



**UNAUDITED STATEMENT OF  
ACCOUNTS**

**2008/09  
AUDIT COMMITTEE  
30 JUNE 2009**

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# **INTRODUCTION AND EXPLANATORY FOREWORD**

## INTRODUCTION

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31<sup>st</sup> March 2009.

The Statement of Accounts is a statutory document providing information on the cost of services provided by Watford Borough Council to the council tax payer detailing how those services were financed. In addition it provides information, within the Balance Sheet on pages 42-43 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 form shown on pages 12 and 13 and there is a Glossary of accounting terms shown on pages 102 to 106. 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 Nigel Kennedy on 01923 278067, or email [Nigel.kennedy@Watford.gov.uk](mailto:Nigel.kennedy@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.

Bernard Clarke CPFA  
Head of Strategic 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 responsibility for the administration of those affairs. In this authority, that officer is the Head of Strategic Finance
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts.

### The Head of Strategic Finance's Responsibilities

The Head of Strategic 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* (the SORP).

In preparing this Statement of Accounts, the Head of Strategic Finance has:

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

The Head of Strategic Finance has also:

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

The Statement of Accounts as set out on pages 2 to 116 presents fairly the financial position of Watford Borough Council as at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.

Signed .....

Bernard Clarke CPFA  
Head of Strategic Finance

Date .....

Signed .....

Ian Brown  
Chair – Audit Committee

Date .....

## 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 102 to 106.

During the compilation of the 2008/09 Accounts a small number of presentational adjustments to the 2007/08 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. In addition it has been necessary to adjust the balances on the pension fund to remove an overstatement of the liabilities. A separate note has been included in the accounting statement on this Prior Year Adjustment which was due to the Hertfordshire County Council's actuary advisors double counting liabilities as at 31 March 2008.

### 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 2008/09 amounted to £23 million. After reversing items which have no impact on the Council Tax, the net surplus was £359,000 after transferring £0.285 million 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.

#### 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 £7.080 million. 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 £359,000 after transfers to reserves of £0.285 million. The General Fund balance was £1.696 million as at 31<sup>st</sup> March 2009.

## EXPLANATORY FOREWORD

### **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 £3.534 million, which includes the gains on revaluation of assets, losses recognised on the pension fund, and the deficit on the Income & Expenditure Account.

### **e) Balance Sheet**

This shows all the assets and liabilities of the Council as at 31<sup>st</sup> March 2009. The balance sheet total is £155.962 million which represents the net worth of the Council at that date.

The Fixed Assets had a net book value of £154.54 million at 31<sup>st</sup> March 2009, an increase of £17.405 million mainly arising from increased investment and revaluation of Fixed Assets.

### **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 a decrease of cash balances of £628K.

### **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 relate to items in existence prior to the transfer of the Council's Housing Stock on 10<sup>th</sup> September 2007. The deficit for the period is £22,000.

The accumulated reserve on the Housing Revenue Account decreased from £1.255 million to £1.233 million as at 31<sup>st</sup> March 2009. It is anticipated that the remaining balance will be transferred to the General Fund at the end of the 2009/10 year, following the necessary approval from the Secretary of State to formally close the HRA.

### **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 tax payers in 2008/09 amounted to £47.501 million.

In addition, the Collection Fund also shows the income collected from non-domestic rate (NNDR) payers in Watford, which is then passed to the Government after a deduction for the cost of collection. The total net income from NNDR payers in 2008/09 amounted to £61.950 million.

The surplus for the year on the Collection Fund was £0.552 million, and the final balance a surplus of £0.895 million. Watford Borough Council's proportion of the surplus is shown on the Balance Sheet.



## EXPLANATORY FOREWORD

### 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 £39.754 million shortfall as calculated at 31<sup>st</sup> March 2009. While the figure is substantial, it should be remembered that:

- The deficit was increased by £16.375 million during 2008/09
- 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 73 to 78 of these statements.

### 4. CAPITAL

Capital expenditure during 2008/09 amounted to £8.323 million. No new material asset was acquired although major works were ongoing on redevelopment of the Council's two main leisure facilities.

