTS

**The Statement of Recommended Practice (SORP)** was substantially revised last year (largely due to the need for Local Authority accounting to comply with GAAP - Generally Accepted Accounting Practice), and included the following changes -

- A new Capital Reserves Account known as the Capital Adjustment Account was introduced, which replaced the Fixed Asset Restatement Account and Capital Financing Account.
- Establishing the Revaluation Reserve at a nil balance on the 1 April 2007, which will record all asset revaluations made from that date onwards.

#### **Transfer of Council Housing Stock**

Watford Borough Council completed the transfer of Housing stock to Watford Community Housing Trust (WCHT) on 10th September 2007. The transfer involved assets valued at £389 million being transferred to the new Registered Social Landlord provider.

All remaining property of a Housing nature was appropriated to the General Fund on 31 March 2008, having obtained approval under Section 74(3) of the Local Government Act 1989.

In this year's Accounts the value of Council Dwellings has been removed as at the 31 March 2008, and the HRA shows only those transactions for the period that the Council was the landlord (1 April to 10 September 2007).

Although it will be necessary to continue to keep open a Housing Revenue Account for 2008/09 there will be few transactions and approval will be requested from the Secretary of State to formally close the Housing Revenue Account at the end of the 2008/09 year.

Watford Borough Council received a gross capital receipt from WCHT for the sum of £25.9 million but were required to pay a levy of £3.064 million to the Government in relation to the receipt.

#### **Major Capital Investment**

The Council disposed of the Watford Springs Leisure site during the year receiving a capital receipt of £12.023million. Major new construction work was in progress during the year on new leisure facilities and a sum of £16million was expended on the construction in 2007/08. The facilities are planned to come in to use during the summer of 2008.



## INTRODUCTION AND EXPLANATORY FOREWORD

### 9. CONCLUSION

This foreword provides an analysis of expenditure, split between the main types incurred, and has set out the different forms of income. These figures have been shown in graphical format to reflect the figures in a visual and understandable way.

Each of the financial statements has been analysed and interpreted, with the underlying outcome identified.

An analysis of revenue and capital spend has been provided of the budget compared to actual for 2007/08 with an explanation of significant budget variances provided. In addition a comparison of overall spend and resources has been provided against the previous financial year 2006/07.

The year has seen some significant changes for the Council's operations, with the transfer of the Housing Stock being the largest. The Council has put in place a programme to review its costs following the transfer to ensure that future spend aligns appropriately with its objectives.





# STATEMENT OF ACCOUNTING POLICIES

## STATEMENT OF ACCOUNTING POLICIES

### 1 Accounting Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting Statement of Recommended Practice, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in Great Britain in 2007. Any departures from the Code are noted within the relevant notes to the statements. The code is based on approved accounting standards except where they conflict with statutory requirements and is supported by a number of detailed accounting recommendations, including Statements of Standard Accounting Practice (SSAP) and Financial Reporting Standards (FRS) approved by the Accounting Standards Board.

The Accounts have been prepared in accordance with the following accounting principles

- Relevance (information is relevant in demonstrating the authority's financial performance and standing)
- Reliability (the information shown must be reliable)
- Comparability (the information must be adequately and consistently disclosed so that it is comparable with that for different periods and authorities)
- Understandability (the information should be presented in a way that makes it as easy to understand as possible)
- Accruals (the financial statements should be prepared on an accruals basis – see note 2 below)
- Going Concern (the accounts should be prepared on the assumption that the authority will continue in existence for the foreseeable future)
- Primacy of legislative requirements (where specific legislative requirements and accounting principles conflict, legislative requirements shall apply)

### 2. 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:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- 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 stocks at the balance sheet date.
- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the Balance Sheet.
- Interest payable on borrowings and receivable on investments are accounted for in the year to which they relate, on a basis that reflects the overall effect of the loan or investments.
- Where income and expenditure has 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 it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are carried and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

## STATEMENT OF ACCOUNTING POLICIES

### 3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. 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 to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. When it becomes clearer that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the relevant service revenue account.

### 4. Reserves

The Council has set aside specific amounts as reserves for future policy or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to count against the 'Net Cost of Services' in the I & E Account. The reserve is then appropriated back into the Statement of Movement on the General Fund Balance so that there is no further charge against Council Tax for that expenditure.

Certain reserves, held to manage the accounting processes for tangible fixed assets and retirement benefits, do not represent useable resources for the Council. These reserves (Revaluation Reserve, Capital Adjustment Account and Pension Reserve) are explained in the notes to the appropriate financial statement.

### 5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date the authority satisfies :

- the conditions of entitlement to the grant/contribution
- there is a reasonable assurance that the monies will be received
- the expenditure for which the grant has been awarded is expected to be incurred.

Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the I & E account after Net Operating Expenditure.

## STATEMENT OF ACCOUNTING POLICIES

### 6. Retirement Benefits

#### The Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The net liabilities of the Hertfordshire County Council pension scheme 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 payment 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 earnings for current employees.

The financial information provided in the final accounting statements is in accordance with FRS17 "Retirement Benefits". The Local Authorities (Capital Finance/Amendment No. 2) (England) Regulations 2003 (SI 2003/515) provide the legislative framework for this. In addition the disclosures are in accordance with the Code of Practice on Local Government Accounting in the United Kingdom – Statement of Recommended Practice 2007 issued by CIPFA/LASAAC Joint Committee.

Watford Borough Council participates in the Local Government Pension Scheme. The information in this Statement of Accounts has been prepared in accordance with the Regulations and the Code and the accounting policies fully set out therein. The policies applied are summarised below:

- Attributable assets of the scheme have been measured at fair value at the Balance Sheet date.
- The attributable liabilities have been measured on an actuarial basis using the projected unit method. These have been discounted at the rate of 3.2%% as at 31 March 2008. The rate as at 31 March 2007 was 2.1%, and the impact is significantly to add to the liabilities.
- Net liabilities that reflect the legal or constructive obligation of the authority have been disclosed. These are the shortfall of the value of assets in the scheme below the present value of the scheme liabilities.
- Current Service Cost has been based on the most recent actuarial valuation (31st March, 2007). The current service cost has been included in all relevant service areas including the Housing Revenue Account.
- Interest Cost has been based on the discount rate and the present value of scheme liabilities. The Expected Return on Assets is based on long term expectations at the beginning of the period as advised by the actuary.

## STATEMENT OF ACCOUNTING POLICIES

- When actual events have not been the same as actuarial assumptions made for the last valuation, or assumptions have been changed, actuarial gains and losses have been calculated to reflect conditions at March, 2008.
- Losses or gains arising on settlements and curtailments have been measured and disclosed in the period when they are calculated. Curtailment costs are £333 million.
- Contributions paid to the HCC pension fund amounted to £4.737 million in the form of employer's contributions (£3.455 million paid by Watford Borough Council and £1.282 million paid by WCHT in respect of ex council employees who transferred to the Trust.

The requirement to recognise the net pensions liability in the Balance Sheet has reduced the reported net worth of the authority by 16.64% (2006/07 6.73 %).

Statutory provisions require the Council to include its proportion of the gains and losses arising from the County Council pension fund within its accounts. However the council tax payer is only charged with the actual amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amount payable to the fund but unpaid at the year end.

### **7. VAT**

Value Added Tax is not included in these accounts. 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 million and half of the remaining sum will be paid to Watford Borough Council, the remainder will benefit WCHT.

### **8. Overheads and Support Services**

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits they receive, 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 costs of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the I & E Account, as part of the Net Cost of Services.

## STATEMENT OF ACCOUNTING POLICIES

### 9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software development) is capitalised when it will bring benefits to the Council for more than one year. The costs are amortised to the relevant service revenue account in the year of expenditure, because they have no material market value.

### 10. Tangible Fixed Assets

Tangible assets are assets that have a physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

**Recognition:** expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, on the basis that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

#### **De-minimus:**

The Council's policy regarding adding capital expenditure to fixed assets on other land and buildings and Council dwellings is to treat expenditure on projects of less than £50,000 as de-minimus and is therefore not included in Fixed Assets. The costs treated as capital expenditure are transferred to the Capital Adjustment Account, however capital expenditure less than £5,000 is treated as de-minimus in terms of charging direct to revenue.

#### **Measurement:**

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the assets into working conditions for their intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

The Council's policy is to undertake a complete valuation of all assets over a five year period, with approximately 20% of assets revalued each year. Therefore, 20% were revalued as at 1st April 2007. The valuation of Watford's assets is performed by the Council's Property Management Team, who are RICS qualified. The valuation of assets ensures that current values are provided as well as identifying signs of impairment of assets and recognising increases in asset values, thus avoiding unacceptable differences between the Balance Sheet and current value. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains.

An asset register has been compiled and is incorporated into the property management system.



## STATEMENT OF ACCOUNTING POLICIES

The basis of valuation of assets is as follows:

- Council dwellings were valued on 1 April 2007 at net realisable existing use value for social housing and subsequently transferred to WCHT
- Other land and buildings have been valued either at net realisable existing use value or, where the asset is of a specialised nature and no demonstrable market exists, at depreciated replacement cost;
- Infrastructure assets, vehicle, plant and equipment have been valued at historical cost;
- Non operational assets have been valued at open market value.

### **Impairment:**

Assets reduced in value as a result of the valuation review on 1 April 2007 have been reflected through the Income and Expenditure Account. As at the 31 March 2008 a review was undertaken for impairment and there were no assets which have been adversely affected by market conditions and the other criteria embodied in FRS11. In addition, an impairment review has been undertaken in accordance with FRS15, for assets which have long lives and immaterial depreciation charges.

### **Disposals:**

In accordance with the Accounting Code of Practice for Local Authority Accounting assets disposed of during the year were reassessed and revalued. Proceeds from the sale of assets are recorded in the Income and Expenditure Account and gains/ losses recorded.

Any gains or losses upon disposal are 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 Statement of Movement on the General Fund Balance.

### **Depreciation:**

Assets where depreciation is not provided include :

- Fixed assets with a useful economic life in excess of 50 years where depreciation is immaterial in aggregate both for the year and cumulatively;
- Assets disposed of during the year
- Land and investment property;
- Newly acquired fixed assets in the year of acquisition;
- Community assets held in perpetuity.

## STATEMENT OF ACCOUNTING POLICIES

Assets depreciated include :

- The following fixed assets with a useful economic life of up to 50 years are being depreciated over the remainder of that life on a straight-line basis:
  - Buildings, including council dwellings;
  - Infrastructure assets.
- Vehicles, plant and equipment are depreciated at 25% on a reducing balance basis.
- Council dwellings were depreciated for a part of the year 2007/08. This was required to ensure the Major Repairs Allowance was charged to the Housing Revenue Account and was an exceptional treatment due to the disposal of Housing stock.

If elements of the fixed asset have significantly different useful economic lives then the fixed asset is split for the purpose of depreciation.

**Grants and Contributions:** Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

Grants and contributions not applied are held separately on the Balance Sheet in accordance with the treatment required by the Best Value Accounting Code of Practice.

### 11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service,
- Any impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service,
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. As Watford had no borrowing requirement in 2007/08, depreciation, impairment losses and amortisation were therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two, which effectively removes all of the charges.

### 12. Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year have been fully written off as expenditure to the relevant service revenue account. Where the Council has determined to meet the cost of deferred charges from its existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amount charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of the Council Tax

## STATEMENT OF ACCOUNTING POLICIES

### 13. Leases

The Council has not acquired any finance leases, and all leases it holds are operational and are charged to the relevant service revenue accounts over the term of the lease on an accrual basis.

### 14. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets that have a quoted market price and /or do not have fixed or determinable payments.

#### Loans and Receivables

Loans and receivables are initially measured at fair value using the effective interest rate method following recognition at amortised cost. Annual credits to the Income and Expenditure Account 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 and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement. In the case of long term deposits, where interest is received on maturity the balance sheet figure for investments includes the debtor outstanding for interest income.

However the Council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be forgone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the 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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

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 change made to the Income and expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account

## STATEMENT OF ACCOUNTING POLICIES

### **Available-for-sale-Assets**

Available-for-sale assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the income and expenditure account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

### **Instruments Entered Into Before 1 April 2006**

The Council entered into a number of financial guarantees that are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in Policy 3.

### **15. Stocks and Work-In-Progress**

All stocks, stores and work-in-progress are included in the Balance Sheet at cost price. This is a departure from SSAP 9, which requires stocks to be shown at the lower of actual cost or net realisable value. The different treatment is not considered material.

Work in Progress on uncompleted jobs is valued at cost including an allocation of overheads and recharged to the relevant service revenue accounts.

### **16. Contingency**

The Council's policy is to disclose, by way of a note, possible obligations which may require payment or transfer of economic benefit. For each class of contingency, the Council discloses the nature of the contingency, a brief description and an estimate of its financial effect



# **CORPORATE GOVERNANCE ASSURANCE STATEMENT**

## CORPORATE GOVERNANCE ASSURANCE STATEMENT

### Scope of responsibility

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, and used economically, efficiently and effectively. Watford Borough 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.

In discharging this overall responsibility, Watford Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the exercise of its functions, and which includes arrangements for the management of risk.

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*. A copy of the code is on our website at [www.watford.gov.uk](http://www.watford.gov.uk) or can be obtained from the Head of Legal and Democratic Services. This statement explains how Watford Borough Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority 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 is a significant part of that framework and 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. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council'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 framework has been in place at Watford Borough Council for the year ended 31<sup>st</sup> March 2008 and up to the date of approval of the Statement of Accounts.

### The governance framework

The key documents are included in the council's Constitution. This sets out how the council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules. It also sets out the rights of citizens. A wide range of detailed policy and procedure documents supplement this for operational use by officers. Both the Constitution and these supplementary documents are kept under review and updated as necessary. Training is provided for Members and staff on relevant changes.