### 5. CURRENT BORROWING

At the Council meeting held on 24 January 2008, 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 2009/10.

### 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. Occasional use of revenue funds may be made.

### 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 summary below shows the resources that have been generated and consumed by the Council in providing and managing services 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 £359,000. This increased the General Fund balance to £1.696 million as at 31<sup>st</sup> March 2009. Notable variations to budget included:

- An increase in the amount set aside for pension strain of £613,000 due to a Council decision to the early repayment of pension strain owed to the County Council in respect of pension liabilities in relation to early retirements, that was previously being paid over a number of years
- The capitalisation of Housing stock transfer costs previously charged to 2007/08 income and expenditure account

## EXPLANATORY FOREWORD

- An additional contribution to the Housing Benefit provision for subsidy loss as opposed to a budgeted reduction in the provision of £200,000 i.e an increase of £400,000
- Reduced national insurance and pension costs in the order of £805,000 partially offset by increases in agency and consultancy fees due to budgeting at full establishment
- Property works to the value of approximately £500,000 were capitalised.
- Shared service implementation costs of approximately £322,000 not budgeted for following a decision to charge to earmarked reserves

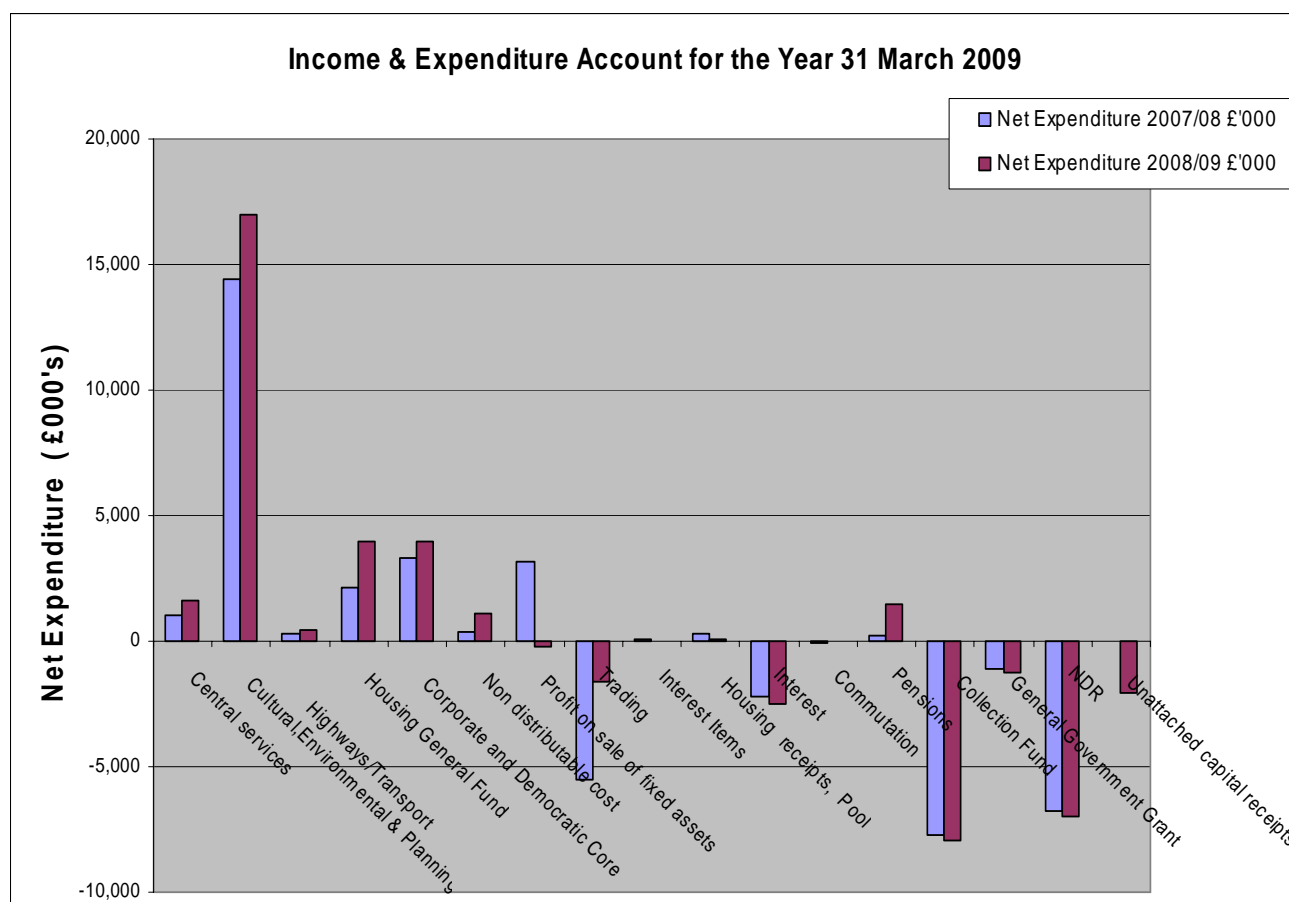
This enabled the transfer of £0.285 million to earmarked reserves for future spending requirements. More details of the transfers to reserves are set out on pages 84 and 85.