Council, Cabinet and Committee meetings are open to the public and written reports are available to the public through the website. Information is only treated as confidential when it is necessary to do so for legal reasons or as a matter of proper practice.

## CORPORATE GOVERNANCE ASSURANCE STATEMENT

Each year, the full council meeting sets key policies and objectives, including the corporate plan and the budget, as well as individual strategies for key activities.

The council publishes its Corporate Plan, 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 the Community Plan agreed by the Local Strategic Partnership, One Watford, and by consultation and surveys carried out on a range of topics. Feedback from members, the public and external review organisations is also taken into account

The corporate plan is publicised, published on the council's website and distributed in hard copy to various premises. Progress on the plan is reported to the public through About Watford, including an annual summary of achievements.

The Mayor and Cabinet form the Executive and are responsible for ensuring that the council's plans are carried out by officers.

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 and other appropriate issues such as potential risks, to ensure that comprehensive advice is provided. Policy Development Scrutiny Committee considers selected topics and advises Cabinet on its findings. Call-in and Performance Scrutiny may review Cabinet decisions as well as reviewing performance. Budget Panel considers the draft budget proposals made by Cabinet and other financial matters..

Monitoring reports on the achievement of service improvements and financial performance are submitted to Cabinet meetings and to the Call-In and Performance Scrutiny Committee. In addition, Cabinet Members, in their capacity as Portfolio Holders with specific responsibilities, hold quarterly meetings with Heads of Service to review performance.

The council seeks to ensure the economic, effective and efficient use of resources and to secure continuous improvement through:

- o work carried out as part of the annual budget process
- o project appraisal and formal project management for major schemes
- o undertaking Best Value and managerial reviews
- o implementing the recommendations of Internal Audit
- o implementing the recommendations of external auditors and inspectors
- o the adoption of best practice where cost-effective
- o modernisation of working practices
- o consultation with the public and staff
- o partnership working with companies and other public bodies
- o setting challenging targets for improvement

Budget monitoring reports are submitted to Cabinet periodically. Senior officers, Cabinet members and members on the Budget Panel receive monthly monitoring reports.

## CORPORATE GOVERNANCE ASSURANCE STATEMENT

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 audit and use of the disciplinary procedure where appropriate. Officers are subject to the Code of Conduct for Council Employees and the standards of any professional bodies they belong to.

Members are subject to a Code of Conduct and the Standards Committee has a key role in promoting and maintaining high standards of conduct for members.

The Head of Legal & Democratic Services is the Council's Monitoring Officer and her 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.

The Director of Finance is the statutory Chief Finance Officer. Her 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 Mayor, councillors and officers on the Budget and Policy Framework or issues of maladministration, financial impropriety or probity.

The council's internal audit team carry out a programme of reviews during the year. 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.

External auditors, appointed by the Audit Commission, provide an external review function through the audit of the annual accounts, assessment of the Use of Resources, value for Money and the Direction of Travel and through periodic inspection of services. The Annual Audit and Inspection Letter is circulated to all Members and formally reported.

The council has a complaints procedure, and reports on complaints are circulated to senior officers and discussed at quarterly review meetings. A Whistle-blowing policy is also in place.

The Council has established an Audit Committee which operated throughout 2007/08. Its terms of reference are consistent with CIPFA's guidance. It approved the annual audit plan of internal audit, and receives the quarterly and annual reports of the Audit Manager. 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 other governance issues.

The 2007/08 Statement of Accounts has been approved by the Audit Committee.

Key partnership arrangements are controlled by agreements appropriate to the nature and purpose of the partnership in question. Any significant risk attributable to these partnerships is recorded in the council's risk registers.

### **Review of effectiveness**

Watford Borough Council has 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

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Statement of Accounts 2007/08



## CORPORATE GOVERNANCE ASSURANCE STATEMENT

the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

Key elements of the process of maintaining and reviewing the effectiveness of the governance framework over the past year (from 1<sup>st</sup> April 2007 to the publication of these accounts) are as follows:

### The Council:

- Received the Audit Commission Comprehensive Performance Assessment report
- Amended the Constitution to incorporate Neighbourhood Forums to replace Area Committees and make other improvements, on the advice of the Constitution working party
- Considered a report on a finding of maladministration against the Council issued by the Ombudsman and agreed appropriate remedies.
- Considered reports on the implications for the Standards Committee of local investigations
- Approved the Council's Budgets and other key strategy plans, including the transfer of the council's housing stock to Watford Community Housing Trust

### The Cabinet:

- Has considered and proposed key strategy plans for Council approval
- Has agreed operational strategies and plans
- Reviewed budget monitoring reports
- Considered reports from Scrutiny Committees
- Approved an improvement plan arising from the Comprehensive Performance Assessment, to enable the Council to achieve excellence.

and the Mayor and Portfolio Holders maintained continuous review of the council's policies and activities, including performance monitoring.

### Council Functions Committee:

- Has approved various new and amended policies, mainly on employment issues
- Has approved the Managing Director's proposals to amend the officer structure to meet the needs of the council in the future

### Audit Committee:

- Has approved the Internal Audit Service Plan and Annual Work Plan, considered the team's compliance with best practice and reviewed the terms of reference for internal audit
- Has received progress reports from the Audit Manager and his Annual Report, including his assessment of the adequacy of internal control
- Has received progress reports on Risk Management, including reviews of the risk management strategy and the corporate risk register
- Has reviewed the adequacy of the system of internal audit
- Has approved a revised Corporate Anti-Fraud and Corruption Strategy, including the Whistle-blowing Policy and received a report on anti-fraud work
- Approved the annual Statement of Accounts and annual governance Statement
- Considered reports on Health & Safety
- Received the annual governance report on the accounts from the external auditors
- Received the annual letter from the Ombudsman

## CORPORATE GOVERNANCE ASSURANCE STATEMENT

- Considered the annual audit and inspection letter from the Audit Commission
- Reviewed requests made under the Freedom of Information Act

### Standards Committee

- Has considered the implications of carrying out local investigations and reported to Council on the need for additional members as a result
- Received a report on the final version of the Code of Conduct and the training provided for members on it
- Has considered a report on issues raised at the Standards Board for England conference
- Has considered its first assessment under the local investigation arrangements

### Scrutiny Committees

- Reviewed a range of activities and reported to Cabinet on suggestions for improvement
- Considered reports on performance monitoring
- Held two “call-in” meetings on Cabinet decisions
- Considered the approach to Members’ performance and made recommendations to Cabinet
- Considered Cabinet’s budget proposals
- Considered the Audit Commission report following the latest Comprehensive Performance Assessment
- Have reviewed community engagement and proposed Neighbourhood forums to replace Area committees
- Considered some benchmarking work

### Internal Audit:

- Have carried out a programme of audits throughout the year across the council’s range of activities, achieving 88% of the audit work set out in the annual plan for 2007/08
- All internal audit staff are suitably experienced and qualified and work in accordance with CIPFA standards
- The Audit Manager, in his report to the Audit Committee in June 2008, concluded that, based on the work done by internal audit, the internal control environment is effective. A number of recommendations for improvement were identified and have been taken into account in below.
- There were no reports reporting no assurance and six with limited (i.e. inadequate) assurance. Managers have accepted audit recommendations and none is considered sufficiently serious to warrant separate reference in this Statement.

### The Audit Commission:

- Issued its Annual governance report in September 2008. The council’s accounts were unqualified. The Statement on Internal Control was found to be in line with proper practices and consistent with the auditors’ own findings. The arrangements for securing economy, efficiency and effectiveness were reviewed and received an unqualified report. An Action Plan to improve the quality of the accounts was agreed and has been implemented since.
- Conducted a Comprehensive Performance Assessment and reported in July 2007 that the council is now assessed as “Good”.
- Carried out an assessment against the Use of Resources standards. The council continues to be assessed as a “2”, which is adequate.
- Issued its annual Audit and Inspection Letter in March 2008. This largely reiterates the points made in its earlier reports, with the addition of a Direction of Travel statement that acknowledges the substantial improvements made by the council. An action plan to address improvements needed has been approved by the Audit Committee.

## CORPORATE GOVERNANCE ASSURANCE STATEMENT

Other External Review mechanisms

- The Legal service has successfully retained its Lexcel status

These activities are consistent with the expectations of the governance environment outlined above.

We have been advised on the implications of the results of the review of the effectiveness of the governance framework by the Audit Committee and a plan to address weaknesses and ensure continuous improvement is in place.

### Significant Governance Issues

The following significant issues have been identified as a result of review, with target dates for correction.

NOS.	ISSUE	ACTION	LEAD
1	Business Continuity Plan  <i>This was identified last year and is not yet complete in all services</i>	Implement the Action Plan to make the current BCP more robust  By 30/9/08	Head of Strategic Services, specific Heads of Service and Risk Management Group
2	Arrangements for managing software changes <i>Also outstanding from last year</i>	Need to improve controls and ensure they are used By 30/9/08	Head of Business Information Services
3	Quality of Budget Monitoring	Monitoring needs to be more robust and a better guide to likely out-turn  By 31/3/09	Director of Finance/ Shard service

Items identified last year that have been implemented

Benefit Fraud Inspectorate report	Action plan completed and ongoing issues being embedded
Payroll Service – long-term resilient solution required	Shared payroll service being put out to tender, although an in-house bid is to be made

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

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Mayor

Managing Director

Date

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Statement of Accounts 2007/08





# CORE FINANCIAL STATEMENTS

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH**

RESTATED 2006/07 NET EXPENDITURE £000		GROSS EXPENDITURE £000	2007/08 GROSS INCOME £000	NET EXPENDITURE £000
	Central Services:			
424	Council tax collection	976	470	506
335	Other Central Services	952	443	509
	Cultural, Environmental & Planning :			
5,618	Leisure Services	6,502	2,347	4,155
57	Cemeteries and Crematoria	302	184	118
1,485	Environmental Health	1,526	273	1,253
4,246	Waste Collection and Disposal	5,167	1,056	4,111
2,217	Planning and Development	3,827	1,499	2,328
2,518	Other	2,471	35	2,436
551	Highways and Transport	5,046	4,742	304
	Housing :			
2,617	Housing General Fund	32,171	30,075	2,096
446	Housing Revenue Account	14,669	8,866	5,803
2,548	Corporate and Democratic Core	3,657	381	3,276
245	Non-distributable Costs	333	-	333
<b>23,307</b>	<b>Net Cost of Services</b>	<b>77,599</b>	<b>50,371</b>	<b>27,228</b>
(1,203)	Deficit/ (Profit) on sale of fixed assets			366,643
(5,849)	Surplus/deficit on trading undertakings not included in net cost of service – <b>Note 4</b>			(5,510)
-	Interest payable and similar costs			80
1,130	Contribution of Housing capital receipts to Government Pool			310
(1,469)	Interest and investment income			(2,552)
518	Pension interest costs and expected return on pensions assets			226
(56)	Commutation of Improvement Grants – <b>Note 8</b>			(60)
<b>16,378</b>	<b>Net Operating Expenditure</b>			<b>386,365</b>
(7,602)	Demand on the Collection Fund			(7,742)
(1,240)	General Government Grants			(1,130)
(6,427)	Non-domestic rates redistribution			(6,735)
<b>1,109</b>	<b>(SURPLUS)/DEFICIT FOR YEAR</b>			<b>370,758</b>

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH**

**Statement of Movement on the General Fund Balance**

2006/07 £000		2007/08 £000
1,109	(Surplus)/Deficit for the year on the Income and Expenditure account	370,758
382	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund balance for the year	(370,841)
1,491	(Increase) /Decrease in General Fund balance for the year	(83)
(2,745)	General Fund balance brought forward	(1,254)
(1,254)	General Fund balance carried forward	(1,337)

**Statement of Total Recognised Gains and Losses**

2006/07 £000		2007/08 £000
1,109	Deficit for the year on the Income and Expenditure Account	370,758
( 39,905)	(Surplus)/Deficit arising on revaluation of fixed assets	(7,611)
	Actuarial (gains)/losses on pension fund assets and liabilities :	
(7,804)	- Relating to Watford Borough Council	(4,091)
-	- Relating to Watford Community Housing Trust	(1,282)
-	Collection Fund	8
2,200	Other (gains)/losses	-
<b>(44,400)</b>	<b>Total recognised (gains)/losses for the year</b>	<b>357,782</b>

**BALANCE SHEET AS AT 31 MARCH**

Restated 31 March 07 £000		31 March 2008 £000
	<b>FIXED ASSETS – Note 14</b>	
	<b>Tangible Fixed Assets</b>	
	<b>Operational Assets</b>	
389,306	Council Dwellings	-
17,500	Other Land and Buildings	21,082
2,174	Vehicles, Plant and Equipment	2,066
-	Community Assets	-
8,509	Infrastructure Assets	8,752
	<b>Non Operational Assets</b>	
89,022	Investment Properties	86,565
	Assets Under Construction	16,170
12,000	Surplus assets held for disposal	2,500
<b>518,511</b>	<b>TOTAL FIXED ASSETS</b>	<b>137,135</b>
-	Long-term investments <b>Note 22</b>	1,133
1,479	Long Term Debtors – <b>Note 19</b>	1,360
<b>519,990</b>	<b>TOTAL LONG TERM ASSETS</b>	<b>139,628</b>
	<b>CURRENT ASSETS</b>	
56	Stocks and Work-in-Progress – <b>Note 20</b>	52
13,729	Debtors – <b>Note 21</b>	10,355
29,600	Investments <b>Note 22</b>	48,100
1,345	Bank	1,092
9	Cash in hand	8
<b>564,729</b>	<b>TOTAL ASSETS</b>	<b>199,235</b>
	<b>CURRENT LIABILITIES</b>	
-	Short Term Borrowing	-
(11,244)	Creditors – <b>Note 23</b>	(12,091)
(2,697)	Bank Overdraft	(715)
<b>550,788</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>186,429</b>
	<b>LONG TERM LIABILITIES</b>	
-	Long Term Borrowing	-
(1,764)	Government Grants and Contributions Deferred – <b>Note 25</b>	(1,460)
(1,485)	Government Grants and Contributions Unapplied – <b>Note 26</b>	(1,594)
(518)	Provisions – <b>Note 28</b>	(500)
(36,804)	Liability Related to Defined Benefit Pension Scheme – <b>Note 12</b>	(30,439)
<b>510,217</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>	<b>152,436</b>
	<b>FINANCED BY:</b>	
513,949	Capital Adjustment Account – <b>Note 27</b>	128,589
-	Financial Instruments Adjustment Account – <b>Note 42</b>	(80)
-	Revaluation Reserve – <b>Note 27</b>	4,018
1,547	Deferred Capital Receipt – <b>Note 24</b>	1,500
20,654	Useable Capital Receipts Reserve – <b>Note 27</b>	36,155
(36,804)	Pension Reserve – <b>Note 12</b>	(30,439)
7,776	Earmarked Reserves – <b>Note 31</b>	9,999
	<b>Revenue Balances – Note 32</b>	
110	Collection Fund	102
1,254	General Fund	1,337
1,731	Housing Revenue Account	1,255
<b>510,217</b>	<b>TOTAL NET WORTH</b>	<b>152,436</b>



**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH**

	<b>Restated 2006/07 £000</b>	<b>2007/08 £000</b>
<b>REVENUE ACTIVITIES</b>		
<b><i>Cash Outflows</i></b>		
Payments to Employees	(21,205)	(19,644)
Other Operating Cash Payments	(20,398)	(16,522)
Housing Benefit Payments	(11,166)	(16,269)
NDR Payments to National Pool	(59,278)	(59,785)
Precept Payments	(35,272)	(36,379)
Payments to the Capital Receipts Pool	(1,130)	(310)
	<b>(148,449)</b>	<b>(148,909)</b>
<b><i>Cash Inflows</i></b>		
Net Housing Rents	9,991	4,889
Fees and Charges	19,775	19,941
<b>Government Grant - note 41</b>		
Revenue Support Grant	1,240	1,130
NDR Receipts from National Pool	6,427	6,735
DWP Grant for Benefits	23,203	25,552
Homelessness Grant	185	185
Council Tax benefit administration grant	694	707
Planning Delivery Grant	384	370
LABGI Grant	393	70
<b>Collection Fund Receipts:</b>		
Council Tax	37,363	39,709
Non Domestic Rates	53,782	57,744
	<b>153,437</b>	<b>157,032</b>
<b>NET CASH (OUTFLOW)/INFLOW FROM REVENUE ACTIVITIES</b>	<b>4,988</b>	<b>8,123</b>
<b>- note 38</b>		
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>		
Interest Paid	-	-
Interest Received	1,319	2,206
	<b>1,319</b>	<b>2,206</b>
<b>CAPITAL ACTIVITIES</b>		
<b><i>Cash Outflows</i></b>		
Purchase of Fixed Assets	(8,757)	(25,990)
Purchase of Long Term Investments	(4,000)	(1,133)
<b><i>Cash Inflows</i></b>		
Sale of Fixed Assets	3,323	36,731
Capital Grants Received	1,495	291
<b>NET CASH (OUTFLOW) FROM CAPITAL ACTIVITIES</b>	<b>(7,939)</b>	<b>9,899</b>
<b>NET CASH INFLOW/OUTFLOW BEFORE FINANCING</b>	<b>(1,632)</b>	<b>20,228</b>
<b>MANAGEMENT OF LIQUID RESOURCES</b>		
Net (increase)/decrease in short term deposits	900	(18,500)
<b>NET (DECREASE)/INCREASE IN CASH</b>	<b>(732)</b>	<b>1,728</b>





**NOTES TO THE CORE FINANCIAL  
STATEMENTS**

## NOTES TO CORE FINANCIAL STATEMENTS

### 1. STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year. However, the authority is required to raise the Council Tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when the fixed assets are consumed. Therefore the depreciation and amortisation to fixed assets and deferred charges and capital grants are reversed out.
- The payment for the pooling of housing capital receipts is a charge to the Income and Expenditure Account but is met from capital receipts rather than Council Tax
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as the benefits are earned by employees. The latter are therefore reversed out and replaced with the actual payments to the pension fund.
- Assets transferred as part of the stock transfer at Tenant Market Value show a large loss on the Income and Expenditure Account which is a book entry and does not burden the Council Tax payer due to an adjustment to the general fund balance that is recorded in the Statement of movement on the General Fund balance.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Statement and the General Fund Balance. The statement shows that the 'net additional amount required by statute and non-statutory proper practices to be credited to the General Fund Balance in the year' is more than the net deficit for the year and results in a net increase in the General Fund Balance.

**NOTES TO CORE FINANCIAL STATEMENTS**

**Note of reconciling items for the Statement of Movement on the General Fund**

2006/07 £000		2007/08 £000	2007/08 £000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded from the General Fund Balance</b>		
(1,094)	Amortisation of intangible fixed assets	(1,079)	
(1,363)	Depreciation and impairment of fixed assets	(7,195)	
138	Government Grants Deferred amortisation	689	
-	Write downs of deferred charges to be financed from capital resources	-	
1,203	Net profit /(loss) on sale of fixed assets	(366,643)	
	Statutory provision relating to soft loans	(80)	
(3,304)	Net charges made for retirement benefits in accordance with FRS17	(2,463)	
<b>(4,420)</b>			<b>(376,771)</b>
	<b>Amounts not included in the Income and Expenditure Account but required by statute to be included in the General Fund Balance</b>		
-	Minimum revenue provision for capital financing	-	
-	Capital expenditure charged in-year to the General Fund	-	
(1,130)	Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(310)	
	Employer's contributions payable to the HCC Pension Fund and retirement benefits payable direct to pensioners	3,455	
<b>3,440</b>			<b>3,145</b>
<b>2,310</b>			
	<b>Transfers to/ (from) the General Fund Balance</b>		
532	Housing Revenue Account balance	(476)	
-	Voluntary revenue provision for capital financing	-	
(8)	Net charges made to HRA for retirement benefits in accordance with FRS17	-	
1,968	Net transfer to/ (from) earmarked reserves	3,261	<b>2,785</b>
<b>382</b>	<b>Net additional amount required to be debited to the General Fund balance for the year</b>		<b>(370,841)</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### 2 DISCONTINUED OPERATIONS

During 2007/08 the Council transferred its stock of Council dwellings to Watford Community Housing Trust (WCHT) a Registered Social Landlord established for this purpose. Further details of this transfer are included at appropriate points within the Accounts.

### 3 PRIOR PERIOD ADJUSTMENTS

There were no prior period adjustments. However the 2007 SORP requires the restatement of the Balance Sheet as the Fixed Asset Revaluation Account and Capital Financing Account have been combined into the new Capital Adjustment Account, and Revaluation Reserve has been created.

### 4. TRADING OPERATIONS

The Council has established trading units where the services 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.

2006/07 £000		2007/08		
		£000 Expenditure	£000 Income	£000 Net
(5,647)	Property	1,637	7,172	(5,535)
(202)	Market	710	685	25
<b>(5,849)</b>	<b>Total</b>	<b>2,347</b>	<b>7,857</b>	<b>(5,510)</b>

The numbers of market traders over the year declined significantly resulting in a net deficit in the market's trading operations.

## NOTES TO CORE FINANCIAL STATEMENTS

### 5. OFFICERS' REMUNERATION AND MEMBERS' ALLOWANCES

The Council is required to report in its annual accounts the number of employees in the accounting period whose remuneration fell in each bracket of a scale in multiples of £10,000, starting with £50,000. The relevant details are as follows:

Remuneration band	2006/07 (Employees) numbers	2007/08 (Employee es) numbers
£50,000 - £59,999	4	6
£60,000 - £69,999	10	7
£70,000 - £79,999	-	2
£80,000 - £89,999	2	1
£90,000 - £99,999	1	2
£100,000 - £109,999	-	-
£110,000 - £119,999	-	-
£120,000 - £129,999	-	-
£130,000 - £139,999	1	1

Members' Allowances paid in the year were £0.466 million (2006/07: £0.459million).

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

### 6. PUBLICITY

Section 5 of the Local Government Act 1986 requires local authorities to keep a record of all expenditure on publicity. The Council's spending on publicity was:

	2006/07 £'000	2007/08 £'000
Recruitment advertising	78	45
Other advertising	36	26
Information relating to the council's activities	66	68
Other publicity	340	336
<b>TOTAL COSTS</b>	<b>520</b>	<b>475</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### 7. MINIMUM REVENUE PROVISION

Local Authorities are required to set aside money from their revenue accounts for the repayment of their borrowing used to fund past general fund capital expenditure (Minimum Revenue Provision). The Council does not have any such borrowings and there is not required to make such a provision.

### 8. COMMUTATION OF IMPROVEMENT GRANTS

A commutation adjustment has been made to reduce revenue costs, by transferring capital receipts to the revenue account. The amount transferred is £59,915 for 2007/08 as approved by the Department for Communities and Local Government.

### 9. BUILDING CONTROL TRADING ACCOUNT

The Building Control (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed cannot be charged for, such as providing general advice and liaising with other statutory authorities. The Building Control (Local Authority Charges) Regulations 1998 SI 1998/3129 which came into force on 1<sup>st</sup> April 1999 require local authorities to break even on chargeable building control services over a three year period with a rolling programme after this.

	Non Chargeable £000	Chargeable £000	Total £000
<b>Expenditure</b>			
Employee Expenses	122	200	322
Premises	5	8	13
Transport	3	5	8
Supplies and Services	7	11	18
Support Services	20	32	52
Total	<b>157</b>	<b>256</b>	<b>413</b>
<b>Income</b>			
Building regulation fees	-	(227)	(227)
Other	-	(2)	(2)
Total	-	<b>(229)</b>	<b>(229)</b>
<b>(Surplus)/Deficit</b>	<b>157</b>	<b>27</b>	<b>184</b>

At the 31 March 2008 there is a cumulative deficit on the chargeable building control trading account for the preceding 3 years of £162,000.



## NOTES TO CORE FINANCIAL STATEMENTS

### 10. RELATED PARTIES' 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. The Council received the following grants from Government Departments:

	2006/07	2007/08
	£000	£000
<b>Central Government</b>		
Revenue Support Grant	1,240	1,130
Non Domestic Rate redistribution	6,427	6,735
Housing Benefit Subsidy	23,203	25,552
Homelessness Grant	185	185
Council Tax Benefit Admin Grant	694	707
Planning Delivery Grant	384	370
LABGI	393	70

The Council paid precepts to Hertfordshire County Council and Hertfordshire Police Authority, further details of which are included in the Collection Fund Accounts on pages 84 to 87.

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 Board (the Managing Director undertakes this role) and is responsible for the accounting records (the Director of Finance is the honorary Treasurer). Councillor Derek Scudder is the Council's Member representative on the Board. In 2007/08, as in 2006/07, no contribution towards the running of the Crematorium was required from the Council. Should this be necessary, the contribution from each Council would be calculated in proportion to its population. The net assets of the Joint Committee as at 31 March 2008 were £4.6million (31 March 2007 £4.2million).

Councillor Sheila Smillie was nominated as a Director of the Palace Theatre Trust in 2007/08. The Trust received £0.239million in grant aid and £0.032million in rent support from the Council (£0.231million and £0.032million respectively in 2006/07). In addition, the Trust was granted a loan of £0.275million in October 2004 which is being repaid over five years.

Following the transfer of the Council's housing stock, Councillors Ellie Burtenshaw and Rabi Martins are the Council's nominated Members on the Board of the Watford Community Housing Trust.

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.

## NOTES TO CORE FINANCIAL STATEMENTS

### 11. LEASING

Commitments under Operating Leases – the Council during the financial year 2007/08 made payments of £807,642 (£748,490 2006/07) under operating leases, comprising the following elements :-

	Other Land & Buildings £000s	Vehicles, plant and Equipment £000s	Total £000s
<b>2007/08</b>	<b>136</b>	<b>671</b>	<b>808</b>
2006/07	89	659	748

Other Land & Buildings relate to four significant lease arrangements

Vehicles, Plant & Equipment relate to vehicles used within Council services as well as Parks plant and printing equipment

Commitments under Operating Leases – the Council was committed as at 31 March 2008 to making payments of £891,082 under operating leases in 2008/09, comprising the following elements :-

	Other Land & Buildings £000s	Vehicles, Plant and Equipment £000s	Total £000s
Leases expiring in 2008/09	-	149	149
Leases expiring between 2009/10 & 2012/13	218	484	702
Leases expiring 2013/14 & after	40	-	40
<b>Total Liabilities at 31<sup>st</sup> March 2008</b>	<b>258</b>	<b>633</b>	<b>891</b>

### 12. PENSION COSTS

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits. Although these will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme (LGPS) administered by Hertfordshire County Council. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level estimated to balance the pension's liabilities with investment assets, over the medium to long-term.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Income & Expenditure Account and replaced with actual contributions in the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income & Expenditure Account during the year:

## NOTES TO CORE FINANCIAL STATEMENTS

	2006/2007 £000	2007/2008 £000
<b>Net Cost of Services</b>		
Current Service Cost (apportioned across services)	2,951	2,329
Past service Costs, settlement and curtailment (included in Non-Distributed Costs)	245	333
<b>Net Operating Expenditure:</b>		
Interest Cost	6,490	7,030
Expected Return of Assets in Scheme	(5,972)	(6,804)
Compulsory added years	(410)	(425)
Net charge to the Income and Expenditure Account	3,304	2,463
<b>Statement of Movement in the General Fund Balance</b>		
Reversal of net charges made for retirement benefits in accordance with FRS17	(3,304)	(2,463)
Employer's Contributions Payable to Scheme by Watford BC	3,432	3,455
Payable by WCHT in respect of transferred staff	-	1,282
Less contributions resulting from stock transfer	-	(1,282)
<b>Actual Amount Charged against Council Tax for Pensions in the Year</b>	<b>3,432</b>	<b>3,455</b>

During 2007/08 the contributions of £3.455million (representing 24% of employees' pensionable pay, when pension strain - the excess cost of early retirement - is excluded) were payable into the Hertfordshire pension scheme. In addition £1.282million was paid by WCHT as part of the stock transfer negotiations.

In addition the Council is responsible for all pension payments and related increases in respect of Pension strain. In 2007/08 these amounted to £0.572 million representing 4.76% of pensionable pay. The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations.

The calculations take account of the transferring of staff on 10 September 2007 to Watford Community Housing Trust. The transfer amount was calculated to be £5.831million on an updated ongoing basis based on market conditions at 10 September 2007 and a transfer on a fully funded basis.

The figures do not allow for the abolition of the Rule of 85 for new entrants from 1 October 2006 and no allowance has been made for the removal of the Rule of 85 for new entrants from the 1 October 2006. The principal reason for this is that insufficient information is available. However, it is considered that for most employers the effect is likely to be immaterial in actuarial terms.

**NOTES TO CORE FINANCIAL STATEMENTS**

	2006/07			2007/08		
	Fair Value £000	Proportion %	Expected Return %	Fair Value £000	Proportion %	Expected Return %
Investments	72,087	76	7.8	60,498	73	7.7
Bonds	10,801	12	4.9	10,845	13	5.7
Property	5,533	6	5.8	4,397	6	5.7
Other Assets	6,064	6	4.9	6,855	8	4.8
	94,485	100.0	7.2	82,595	100	7.1

Assets in the Hertfordshire County Council Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion with the expected rates of return shown.

**Actuarial Gains and Losses**

The actuarial loss can be analysed into the following categories, measured in absolute terms and as a percentage of assets or liabilities as follows :

	2004/05		2005/06		2006/07		2007/08	
	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual returns on assets	1,942	2.9	14,047	16.0	191	0.2	(11,000)	(13.3)
Difference between actuarial assumptions about liabilities and actual experience of gains and losses	(17,130)	(15.5)	631	0.5	7,804	5.9	4,091	3.6
Changes in financial assumptions underlying the present value of scheme liabilities	(1,460)	(1.3)	967	0.7	5	0.0	(2,657)	(2.4)
<b>Actuarial gain/(loss) in year</b>	<b>(16,648)</b>		<b>15,645</b>		<b>8,000</b>		<b>(9,566)</b>	

## NOTES TO CORE FINANCIAL STATEMENTS

### Assets and Liabilities in relation to the Pension Scheme

The underlying assets and liabilities for retirement benefits attributable to the Council at 31st March, 2008 are as follows:

	2006/07 £000	2007/08 £000
Estimated liabilities in scheme		
- funded benefits under LGPS regulations	(123,683)	(105,974)
- unfunded discretionary benefits awarded by means of additional benefits under LGPS regulations	<u>(7,606)</u>	<u>(7,059)</u>
Estimated Fund Liabilities	(131,289)	(113,033)
Estimated assets in scheme	94,485	82,594
<b>Net Liability</b>	<b>(36,804)</b>	<b>(30,439)</b>

The liabilities show the estimated underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £30.439million has a significant impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme's Actuary. The Council currently makes annual back-funding contributions designed to clear the liability over time.

The £30.439million net liability represents the difference between the value of the Council's pension fund assets at 31 March 2008 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1 April 2008 would also have an impact on the capital value of the pension fund asset.

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities will be considered by the Actuary in the next full actuarial review of the Pension Fund. Their advice on whether or not there is an anticipated shortfall in the funding of the scheme at that time will determine the future level of pension contributions.

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of the Actuary the Council has taken the view that during 2007/08 50% of members would take their maximum tax free cash allowance, commuting part of their pension to increase their lump sum payments

## NOTES TO CORE FINANCIAL STATEMENTS

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2007.

The main financial assumptions adopted were:

	2006/07	2007/08
	%	%
Rate of inflation	3.2	3.6
Rate of increase in salaries	4.7	5.1
Rate of increase in pensions	3.2	3.6
Proportion of employees opting to take a commuted lump sum	25.0	50.0
Rate for discounting scheme liabilities	5.4	6.9

### 13 AUDIT COSTS

In 2007/08 the Council incurred the following fees relating to external audit and inspection:

	2006/07 £000	2007/08 £000
-Fees payable to the Audit Commission with regard to the external audit service carried out by the appointed auditor	159	173
-Fees payable by to the Audit Commission for the certification of grant claims and returns	104	95
-Fees payable to the Audit Commission for any other Services	-	16
<b>TOTAL</b>	<b>263</b>	<b>284</b>

**NOTES TO CORE FINANCIAL STATEMENTS**

**14. TANGIBLE FIXED ASSETS**

**(a) Numbers**

<b>Buildings</b>	<b>2006/07</b>	<b>2007/08</b>
<b><u>Leisure Services</u></b>		
Museum	1	1
Leisure Centre (Under reconstruction)	1	1
Community Centres	6	6
Assembly Hall	1	1
Swimming Pool(Under reconstruction)	1	1
Play Facilities	2	2
Theatres	2	2
<b><u>Council Dwellings</u></b>	4,859	-
<b><u>Other</u></b>		
Council Offices	3	3
Depot	1	1
Car Parks	4	4
Commercial Properties	230	209
Business Park	1	1
Charter Place Shopping Area	250,000 sq. ft.	250,000sq.ft
Market	1	1
Share in Harlequin shopping Centre	7% of net profit	7% of net profit
Cardiff Road Industrial Estate	1	1
<b><u>Land</u></b>		
Parks and Open Spaces	915 acres	915 acres
Cemeteries	2	2
Allotment sites	9	9

## NOTES TO CORE FINANCIAL STATEMENT

### (b) Valuations

The Balance Sheet includes net fixed assets of £137.135 million at 31 March 2008. The valuation work was undertaken by Watford Council's internal valuers Andrew Large FRICS and Anne Collins MRICS. The basis for valuations is in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors. Council Dwellings have been valued on the beacon approach, while all other assets have been valued individually. The final accounting statements have been reconciled to the valuation certificates.

The basis of valuing the individual classes of assets owned by the Council is disclosed in note 10 to the Statement of Accounting Policies on page 24.

### (c) Fixed Assets

	2006/07	2007/08							
	TOTAL	OPERATIONAL				NON OPERATIONAL			TOTAL
		Council Dwellings	Other land & Buildings	Vehicles Plant & Equipm't	Infrastruct re	Assets under construct'n	Investment Assets	Surplus Assets held for disposal	
£000	£000	£000	£000	£000	£000	£000	£000	£000	
<b>Certified valuation as at 1 April</b>	<b>497,956</b>	<b>393,311</b>	<b>19,616</b>	<b>5,915</b>	<b>11,564</b>	-	<b>89,022</b>	<b>12,000</b>	<b>531,428</b>
Additions	2,339	-	341	552	781	16,170	-	-	17,844
Less Disposals	1,960	446	-	-	-	-	1,853	12,000	14,299
Less Stock transfer	-	388,001	469	155	-	-	1,901	-	390,526
Effect of revaluations	31,990	(1,652)	3,343	-	-	-	1,881	-	3,572
Reclassification	1,103	(3,212)	1,005	-	-	-	(352)	2,500	(59)
<b>Gross Book Value</b>	<b>531,428</b>	-	<b>23,836</b>	<b>6,312</b>	<b>12,345</b>	<b>16,170</b>	<b>86,797</b>	<b>2,500</b>	<b>147,960</b>
Depreciation as at 31st March	15,450	4,005	2,116	3,741	3,055	-	-	-	12,917
Removed on revaluation	-	(4,005)	-	-	-	-	-	-	(4,005)
Depreciation for year	5,383	1,485	370	505	538	-	-	-	2,898
Impairments	-	-	268	-	-	-	232	-	500
Depreciation on Assets disposed of	(7,916)	(1,485)	-	-	-	-	-	-	(1,485)
Depreciation as at 31 March	<b>12,917</b>	-	<b>2,754</b>	<b>4,246</b>	<b>3,593</b>	-	<b>232</b>	-	<b>10,825</b>
<b>Net book value as at 31 March</b>	<b>518,511</b>	-	<b>21,082</b>	<b>2,066</b>	<b>8,752</b>	<b>16,170</b>	<b>86,565</b>	<b>2,500</b>	<b>137,135</b>



## NOTES TO CORE FINANCIAL STATEMENTS

### (d) Fixed Assets valuation data

The following table illustrates the scope of the revaluation work undertaken by the Council. It shows that Vehicles, Plant, Furniture and Equipment are held at historic cost as a proxy for current value, the difference between historic cost and current value being considered immaterial.

Council Dwellings are normally subject to an annual revaluation of 20% of the total assets. For the year ended 1 April 2007 the Housing Stock has been revalued on a desk top basis increasing the 1st April 2006 value by an appropriate house and flat price increase and this % increase is applied to the whole stock as at 1 April 2007. The housing stock was disposed of during September 2007.

Other land and buildings have also been subject to an annual revaluation of 20% of assets. The revaluation is not extended to other assets and the revalued sum of £7.491million appears in this statement, rather than in the Balance Sheet figure of £21.082million.

Non-operational assets have also been subject to an annual revaluation of 20% of assets. The revaluation is not extended to other assets and the revalued sum of £21.745million appears in this statement, rather than the Balance Sheet figure of £105.235million.

This Valuation information is required by FRS15, and demonstrates the Council's rolling revaluation programme.

The following table shows the valuation of assets each year subjected to revaluation.

<b>Statement of valuation of fixed assets carried at current value</b>					
	<b>Council Dwellings</b>	<b>Operational Land and Buildings</b>	<b>Investment properties</b>	<b>Vehicles Plant furniture and equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Valued at Historic cost</b>	-	-	-	2,066	2,066
<b>Valued at current value in:</b>					
2007/08	386,945	7,491	21,745	-	416,181
2006/07	368,729	8,131	26,636	-	403,496
2005/06	349,998	4,663	37,507	-	392,168
2004/05	430,696	7,266	44,610	-	482,572
2003/04	387,713	9,196	40,843	-	437,752

## NOTES TO CORE FINANCIAL STATEMENTS

### 15. INTANGIBLE ASSETS

These relate to capital expenditure which does not create a tangible fixed asset (e.g. development of IT systems) and are generally amortised in the year they are incurred. It is Council policy to write out, in the year of purchase, the full cost of assets which do not represent an asset in the Balance Sheet.

Expenditure In Year	2006/07 £000	2007/08 £000
Geographical Information System	117	12
Financial Management System	23	-
Customer Relationship Management System	328	70
IT-E Democracy	17	2
IT- Environmental Health System	68	2
Fraud Case Management System	13	-
IT Development	34	36
Document Image Processing	-	196
IT- Electoral Services	-	11
<b>TOTAL</b>	<b>600</b>	<b>329</b>

### 16. 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 per asset giving a total sum of £93 (for the 93 assets held by the Council).

The assets include recreation grounds, playing fields, public open spaces and allotment sites.

### 17. DEFERRED CHARGES

Deferred charges arise where capital expenditure is incurred but no asset is created for the local authority (for example grants made to other people for capital expenditure and capital work incurred on other people's land). Deferred charges are written off the revenue account in the year expenditure takes place, since they have no value to the Authority.

Movements in deferred charges during the year are shown below.

	Expenditure during year £000	Amounts written off to revenue £000
Renovation Grants – Mandatory Disabled Facilities	391	391
Renovation Grants – Private Sector Renewal	131	131
Renovation Grants – Home repair Assistance	13	13
Renovation Grants – Common Parts	48	48
Renovation Grants - LGHA 19891Act DFG	30	30
Private purchase grants	12	12
Commutation Charge	60	60
Grants to Housing Associations	65	65
<b>Total 2007/08</b>	<b>750</b>	<b>750</b>
<b>Total 2006/07</b>	<b>494</b>	<b>494</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### 18. ANALYSIS OF NET ASSETS EMPLOYED

	2006/07 £000	2007/08 £000
General Fund	48,350	150,931
Housing Revenue Account	394,727	1,255
Trading Operations	67,140	250
<b>Total Net Assets</b>	<b>510,217</b>	<b>152,436</b>

### 19. LONG TERM DEBTORS

Long-term debtors are debtors which fall due after a period of at least one year and are analysed as follows:

	2006/07 £000	2007/08 £000
Watford Irish Association	258	254
Housing Association Loans	95	14
Rent to Mortgage	1,058	1,058
Other Mortgages	1	-
Palace Theatre	62	31
Car Loans	5	3
<b>Total</b>	<b>1,479</b>	<b>1,360</b>

Included in short term debtors is the sum of £66,000, which is the amount repayable on the above loans during 2008/09.

### 20. STOCKS AND WORK IN PROGRESS

	2006/07 £000	2007/08 £000
Stocks	39	52
Work in Progress	17	-
<b>TOTAL</b>	<b>56</b>	<b>52</b>

### 21 DEBTORS

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

	2006/07 £000	2007/08 £000
Housing Rent Arrears	497	103
Government Departments	6,381	4,716
Local Authorities	1,693	294
Non-Domestic Rates Arrears	1,586	1,523
Council Tax Arrears	2,452	2,533
Housing Benefit Overpayments	970	1,124
Sundry Debtors	2,688	2,236
Payments in Advance	346	296
<b>Sub-Total</b>	<b>16,613</b>	<b>12,825</b>
Less: Provision for Bad and Doubtful Debts	(2,884)	(2,470)
<b>TOTAL</b>	<b>13,729</b>	<b>10,355</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### 22 INVESTMENTS

At 31 March 2008 there were 39 investments totalling £47 million. Of these investments one investment of £1million has a maturity date exceeding 365 days from the Balance Sheet date but is callable at the borrower's option half-yearly. This is therefore considered a long term investment as it is unlikely given current interest rates that this will be called. In the case of long term deposits, where interest is received on maturity, the Balance Sheet figure for investments includes the debtor outstanding for interest income receivable at the expiry date.

In addition the Council had £2.1million invested overnight with the Council's bankers Co-Operative Bank at the Balance Sheet date

The Council earned an average of 5.59% interest in 2007/08 on all its investments

### 23. CREDITORS

	2006/07 £000	2007/08 £000
Housing Rents Prepaid	309	-
Government Departments	994	778
Local Authorities	1,052	576
Non-Domestic Rates Prepaid	838	1,471
Council Tax Prepaid	420	467
Sundry Creditors	7,465	8,329
Receipts in Advance	166	470
<b>Total</b>	<b>11,244</b>	<b>12,091</b>

### 24. DEFERRED CREDITS

Deferred credits are amounts representing capital receipts from the sale of assets that will be repaid to the Council by instalments over an agreed number of years. They have arisen from mortgages provided for the sale of Council houses, mortgage advances to Housing Associations, and other community groups including the Palace Theatre which form part of the mortgages under long term debtors. In addition the equity interest in the rent to mortgage scheme is included representing £1.058million

**NOTES TO CORE FINANCIAL STATEMENTS**

**25. GOVERNMENT GRANTS AND CONTRIBUTIONS DEFERRED ACCOUNT**

This item consists of capital grants and contributions from government departments and developers towards the cost of fixed assets and improvement grants, which have been used to fund capital expenditure.

	2006/07	2007/08
	£000	£000
Balance Brought Forward	3,255	1,764
Transferred to grants & contributions unapplied	-	(192)
Grants received		
Regional Housing Pot	-	124
Disabled Facilities Grant	-	164
Section 106	-	289
Grants applied to assets not adding value	(1,491)	(577)
Released to Income and Expenditure Account to match depreciation	-	(112)
<b>Balance at 31 March</b>	<b>1,764</b>	<b>1,460</b>

**26 GOVERNMENT GRANTS AND CONTRIBUTIONS UNAPPLIED**

The amount of government grants and capital contributions received from developers available to be applied to finance capital expenditure. Such sums will be applied via the Government Grants and Contributions Deferred Account when the asset to which it relates has been completed.

<b>Government Grants and Contributions Unapplied</b>	2006/07	2007/08
	£000	£000
Balance Brought Forward	1,492	1,485
Contributions received in year		
Planning Delivery Grant capital element	-	100
Section 106 – Oxhey Park	-	192
<b>Total</b>	-	292
Interest allocated	55	69
Applied to finance expenditure	(62)	(252)
<b>Balance at 31 March</b>	<b>1,485</b>	<b>1,594</b>

Within the unapplied amount at 31<sup>st</sup> March 2008 is an amount of £1.496million in relation to Section 106 developer contributions which are available to be used to finance future capital expenditure. These include material items relating to the Sun Printers site in Whippendell Road of £622,000 and a contribution in respect of the Fairview Development in the sum of £550,000.

## NOTES TO CORE FINANCIAL STATEMENTS

### 27 MOVEMENT IN RESERVES

The Statement of Total Recognised Gains and Losses shows the aggregate change in the Council's net worth for the year. Further details of the movements relating to individual reserves are shown below.

RESERVES	Balance 1 April 2007 £000	Net Movement in Year £000	Balance 31 March 2008 £000	Purpose of Reserve	Further Detail Note
Capital Adjustment Account	513,949	(385,360)	128,589	Store of capital resources set aside to meet past expenditure	27B
Financial Instruments Adjustment Account	-	(80)	(80)	The account is charged with the Net Present Value reduction in value on soft loans	42
Revaluation Reserve	-	4,018	4,018	Store of gains on fixed assets not yet realised through sales	27A
Deferred Capital Receipt	1,547	(47)	1,500	Sum of future capital receipts deferred until capital benefit can be realised	24
Useable Capital Receipts	20,654	15,501	36,155	Proceeds of fixed asset sales available to meet future capital investment	27C
Pension Reserve	(36,804)	6,365	(30,439)	Balancing account to allow for inclusion of pensions liability in the balance sheet	Note 12
Earmarked Reserves	7,776	2,223	9,999	Created by the Council to fund future specific spend	Note 31
Collection Fund	110	(8)	102	Maintained by a billing authority to record transactions for Non Domestic Rates & Council tax	Page 90
General Fund	1,254	83	1,337	Resources available to meet future running costs for non-housing services	Page 39
Housing Revenue Account	1,731	(476)	1,255	Resources available to meet future running costs for council houses	Page 84
Total	510,217	(357,781)	152,436	Reconciles to bottom half of balance sheet page 40	

## NOTES TO CORE FINANCIAL STATEMENTS

### A) Revaluation Reserve

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2006/07 to accommodate the implementation of the Revaluation Reserve. The Fixed Asset Restatement Account (FARA) with a credit balance of £463.637million has also been recategorised, being transferred together with £50.312million from the Capital Financing Account to form the new Capital Adjustment Account with a balance of £513.949million as at 31 March 2007. The Revaluation Reserve has then been included in the Balance Sheet with a zero opening balance. The closing position on the Reserve at 31 March 2008 therefore only shows the revaluation gains accumulated since 1 April 2007 which is shown in the table below

Revaluation Reserve	£000	£000
Balance at 1 April 2007		-
<b>Valuation During 2007/08</b>		
Stock valuation 1 April 2007	2,353	
Other Housing Assets	5	
Non Operational Assets	688	
General Fund Operational Assets	3,372	
Assets Sold	1,193	7,611
<b>Removal of revalued sum</b>		
Due to stock transfer	(2,353)	
Due to asset sales	(1,240)	(3,593)
<b>Balance at 31 March 2008</b>		<b>4,018</b>

### B) Capital Adjustment Account

The Capital Adjustment Account was created on 31 March 2007 upon the implementation of the Revaluation Reserve. Entries to the Account will arise from

- Debits of the historical cost of acquiring, creating or enhancing fixed assets over the useful life of the assets, i.e. depreciation and impairment losses from the Statement of Movement on the General Fund Balance, gains and losses on disposals
- Debits of deferred charges, i.e. capital expenditure that does not result in the acquisition, creation or enhancement of a fixed asset
- Credits for resources set aside to finance capital expenditure.

**NOTES TO CORE FINANCIAL STATEMENTS**

<b>Capital Adjustment Account</b>	<b>£000</b>	<b>£000</b>
Balance at 1 April 2007 transferred from Fixed Asset Reinstatement Account and Capital Financing Account		(513,949)
<b>Adjustments for capital items charged to I&amp;E</b>		
Depreciation & Impairment Adjustment	8,725	
Book value of assets disposed	403,339	
Revaluation reserve on asset disposal	(3,593)	408,471
<b>Amortisation of capital expenditure</b>		
Deferred charges written out	750	
Intangible assets amortised	328	1,078
<b>Resources Set Aside to Finance Capital Expenditure</b>		
Capital receipts applied	(20,932)	
Major Repairs Reserve Applied	(2,569)	
Government Grants and Contributions released	(688)	(24,189)
<b>Balance at 31 March 2008</b>		<b>(128,589)</b>

**C) Useable Capital Receipts**

When assets are sold the sale proceeds are initially credited to this account. The balance of receipts after pooling, a government requirement for certain HRA sales, are available for the financing of capital expenditure. Capital financing of expenditure was undertaken to ensure that all remaining Housing capital receipts were correctly recorded as General Fund receipts. Following the transfer of the housing stock, all assets have been transferred to the General Fund.



**NOTES TO CORE FINANCIAL STATEMENTS**

<b>Useable Capital Receipts Reserve</b>	<b>2006/07 £000</b>	<b>General Fund £000</b>	<b>HRA £000</b>	<b>2007/08 Total £000</b>
Balance at 1 April	22,510	7,087	13,567	20,654
<b>Receipts During Year</b>				
Receipts from loan repayment	125	46	-	46
Proceeds from sale of fixed assets	1,182	39,261	-	39,261
Less Levy on stock transfer	-	(3,064)	-	(3,064)
Shared ownership sales	-	-	90	90
Repaid discounts	34	-	54	54
RTB Sales	1,982	-	356	356
<b>Total receipts</b>	<b>3,323</b>	<b>36,243</b>	<b>500</b>	<b>36,743</b>
<b>Use of Receipts</b>				
Capital receipts due to National Pool	(1,120)	(307)	-	(307)
Financing new capital expenditure and transfer to General Fund	(3,995)	(6,805)	(14,067)	(20,872)
Less Right to buy Administration	(10)	(3)	-	(3)
Commutation	(54)	(60)	-	(60)
<b>Total used</b>	<b>(5,179)</b>	<b>(7,175)</b>	<b>(14,067)</b>	<b>(21,242)</b>
<b>Balance at 31 March</b>	<b>20,654</b>	<b>36,155</b>	<b>-</b>	<b>36,155</b>

Applied government grants and contributions have been used for funding capital expenditure and will be released to revenue to offset depreciation over the life of the asset. The capital receipt of £25.9m for the sale of the Council's housing stock to Watford Community Housing Trust (WCHT) was not subject to pooling, but was subject to a levy of £3.064m payable to the Government. The capital receipt was reduced by a £0.351m payment to the pension fund in respect of the liabilities relating to staff transferring to WCHT and £1.39m in respect of the Council's pre-transfer costs and WCHT set-up costs

**28. PROVISIONS**

These funds are accumulated for specific purposes and are analysed below:

<b>Provision</b>	<b>Balance at 1 April £000</b>	<b>Approp'ns to or receipts In year £000</b>	<b>Approp'ns from or payments In year £000</b>	<b>Balance at 31 March £000</b>
Housing Benefit repayment	500	233	233	500
Planning appeal	18	-	18	-
<b>TOTAL 2007/08</b>	<b>518</b>	<b>233</b>	<b>251</b>	<b>500</b>
<b>TOTAL 2006/07</b>	<b>1,034</b>	<b>-</b>	<b>516</b>	<b>518</b>

The Housing Benefits repayment provision relates to the potential reclaim of housing benefit subsidy representing approximately 2% of the 2007/08 housing benefit subsidy claim. The total claim for 2007/08 is in the region of £25m and given the complexities of the claim and the timing of the audit after closure of the accounts it is considered prudent to set this amount aside. A review of the planning appeal provision indicated that the specific appeal had been resolved and therefore the provision has been written back to revenue in the year

## NOTES TO CORE FINANCIAL STATEMENTS

### 29 SUMMARY CAPITAL ACCOUNTS

Capital expenditure during the year is summarised below. The expenditure relates to the acquisition of assets which will be of benefit to the Council for a number of years (fixed assets) and expenditure on the making of capital grants (deferred charges). It includes expenditure on the provision of assets such as houses and vehicles and on capital grants, such as home improvement grants.

#### GENERAL FUND CAPITAL

2006/07 £000	PROJECT	Latest Estimate £000	2007/08 Actual Spend £000	Variance £000
46	PC and printer replacement	144	163	19
9	Server Strategy	-	-	-
117	Geographical Information System(GIS)	-	-	-
23	Financial Management System upgrade	-	-	-
328	Customer Relationship Management	254	70	(184)
50	IT Systems Development	12	2	(10)
-	Document Management Processing	160	196	36
-	Electoral Services	12	11	(1)
68	Environmental Health IT System	25	2	(23)
14	Fraud Management System	-	-	-
108	Support Costs	-	-	-
14	Service Transformation	-	-	-
155	Cardiff Road Health Campus	508	303	(205)
2,336	Redevelopment of Leisure Facilities	15,352	16,170	818
39	Charter Place redevelopment	110	22	(88)
70	Bushey Arches Improvements	76	25	(51)
-	Service Transformation GIS	-	13	13
(20)	Recycling Kerbside vehicles (x2)	207	207	-
50	Office (Civic Quarter) Moves	170	151	(19)
49	Property Condition Survey	-	-	-
-	Surface Car Parks	270	83	(187)
-	Town Centre CCTV System Upgrade	35	36	1
-	Museum Galleries Refurbishment	10	-	(10)
-	Green Spaces Strategy	215	163	(52)
-	Public Toilet Refurbishment	161	46	(115)
-	Pop-up Toilets	163	145	(18)
-	Staff Amenity Area	45	-	(45)
-	Automatic Number Plate Recognition	-	52	52
-	Bushey Arches (CCTV)	-	2	2
-	Grants to Housing Associations	-	65	65
<b>3,456</b>	<b>C/fwd</b>	<b>17,929</b>	<b>17,927</b>	<b>(2)</b>

**NOTES TO CORE FINANCIAL STATEMENTS**

2006/07 £000	PROJECT	Latest Estimate £000	2007/08 Actual Spend £000	Variance £000
<b>3,456</b>	<b>B/fwd</b>	<b>17,929</b>	<b>17,927</b>	<b>(2)</b>
70	Refurbishment of Holywell CC	-	7	7
179	Community Centre (Inc BECC) Refurbishment	-	4	4
131	Westfield Community Centre	-	-	-
5	Oxhey Park Improvements	-	-	-
28	Recycling Containers	10	10	-
-	Street care Depot Improvements	151	44	(107)
338	Private Sector Housing Renewal	350	390	40
62	Disabled Facilities Grants	277	131	(146)
18	Home repair assistance grants	-	13	13
64	Common Parts Renovation Grants	-	48	48
-	LGHA 1989 Act DFG's	-	30	30
-	CPO of Private sector Dwellings	240	3	(237)
-	Woodside All Weather track	180	-	(180)
-	Choice Based Lettings	22	-	(22)
-	Rickmansworth Road Repairs	21	30	9
-	Housing Transfer Costs	3,000	1,390	(1,610)
-	Tibbles Close Hostel	102	81	(21)
-	Town scheme enhancements (Section 106)	140	69	(71)
-	Allotment Green Toilets (Section 106)	20	-	(20)
-	King George V Playing Fields (Section 106)	35	-	(35)
-	Colne Valley Improvements (Section 106)	100	-	(100)
-	Cassiobury Park Green Flag Status (S106)	120	113	(7)
-	Watford Fields Upgrade (Section 106)	130	105	(25)
-	King George V Playground refurb (S106)	55	-	(55)
-	Whippendale Woods Cycle path (S106)	37	-	(37)
-	Attenborough Fields Cycle Route (S106)	15	-	(15)
-	Rickmansworth Road Toucan Crossing (S106)	16	-	(16)
-	CCTV Upgrade High Street (S106)	6	-	(6)
-	Commutation Adjustment Charge	-	60	60
<b>4,351</b>	<b>Total General Fund</b>	<b>22,956</b>	<b>20,455</b>	<b>(2,501)</b>

**NOTES TO CORE FINANCIAL STATEMENTS**

**HOUSING CAPITAL**

2006/07 £000	PROJECT	Latest Estimate £000	2007/08 Actual Spend £000	Variance £000
12	Private purchase Grants	50	12	(38)
-	Repairs Admin	790	194	(596)
12	CCTV upgrades	10	5	(5)
106	Entry Phones	50	165	115
280	Miscellaneous Adaptations	350	241	(109)
68	Car Parking	-	-	-
21	Central Heating	250	-	(250)
-	Play Area refurbishment	20	-	(20)
103	Adventure playground toilet	-	-	-
42	Estate improvements	-	30	30
339	Roofing	200	795	595
34	IT Development	95	36	(59)
132	Windows	150	10	(140)
-	High level work (roofing/chimneys)	250	1	(249)
-	Sherwoods external cladding	50	8	(42)
18	Brickwork repairs	-	19	19
42	Stock condition survey	50	41	(9)
52	Garage roofs renewal	20	28	8
8	Heating System Overhaul	128	-	(128)
-	E & M improvements Meriden H/R	50	6	(44)
-	Cavity insulation – Abbots Garden	200	35	(165)
47	Rewiring General-Capital Schemes	-	3	3
1,054	Rewiring	600	657	57
-	E.P minor schemes	20	44	24
58	E & M schemes E.P blocks	50	-	(50)
-	Lighting protection E.P blocks	3	-	(3)
60	Hostel Repairs	50	115	65
41	Asbestos control measures	50	10	(40)
-	Estate improvements	30	-	(30)
-	Estate initiatives	500	-	(500)
66	Rainwater goods fascias and soffits PPM	0	18	18
282	Water tank renewal	50	59	9
97	Bathrooms (Plumbing planned maintenance)	350	11	(339)
98	Anti-condensation measures	75	28	(47)
734	Front and back door renewal	500	647	147
<b>3,806</b>	<b>Total C/fwd</b>	<b>4,991</b>	<b>3,218</b>	<b>(1,773)</b>

**NOTES TO CORE FINANCIAL STATEMENTS**

2006/07 £000	PROJECT	Latest Estimate £000	2007/08 Actual Spend £000	Variance £000
3,806	<b>B/fwd</b>	4,991	3,218	(1,773)
-	Flat Entrance Doors	-	20	20
108	Fencing / gates	20	49	29
270	Boiler Replacement	600	242	(358)
-	Staffing cost to Major repairs Reserve	272	17	(255)
10	Watford & Three Rivers Against Crime	10	7	(3)
-	Miscellaneous works-Meriden High Rise	40	95	55
216	Kitchen replanning & replacement	152	9	(143)
<b>4,410</b>	<b>Total HRA Expenditure</b>	<b>6,085</b>	<b>3,657</b>	<b>(2,428)</b>
<b>4,351</b>	<b>Total General Fund Expenditure</b>	<b>22,956</b>	<b>20,455</b>	<b>(2,501)</b>
<b>8,761</b>	<b>Total Capital Expenditure</b>	<b>29,041</b>	<b>24,112</b>	<b>(4,929)</b>

£000	Total Capital Expenditure Comprises:	£000	£000	£000
2,339	Expenditure adding value (see note 14 c)	21,945	17,844	(4,101)
5,328	Non enhancing expenditure	5,861	5,189	(672)
600	Intangible Fixed Assets (see note 15)	558	329	(229)
494	Deferred Charges (see note 17)	677	750	73
<b>8,761</b>		<b>29,041</b>	<b>24,112</b>	<b>(4,929)</b>

**Capital Commitments**

At the 31 March 2008 the council had contractual commitments totalling £4.5million relating to the construction of two new leisure centres at an estimated total cost of £23million. It is anticipated that these schemes will be completed during 2008/09.

## NOTES TO CORE FINANCIAL STATEMENTS

### 30. FINANCING OF CAPITAL EXPENDITURE

Under the provisions of the Local Government and Housing Act 2003, the Council can finance any amount of capital expenditure by borrowing, providing it can demonstrate that such borrowing is prudent, affordable and sustainable, as demonstrated by adherence to the CIPFA Prudential Code for Capital Financing in Local Authorities.

The Council can also fund any amount of capital expenditure from capital receipts, capital grants and contributions, major repairs reserve and revenue contributions.

The Capital Financing Requirement represents the amount of capital expenditure funded by borrowing (either temporarily from bank overdraft or by long term borrowing). It increases when capital expenditure is incurred and reduces when such expenditure is financed from capital receipts, capital grants, Major Repair Reserve and revenue contributions. It also reduces when provision is made from revenue or capital receipts for debt repayment.

2006/07		2007/08
£000	Financing of Capital Expenditure	£000
2,801	<b>Opening Capital Financing Requirement</b>	2,666
8,761	Add capital expenditure in year ( see note 29)	24,112
	Less sources of finance	
(3,995)	- Usable capital receipts	(20,872)
(1,492)	- Capital grants and contributions	(671)
(3,274)	- Major repairs Reserve	(2,569)
2,801		2,666
(135)	Movements in Government grants deferred	-
<b>2,666</b>	<b>Closing Capital Financing Requirement</b>	<b>2,666</b>

The Government Grants Deferred Account only accounts for grants applied as from the 1 April 2007 and therefore is not included in the capital financing requirement.

**NOTES TO CORE FINANCIAL STATEMENTS**

**31. EARMARKED REVENUE RESERVES**

The Council has set aside funds which are earmarked for specific purposes as detailed below: -

	<b>Balance at 1 April £000</b>	<b>Approp'ns to reserve in year £000</b>	<b>Approp'ns from reserve in year £000</b>	<b>Balance at 31 March £000</b>
Disabled Access Reserve	97	-	97	-
Charter Place Tenants Reserve	1,665	249	12	1,902
Repairs Fund ~ Le Marie Reserve	14	-	-	14
Multi-Storey Car Park Repair Reserve	128	27	2	153
Car Parking Zones Reserve	573	109	-	682
Special Project Reserve	1,967	92	-	2,059
Leisure Redevelopment Reserve	500	-	-	500
Ground Maintenance Reserve	12	-	12	-
Herts Young People's Project Reserve	-	62	-	62
Private Sector Bond Reserve	9	56	-	65
LABGI Reserve	393	337	-	730
Spend to Save Reserve	810	1,000	55	1,755
Local Development Plan Reserve	127	137	-	264
Leisure Services Corporate Reserve	178	-	55	123
Energy Fund Reserve	265	22	97	190
Major Repairs Reserve	1,038	1,531	2,569	-
Economic Impact Reserve	-	500	-	500
Pension Funding Reserve	-	1,000	-	1,000
<b>TOTAL 2007/08</b>	<b>7,776</b>	<b>5,122</b>	<b>2,899</b>	<b>9,999</b>
<b>TOTAL 2006/07</b>	<b>5,047</b>	<b>6,806</b>	<b>4,077</b>	<b>7,776</b>

## NOTES TO CORE FINANCIAL STATEMENTS

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

### General Fund

**Disabled Access Fund** – alterations to Corporate Buildings in order to comply with the Disabled Access Act.

**Charter Place Tenants Fund** – tenants' contributions to meet major works.

**Le Marie Centre repairs reserve** – to help meet the Council's obligation as landlord.

**Multi Storey Car Park Repair Fund** – to provide funds towards major structural works.

**Car Parking Zone Fund** – this is a statutory ring-fenced reserve, for future transport related costs.

**Special Project Reserve** – to provide for future investment and other expenditure of a one-off nature, such as redundancy.

**Leisure Redevelopment Reserve** – to fund any short-term cash flow requirements that may arise with the transfer to a new operator.

**Ground Maintenance Reserve** - to help fund the Council's obligation to maintenance.

**Private Sector Bond Reserve** - for Homelessness unit

**LABGI Reserve** – government grant received in respect of business rate growth

**Spend to Save Reserve** – to support schemes where initial expenditure will produce longer term savings

**Local Development Framework Reserve** – to help fund the costs of the Plan's production

**Leisure Services Corporate Initiative** – to fund the implementation of the review of the service

**Energy Fund Reserve** – To fund energy saving initiatives to reduce energy consumption.

**Hertfordshire Young People's Project Reserve** – to assist with homelessness among young people

**Economic Impact Reserve** – to provide resources to offset the impact of the potential downturn of the economy, such as reduced planning fee income

**Pension funding reserve** – potential increased payments to reduce pension strain and future employer contributions

### Housing Revenue Account

**Major Repairs Reserve** – to fund major repairs to Council dwellings



## NOTES TO CORE FINANCIAL STATEMENTS

### 32. REVENUE BALANCES

The unallocated accumulated balances on the various funds are set out below:

	2006/07 £000	2007/08 £000
Collection Fund	110	102
General Fund	1,254	1,337
Housing Revenue Account	1,731	1,255
<b>Total</b>	<b>3,095</b>	<b>2,694</b>

### 33. SINGLE EUROPEAN CURRENCY

The Council continues to make preparations for the possibility of the introduction of the Euro on its services. All new computer systems being introduced are Euro compliant. The Council has, as yet, made no commitment or identified any additional cost of preparing for the possible introduction of the Single European Currency.

### 34. CONTINGENT LIABILITIES/ASSETS

Under Watford 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 claims already settled by MMI. This will only apply if MMI cannot achieve a solvent run off of its liabilities. At 30th September 2007 the maximum repayment stood at £347,000.

MMI's accounts for the year ended 30 June 2007 include the statement that "The Directors remain of the view that a solvent run off will be achieved ultimately". MMI external auditors PricewaterhouseCoopers LLP gave the final accounting statements of MMI a true and fair view approval, but included an emphasis of matter which recognised the uncertainty that is involved with estimating the gross claims outstanding. Notwithstanding this caveat, the likelihood of any repayment by the Council is low.

On this basis no provision for repayment has been made. The situation will continue to be reviewed, and if the outlook changes, a provision for losses will be considered.

## NOTES TO CORE FINANCIAL STATEMENTS

### 35. NON-ADJUSTING POST BALANCE SHEET EVENTS

The recent uncertainties in the stock market, whilst not materially affecting the Council's 2007/08 performance, are likely to impact in 2008/09 and beyond. The Council will monitor any impacts regularly, and future budgets and accounts will reflect variances

### 36 AUTHORISATION OF THE ACCOUNTS FOR ISSUE

The Statement of Accounts will be authorised for issue by the Director of Finance, Janice Maule CPFA, BA at a date to be agreed in September 2008.

### 37. LOCAL STRATEGIC PARTNERSHIP (LSP) AND LOCAL AREA AGREEMENT (LAA)

Local Strategic Partnerships (LSPs) bring together public, private and community and voluntary sector bodies in order to pool their efforts and financial resources with the aims of improving services and the quality of life for local people.

LSPs are responsible for developing and delivering Local Area Agreements (LAAs) which are negotiated and agreed in conjunction with the local Government Office. The agreement is made up of outcomes, indicators and targets aimed at improving performance priorities over a three-year period (the first Hertfordshire LAA runs from 2006/07 to 2008/09).

As Hertfordshire has a county and district councils, and the majority of the LAA's themes are delivered primarily by the County Council and its partners, Hertfordshire County Council acts as the "accountable body" for the local LAA. This means that it is responsible for deciding the share of grant that will be received by each partner and for ensuring mechanisms are in place to distribute and account for funding passed to partners as well as specifying the terms on which payments are made. The County Council recognises the full value of the LAA Grant as income in its own accounts and recognises the payments to partners as its own expenditure. Watford's proportion of grant and spending is included in the net cost of services within these Accounts.

The partners to the Hertfordshire LAA are:

- Hertfordshire County Council
- The ten Borough/District Councils
- Hertfordshire Police Authority and Hertfordshire Constabulary
- Local Primary Care Trusts
- Learning and Skills Council Hertfordshire, University of Hertfordshire and Further Education Consortium
- public, private and not-for-profit sectors: Hertfordshire Chamber of Commerce & Industry, Hertfordshire Careers Services, Connexions and Councils for Voluntary Service

The total amount of LAA Grant allocated by the Hertfordshire LSP for 2007/08 was £9.421million (including a carry forward from 2006/07). The majority was spent by the County Council and its partners on services for which they are responsible. Watford's LSP was allocated £0.324million to fund spending within its services and actual spend in the year amounted to £0.305million (£0.227million on Safer and Stronger Communities and £0.078million on Waste). The remainder will be carried forward for spending in 2008/09.

## NOTES TO CORE FINANCIAL STATEMENTS

### 38. RECONCILIATION OF REVENUE NET CASH FLOW TO INCOME AND EXPENDITURE ACCOUNT SURPLUS/DEFICIT

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

The statement shows cash transactions only and therefore the figures shown may not necessarily agree with those shown elsewhere in the accounts. A reconciliation to the increase in the general fund balance during the year is shown below.

2006/07		2007/08	
		£000	£000
1,109	(Increase)/Decrease in General Fund balance in year		(83)
	<b>Non-cash transactions</b>		
101	Net contribution to earmarked reserve	(2,223)	
	Net contribution from Collection Fund and HRA balances	484	
	Major Repairs Reserve	(1,531)	
2,394	Capital adjustments	-	
	Transfers from capital receipts (paid to housing pool)	310	
	Reclassification of long term investment	<u>(1,133)</u>	(4,093)
	<b>Item on an accrual basis</b>		
2,804	(Increase)/Decrease in revenue creditors	(2,726)	
(505)	Increase/(Decrease) in revenue debtors	(3,373)	
31	Decrease in stock and work-in-progress	<u>(4)</u>	(6,103)
	<b>Items classified differently</b>		
(1,469)	Interest receivable	2,206	
523	Net payments from provisions	18	
-	Interest to capital (S106 funds)	<u>(69)</u>	2,155
<b>4,988</b>	<b>Net cash (inflow)/outflow from revenue activities</b>		<b><u>(8,124)</u></b>

**NOTES TO CORE FINANCIAL STATEMENTS**

**39 RECONCILIATION OF FINANCING AND MANAGEMENT OF LIQUID RESOURCES TO BALANCE SHEET**

	2006/07 £000	2007/08 £000	Increase/ (decrease) £000
Short term deposits	29,600	48,100	18,500
Long term investments (other liquid resources)	0	1,133	1,133
Cash at bank/in hand	1,354	1,100	(254)
Bank overdraft	(2,697)	(715)	1,982
<b>TOTAL</b>	<b>28,257</b>	<b>49,618</b>	<b>21,361</b>

**40 LIQUID RESOURCES**

Liquid resources are defined as current asset investments that are readily convertible into cash. The Council's policy in relation to investments and all Treasury Management related activities is included in its Treasury Management Strategy.

**41 ANALYSIS OF GOVERNMENT GRANTS**

	2006/07 £000	2007/08 £000
Revenue Support Grant	1,240	1,130
NDR from National Pool	6,427	6,735
DWP – Housing Benefits	23,203	25,552
Homelessness Grant	185	185
Council Tax Benefit Admin Grant	694	707
Planning Delivery Grant	384	370
LABGI	393	70
<b>TOTAL</b>	<b>32,526</b>	<b>34,749</b>

## NOTES TO CORE FINANCIAL STATEMENTS

### 42 Financial Instruments

#### Financial Instruments - Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

	Long Term		Current	
	31 March 2007 £000	31 March 2008 £000	31 March 2007 £000	31 March 2008 £000
Financial liabilities at amortised cost	-	-	-	-
<b>Total Borrowings</b>	-	-	-	-
Loans and receivables	1,479	1,360	2,688	2,236
Financial Assets	-	1,133	29,600	48,100
<b>Total Investments</b>	<b>1,479</b>	<b>2,493</b>	<b>32,288</b>	<b>50,336</b>

The figures above as at 31 March have been amended to include accrued interest for comparison purposes.

The loans and receivables include long term debtors and other trade debtors, but not debtor provisions or government departments.

#### Financial Instruments - Gains and Losses

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

2007/08	Financial Liabilities	Financial Assets		Total £'000s
	Measured at Amortised Cost £000	Loans and Receivables £000	Fair Value through the I&E £000	
Interest payable & similar charges	-	-	(80)	(80)
Interest & investment income	-	2,639	-	2,639
<b>Net gain/(loss) for year</b>	-	<b>2,639</b>	<b>(80)</b>	<b>2,559</b>

The fair value adjustment to the financial assets relates to a 125 year loan given by the Council in respect of accommodation at the YMCA.

## NOTES TO CORE FINANCIAL STATEMENTS

2006/07	Financial Liabilities	Financial Assets		Total £'000s
	Measured at Amortised Cost £000	Loans and Receivables £000	Fair Value through the I&E £000	
Interest payable & similar charges	-	-	-	-
Interest & investment income	-	1,505	-	1,505
<b>Net gain/(loss) for year</b>	-	<b>1,505</b>	-	<b>1,505</b>

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

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions.

No early repayment or impairment is recognised.

Where an instrument has a maturity of under one year or is a trade debtor or other receivable the fair value is taken to be the principal outstanding or the billed amount.

The fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31 March 2007		31 March 2008	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
<b>Loans &amp; receivables</b>				
Current investments	29,600	29,600	48,100	48,100
Long term investments	-	-	1,000	1,133
Trade debtors	8,193	8,193	7,519	7,519
<b>Total loans &amp; receivables</b>	<b>37,793</b>	<b>37,793</b>	<b>56,619</b>	<b>56,752</b>

The fair value on the Council's long term investments in 2007/08 is greater than the carrying amount because the coupon rates are higher than the interest rates available for similar loans in the money market. This means that the authority would receive more than the carrying amount if it were to agree to an early repayment.

## NOTES TO CORE FINANCIAL STATEMENTS

### Disclosure of Nature and Extent of Risk arising from Financial instruments

#### Key Risks

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

*Credit risk* – the possibility that other parties might fail to pay amounts due to the Council;

*Liquidity risk* – the possibility that the Council might not have funds available to meet its commitments to make payments;

*Re-financing risk* – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.

*Market risk* – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rate movements.

#### Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are set out through a legal framework in the *Local Government Act 2003* and the associated regulations. These require the Council to comply with the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Council to manage risk in the following ways:

By formally adopting the requirements of the Code of Practice;

By approving annually in advance prudential indicators for the following three years limiting:

The Council's overall borrowing;

Its maximum and minimum exposures to fixed and variable rates;

Its maximum and minimum exposures in 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 Council's annual Council Tax and budget setting meeting. 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 annually to Members.

#### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria set out in the Treasury Management Strategy.

## NOTES TO CORE FINANCIAL STATEMENTS

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default assessed by the ratings agencies and the Council's experience of its customer collection levels over the last five financial years, adjusted to reflect current market conditions.

	<b>Amount at 31 March 2008 £000 (a)</b>	<b>Historical experience of default (b)</b>	<b>Adjustment For market conditions at 31 March 2008 (c)</b>	<b>Estimated maximum exposure to default £000 (a*c)</b>
Deposits with banks & financial institutions -				
A-A+ rated counterparties	11,100	0%	0%	-
AA/ AA- rated counterparties	7,000	0%	0%	-
Non rated Building Societies	31,000	0%	0%	-
Other counterparties	-	0%	0%	-
Trade & statutory debtors	7,519	0%	0%	-
<b>TOTAL</b>	<b>56,619</b>	<b>0%</b>	<b>0%</b>	<b>-</b>

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.

The Council does not generally allow credit for its trade debtors, such that £0.664 million of the £2.2 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	<b>2006/07 £000</b>	<b>2007/08 £000</b>
Less than 3 months	997	56
More than 3 months, less than one year	346	383
More than 1 year	381	225
<b>TOTAL</b>	<b>1,724</b>	<b>664</b>

These figures do not include debt relating to Council Tax, NNDR or Council House rents as these are considered to be statutory debts.

### Liquidity risk

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to Councils (although it will not provide funding to a Council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act, 1992, which ensures sufficient monies are raised to cover annual expenditure. There is, therefore, no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.



## NOTES TO CORE FINANCIAL STATEMENTS

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 & investment strategy reports), as well as through cash flow management procedures required by the Code of Practice.

### Re-financing and Maturity risk

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 these financial instruments as they mature.

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

The maturity profile of the Council's investments at 31 March 2008 was –

	2006/07 £000	2007/08 £000
Less than 1 year	27,600	48,100
Between 1 and 2 years	2,000	1,000
<b>TOTAL</b>	<b>29,600</b>	<b>49,100</b>

The table excludes accrued interest which is due to be paid within 12 months. Trade debtors of £2.2 million which are due to be paid in less than one year are also not shown.

### Market risk

*Interest rate risk* – The Council is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

Investments at variable rates – the interest income credited to the Income & Expenditure Account will rise; and

Investments at fixed rates – the fair value of the assets will fall.

Changes in interest receivable or payable on variable rate instruments will be posted to the Income & Expenditure Account and affect the General Fund Balance.

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

## NOTES TO CORE FINANCIAL STATEMENTS

The treasury team monitors 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% above or below the actual position (with all other variables held constant) the financial effect would be:

	2006/07 £000	2007/08 £000
Impact on interest receivable on investments – with consequent change in Income & Expenditure Account outturn	311	457

These assumptions are based on the same methodology as used in the Note – Fair Value of Assets and Liabilities carried at amortised cost.

*Price risk* – The Council, excluding the pension fund, does not generally invest in instruments with this type of risk.

*Foreign exchange risk* – The Council has no financial assets or liabilities denominated in foreign currencies. It, therefore, has no exposure to loss arising from movements in exchange rates.



# **SUPPLEMENTARY FINANCIAL STATEMENTS**

**HOUSING REVENUE ACCOUNT FOR YEAR ENDING 31 MARCH**

2006/07 £000		NOTE	2007/08 £000
	<b>Income</b>		
16,560	Dwelling Rents		8,045
794	Non-dwelling Rents		385
476	Charges for service and facilities		241
91	Contribution towards expenditure		47
292	Other Income		135
<b>18,213</b>	<b>Total Income</b>		<b>8,853</b>
	<b>Expenditure</b>		
3,700	Repairs & Maintenance		3,274
5,267	Management & Supervision		2,263
87	Rents, rates, taxes and other charges		74
5,513	Housing subsidy payable	8	2,500
4,020	Depreciation and Impairment of fixed assets	7	6,559
70	Increased (decreased) provision for bad / doubtful debts	9	(15)
2	Other		-
18,659	<b>Total Expenditure</b>		14,655
<b>446</b>	<b>Net Cost of HRA Services</b>		<b>5,802</b>
(822)	Gains and losses on fixed assets		363,474
(288)	Interest and investment income		(328)
18	Pensions interest cost and expected return on pension assets		-
<b>(646)</b>	<b>(Surplus)/ Deficit for year on HRA service</b>		<b>368,948</b>

Statement on the Movement of the HRA Balance

(646)	<b>(Surplus) or Deficit for year</b>		368,948
	<b>Amounts not included in the HRA Income &amp; Expenditure account but required by statute to be included when determining the movement on the HRA balance for the year</b>		
(4,020)	Depreciation and Impairment of fixed assets	7	(6,559)
822	Gain or loss on sale of HRA fixed assets		(363,474)
(295)	Net charges made for retirement benefits		(123)
3,320	Transfers to Major Repairs Reserve		1,531
287	Employers pension fund contributions		153
<b>(532)</b>	<b>Decrease /(Increase) in the HRA Balance</b>		<b>476</b>
(1,199)	HRA surplus brought forward		(1,731)
<b>(1,731)</b>	<b>HRA surplus carried forward</b>		<b>(1,255)</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

- The Housing Revenue account fulfils a statutory obligation to account separately for local authority housing provision, as defined in Schedule 4 of the Local Government and Housing Act 1989. It shows the major elements of expenditure such as repairs and maintenance to dwellings, administration and depreciation costs and how these have been financed by rents and other income.

Watford Borough Council completed the transfer of Housing stock to Watford Community Housing Trust (WCHT) on 10th September 2007. The transfer involved assets valued at £389 million at existing use value, being transferred to the new Registered Social Landlord provider. However due to different valuation criteria for stock transfers a gross amount of only £25.9 million was received by the Council.

All remaining property of a Housing nature was appropriated to the General Fund on 31 March 2008, having obtained approval under Section 74(3) of the Local Government Act 1989.

In this year's Accounts the value of Council Dwellings has been removed as at the 31 March 2008. For the majority of the stock the 2007/08 accounts show income and expenditure to 10<sup>th</sup> September 2007.

Although it will be necessary to continue to keep open a Housing Revenue Account for 2008/09 there will be few transactions and approval will be requested from the Secretary of State to formally close the Housing Revenue Account at the end of the 2008/09 year.

- STOCK INFORMATION**

The following summarises the number of properties held by the HRA:-

	2006/07 numbers	2007/08 numbers
<b>Flats</b>		
One bedroom	1,188	-
Two bedrooms	706	-
Three or more bedrooms	19	-
	<b>1,913</b>	-
<b>Houses and Bungalows</b>		
One bedroom	116	-
Two bedrooms	538	-
Three bedrooms	2,057	-
Four or more bedrooms	140	-
	<b>2,851</b>	-
<b>Hostels</b>		
Number of bed spaces	174	-
Full dwelling equivalent	<b>59</b>	-
<b>Shared Ownership</b>		
Full dwelling equivalent	<b>36</b>	-
<b>Total</b>	<b>4,859</b>	-

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 3. STOCK VALUATION

The total number of dwellings in the Council's housing stock as at 1 April 2007 was 4,859 of which 1,913 were flats and 2,851 were houses and bungalows. During 2007/08, the transfer of the Council's Housing Stock saw 4,788 properties including shared ownership properties, transfer to Watford Community Housing Trust. In addition, prior to transfer 2 were sold under RTB Regulations and the remaining 69 dwellings were transferred to the General Fund.

The net book value of the assets held by the HRA is shown below. These amounts are included in the net book value shown on the Balance Sheet.

	1 April 2007 £000	31 March 2008 £000
<b>Operational Assets</b>		
Housing Stock	386,945	-
Other land & Buildings	7,357	-
<b>Non-Operational Assets</b> (including investment property)	4,570	-
<b>Balance at 31 March</b>	<b>398,872</b>	<b>-</b>

The above analysis includes all property which is used by the housing services, and where income and expenditure is transacted in the HRA for the asset. The numbers do include some assets which have been purchased under general fund powers rather than Housing powers

### 4. MAJOR REPAIRS RESERVE

The account is credited with the depreciation charged to the HRA each year, with an adjustment to ensure the net credit to the account equals the Major Repairs Allowance which forms part of Housing Revenue Subsidy. The account itself can only be used to finance any major repairs carried out on the housing stock and to finance any transitional negative subsidy transfer. Any sums remaining can be carried forward for future years. Movements in the year are as follows:-

	2006/07 £000	2007/08 £000
Balance as at 1 April	(992)	(1,038)
Depreciation	(4,020)	(1,531)
Adjustment transfer to the HRA	700	-
Funding of capital expenditure	3,274	2,569
<b>Balance as at 31 March</b>	<b>(1,038)</b>	<b>-</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 5. CAPITAL EXPENDITURE

Capital expenditure on Housing Revenue Account properties amounted to £3.657million in the year, mainly on improvements to the existing stock. Details of the expenditure can be found on pages 68-69. The expenditure was funded as follows:-

	2006/07 £000	2007/08 £000
Major Repairs Reserve	3,274	2,569
Useable Capital receipts	1,024	1,088
<b>TOTAL</b>	<b>4,298</b>	<b>3,657</b>

### 6. CAPITAL RECEIPTS

Housing Assets: During the year the following disposals took place:-

	2006/07 £000	2007/08 £000
Houses and flats (after pooling)	897	103
Shared ownership	23	90
School Mead	662	-
<b>TOTAL</b>	<b>1,582</b>	<b>193</b>

### 7. DEPRECIATION & IMPAIRMENT

The charge for depreciation made to the Housing Revenue Account in the year is equal to the Major Repairs Allowance, which represents a measure of the 'wearing out' of the HRA's operational assets during the year. The depreciation is credited to the Major Repairs Reserve which is used to finance HRA capital expenditure. In addition to depreciation a charge is made for impairment cost of dwellings being the difference in the value of the property to the value at the point of transfer to Watford Community Housing Trust. The total depreciation and impairment costs charged to the HRA were as follows :

	2006/07 £000	2007/08 £000
Dwellings	3,898	6,513
Other land and buildings	88	46
Computer and other equipment	34	-
<b>TOTAL</b>	<b>4,020</b>	<b>6,559</b>

Non-operational property was not depreciated, in accordance with Council policy.

### 8. HOUSING SUBSIDY

The calculation of the HRA Subsidy for the year, in line with the statutory subsidy determinations is set out below. As a result of the Local Government Act 2003, the abolition of the HRA set aside, and from 1 April 2004 responsibility for administration of rent rebates has been transferred to the General Fund. Expenditure and subsidy for Rent rebates is now accounted for in the General Fund. The following table shows the amount of 'negative' subsidy payable to the government :

**NOTES TO THE HOUSING REVENUE ACCOUNT**

	2006/07 £000	2007/08 £000
<b>Notional Expenditure</b>		
Allowance for management and maintenance	7,734	3,664
Rental Constraint Allowance	261	384
Major Repairs Allowance	3,320	1,531
Capital Charges	-	36
<b>Total</b>	<b>11,315</b>	<b>5,615</b>
<b>Notional Income</b>		
Guideline rent income	16,821	8,125
Interest on receipts	14	-
<b>Total</b>	<b>16,835</b>	<b>8,125</b>
<b>HOUSING ELEMENT</b>	<b>5,520</b>	<b>2,510</b>
Prior Year Adjustment	(7)	(10)
<b>NET NEGATIVE SUBSIDY</b>	<b>5,513</b>	<b>2,500</b>

**9. RENT ARREARS**

As part of the transfer of the Council's housing stock, WCHT agreed to purchase current tenant arrears at a rate of 30% of their value as at the date of transfer. This is due to be paid to the Council in instalments. This resulted in the balance of current arrears being written off. The remaining balance of the rent arrears at 31<sup>st</sup> March 2008 as shown below relates to former tenants arrears which have been fully provided for with a bad debts provision

	2006/07 £000	2007/08 £000
Arrears at 31 <sup>st</sup> March	501	103
Credit Balances	-	(16)
<b>Net Arrears</b>	<b>501</b>	<b>87</b>
Provision for Bad Debts	(385)	(87)
<b>Net Arrears</b>	<b>116</b>	<b>-</b>



## NOTES TO THE HOUSING REVENUE ACCOUNT

### 10. HRA PENSION CONTRIBUTION

The Housing Revenue Account has accounted for employer's pension costs in accordance with FRS 17 to the extent that the net cost of service includes the sum of £153,000 which was the current service cost of employees provided by the Council's actuarial report. The amount to be funded by the HRA is the actual employer's contribution to the Pension Fund required to meet the liability of the HRA to support the defined benefits of the pension scheme. Due to the Pension Fund being currently underfunded this sum is £123,000. It is therefore necessary to increase the rent-borne cost for pensions in the HRA by £30,000. This treatment ensures that the current cost is used to monitor performance and the cost of current service, but that the full costs of pension due to be met from the HRA are ultimately funded.

Employees that transferred to WCHT who were members of the pension scheme remain in the scheme as WCHT were granted admitted body status. To ensure that the appropriate costs for the transferring staff were accounted for, the actuary undertook a calculation to assess the net funding position for the relevant staff. This resulted in a one-off payment as part of the transfer negotiations of £1.282 million to the pension fund, to eliminate any ongoing costs to the Council in relation to the pension arrangements as a result of transfer.

**COLLECTION FUND FOR THE YEAR ENDED 31<sup>ST</sup> MARCH**

**INTRODUCTION**

This account reflects the statutory requirement for the Council, as the billing authority, to maintain a separate Collection Fund, which shows transactions in relation to Non-Domestic Rates and Council Tax and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund is kept separate from the Income and Expenditure Account although it forms part of the Balance Sheet the balance is split between Watford's proportion (fund balance) and the precepting authorities (creditors) on the Balance Sheet.

<b>Restated 2006/07 £000</b>		<b>2007/08 £000</b>
	<b>Income</b>	
37,703	Council Tax – <b>Note 2</b>	39,743
4,861	Transfers from General Fund – Council Tax Benefits	5,076
54,977	Collectable from Business Ratepayers – <b>Note 1</b>	57,048
-	Movements in Provisions for Bad or Doubtful Debts – NNDR	190
12	Council Tax	-
97,553	<b>Total Income</b>	102,057
	<b>Expenditure</b>	
41,772	Precepts & Demands – <b>Note 4</b>	44,031
54,063	Business Rates – Payments to National Pool – <b>Note 1</b>	56,860
176	Cost of collection	179
323	Write-offs – Council Tax	295
432	NNDR	199
-	Movements in Provisions for Bad or Doubtful Debts – Council Tax	23
306	NNDR	-
1,101	Distribution of previous years' Collection Fund estimated surplus- <b>Note 3</b>	504
98,173	<b>Total Expenditure</b>	102,091
(620)	<b>Increase/ (Decrease) in Fund</b>	(34)
1,239	Balance of Fund at beginning of year	619
<b>619</b>	<b>Balance of Fund at 31 March</b>	<b>585</b>

## NOTES TO COLLECTION FUND

### NOTES TO THE COLLECTION FUND

#### 1. NON-DOMESTIC RATES

Non-Domestic Rates (NDR) are organised on a national basis. In line with the Local Government Act 2003, from 1 April 2005, the Government specifies two amounts, the small business non-domestic rating multiplier, for those that qualify for small business rate relief, and the non domestic rating multiplier which includes a supplement to pay for small business rate relief. The Valuation Office total Rateable Value for Watford as at 31 March 2008 was £147,215,600. The small business non-domestic rating multiplier for 2007/08 was 44.1p (42.6p in 2006/07), and the non-domestic rating multiplier was 44.4p (43.3p in 2006/07). Subject to the effects of transitional arrangements, local businesses pay business rates by multiplying their rateable value by the relevant multiplier. The Council is responsible for collecting amounts due from the business ratepayers in its area but pays the proceeds into a national NDR Pool administered by the Government.

The Government then redistributes the sums paid into the NDR Pool back to local authorities on the basis of a fixed amount per head of population.

Watford Borough Council is a net payer to the government, collecting £57.0 million in NDR and receiving £6.7million.

#### 2. COUNCIL TAX BASE

Council tax income derives from charges raised according to the value of residential properties which are classified into eight bands based on 1 April 1991 valuations for this specific purpose. Individual charges are calculated by estimating the amount of income required from the Collection Fund to meet the demands of the Council, Hertfordshire County Council and Hertfordshire Police Authority and dividing this by the Council Tax Base.

The Council Tax Base for 2007/08 of 31,883 is the total number of properties in each band adjusted by a proportion to convert the numbers to a Band D equivalent and it represents the amount raised for each £1 of Council Tax levied.

The table overleaf sets out the calculation for the Tax Base:

**NOTES TO COLLECTION FUND**

Valuation Band	Total Dwellings in Band	Total Discounts and Exemptions	Total Chargeable Dwellings	Conversion factor to Band D	Equivalent Number of Band D Dwellings
<b>A – Disabled Relief</b>		+1.00	1.00	5/9	0.6
<b>A</b>	295	-66.25	228.75	6/9	152.5
<b>B</b>	3,582	-633.00	2,949.00	7/9	2,293.7
<b>C</b>	12,496	-1,544.75	10,951.25	8/9	9,734.4
<b>D</b>	11,298	-1,045.25	10,252.75	1	10,252.8
<b>E</b>	3,364	-230.50	3,133.50	11/9	3,829.8
<b>F</b>	2,034	-156.50	1,877.50	13/9	2,711.9
<b>G</b>	1,778	-107.25	1,670.75	15/9	2,784.6
<b>H</b>	72	-10.50	61.50	2	123.0
<b>Total</b>	<b>34,919</b>	<b>-3,793.00</b>	<b>31,126</b>		<b>31,883.3</b>

**3. COLLECTION FUND SURPLUS/DEFICIT**

Surpluses and deficits on the Collection Fund are distributed/charged in the subsequent year. Surpluses/deficits in respect of council tax are shared with/charged to major precepting authorities in proportion to the precepts levied.

The accumulated surplus at 31<sup>st</sup> March 2008 amounted to £0.585 million and will be available for distribution in 2008/09.

	WATFORD BOROUGH COUNCIL SHARE £000	HERTFORDSHIRE COUNTY COUNCIL SHARE £000	HERTFORDSHIRE POLICE AUTHORITY SHARE £000	TOTAL £000
Balance at 1 April 2007	110	452	57	619
Decrease in the year	(8)	(23)	(3)	(34)
<b>Balance at 31 March 2008</b>	<b>102</b>	<b>429</b>	<b>54</b>	<b>585</b>

## NOTES TO COLLECTION FUND

### 4. PRECEPT/DEMANDS ON THE FUND

The breakdown of the precepts on the Collection Fund by Watford Borough Council, Hertfordshire County Council and Hertfordshire Police Authority is as follows :

	2006/07 £000	2007/08 £000
Hertfordshire County Council	30,530	32,312
Hertfordshire Police	3,843	4,067
Watford Borough Council	7,399	7,652
<b>TOTAL</b>	<b>41,772</b>	<b>44,031</b>





# **GLOSSARY OF FINANCIAL TERMS**

## GLOSSARY OF TERMS

### **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.

### **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 Adjustment Account**

A reserve that reflects financing of capital from revenue and capital receipts together with the adjustment of the minimum revenue provision.

### **Capital Receipts**

The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay any outstanding debt on fixed 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.

### **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.

### **Deferred Charges**

Expenditure of a capital nature for which there is no tangible asset acquired by the Council. This would include capital grants or contributions to improvement works for joint use with other parties.

### **Deferred Credits**

This is the term applied to deferred capital receipts. These transactions arise when fixed assets are sold and the amounts owed by the purchasers are repaid over a number of years, e.g. mortgages. The balance is reduced by the amount repayable in any financial year.

### **Deferred Grants**

Amounts received or receivable which have been used to finance capital expenditure within the year. Under the capital accounting arrangements these amounts will be written off over the same period as the assets to which they relate.



## GLOSSARY OF TERMS

**Depreciation**

The measure of the wearing out, consumption or other reduction in the useful life of a fixed asset.

**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 fixed assets on the balance sheet.

**Financial Reporting Standard (FRS)**

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

**Fixed 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.

**Fixed Assets – Intangible**

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

**GAAP**

Generally Accepted Accounting Practice

**Group Accounts**

Group Accounts are prepared using consistent accounting policies which will require authorities to align their financial statements more closely with UK GAAP.

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.

**Housing Subsidy**

A Government grant payable towards the cost of providing Local Authority housing and the management and maintenance of that housing.

**Investments**

Deposits for less than one year 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 Debtors**

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

## GLOSSARY OF TERMS

### **National Non-Domestic Rate (NNDR)**

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

### **Non operational Assets**

Fixed assets held by an organisation but not directly occupied, used or consumed in the delivery of services. An example of a non operational asset is an investment property or an asset being held pending its sale.

### **Operational Asset**

Fixed assets held by the Council and used or consumed in the delivery of its services.

### **Operational 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.

### **Pooling of Housing Capital Receipts**

Pooling is the term given to the requirement to pay to the Government a proportion of certain types of capital receipt. From 1st April 2004 Right To Buy receipts are subject to a payment into a government pool at the rate of 75%. Costs associated with improvement to the property expended over the past three years are deductible from the cash receipt before the pooling percentage is applied.

### **Precept**

The amount by which a Precepting Authority (i.e County Council) requires from a Charging Authority (district council) to meet its expenditure requirements.

### **Profit on the sale of Fixed Assets**

This is a recent accounting requirement for Local Government, and requires the book value of the asset sold to be 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 Support Grant**

This funding is the 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.

### **Statement of Standard Accounting Practice (SSAP)**

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



# AUDIT CERTIFICATE

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The audit certificate will be completed and signed before the 30<sup>th</sup> September 2008 statutory deadline

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