**EXPLANATORY FOREWORD**

	Net Expenditure		
	Original Budget £'000	Actual £'000	Over / (Under) £'000
<b>SERVICE</b>			
Central Services to the Public	1,552	1,608	56
Cultural, Environmental & Planning Services	15,943	17,001	1,058
Highways, Roads & Transport Services	803	414	(389)
Other Housing Services	2,887	3,931	1,044
Corporate and Democratic Core	4,137	3,966	(171)
Non-distributed Costs	299	1,254	955
Exceptional Items	0	0	0
<b>Net Cost of Services</b>	<b>25,621</b>	<b>28,174</b>	<b>2,553</b>
(Gains)/losses on sale of fixed assets	0	(241)	(241)
Unattached capital receipts	0	(2,076)	(2,076)
(Surplus)/deficit on trading accounts	(5,478)	(1,600)	3,878
Interest payable and similar charges	0	6	6
Contribution to Housing Pooled receipts	0	71	71
Interest and investment income	(2,246)	(2,456)	(210)
Commutation of improvement grants	(22)	(22)	0
Pension interest cost & expected return	544	1,453	909
<b>Net Operating Expenditure</b>	<b>18,419</b>	<b>23,309</b>	<b>4,890</b>
<b>Less: Funding</b>			
Council Tax	7,952	7,952	0
General Government Grant	977	1,284	307
Non-Domestic Rate Redistributed	7,015	7,015	0
	<b>15,944</b>	<b>16,251</b>	<b>307</b>
<b>(Surplus)/Deficit for the Year</b>	<b>2,475</b>	<b>7,058</b>	<b>4,583</b>
Less: amounts required by statute to be excluded from the General Fund Balance	(2,475)	(11,759)	(9,284)
Add: amounts required by statute to be included in the General Fund Balance	0	4,057	4,057
Transfers to/(from) reserves	0	285	285
<b>(Increase)/Decrease in General Fund Balance in the Year</b>	<b>0</b>	<b>(359)</b>	<b>(359)</b>
General Fund Balance at 1st April 2008	(1,337)	(1,337)	0
General Fund Balance at 31st March 2009	<b>(1,337)</b>	<b>(1,696)</b>	<b>(359)</b>

## EXPLANATORY FOREWORD

A comparison of Net Expenditure for 2007/08 and 2008/09 is shown below in graphical form:



### 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 95 – 96.

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 2009.

At the beginning of the year the Council held an HRA balance of £1.255 million. The outcome for 2008/09 was a net deficit of £22,000, resulting in a balance of £1.233 million as at 31 March 2009.

Analysis of Income and expenditure is shown on page 39.

## EXPLANATORY FOREWORD

### Capital

The Council's capital expenditure consists of the General Fund Programme. Estimated expenditure was £9.357 million. Actual expenditure in the year was £8.323 million, mainly due to slippage. Further details are found on pages 89 to 92 with notable variations including:

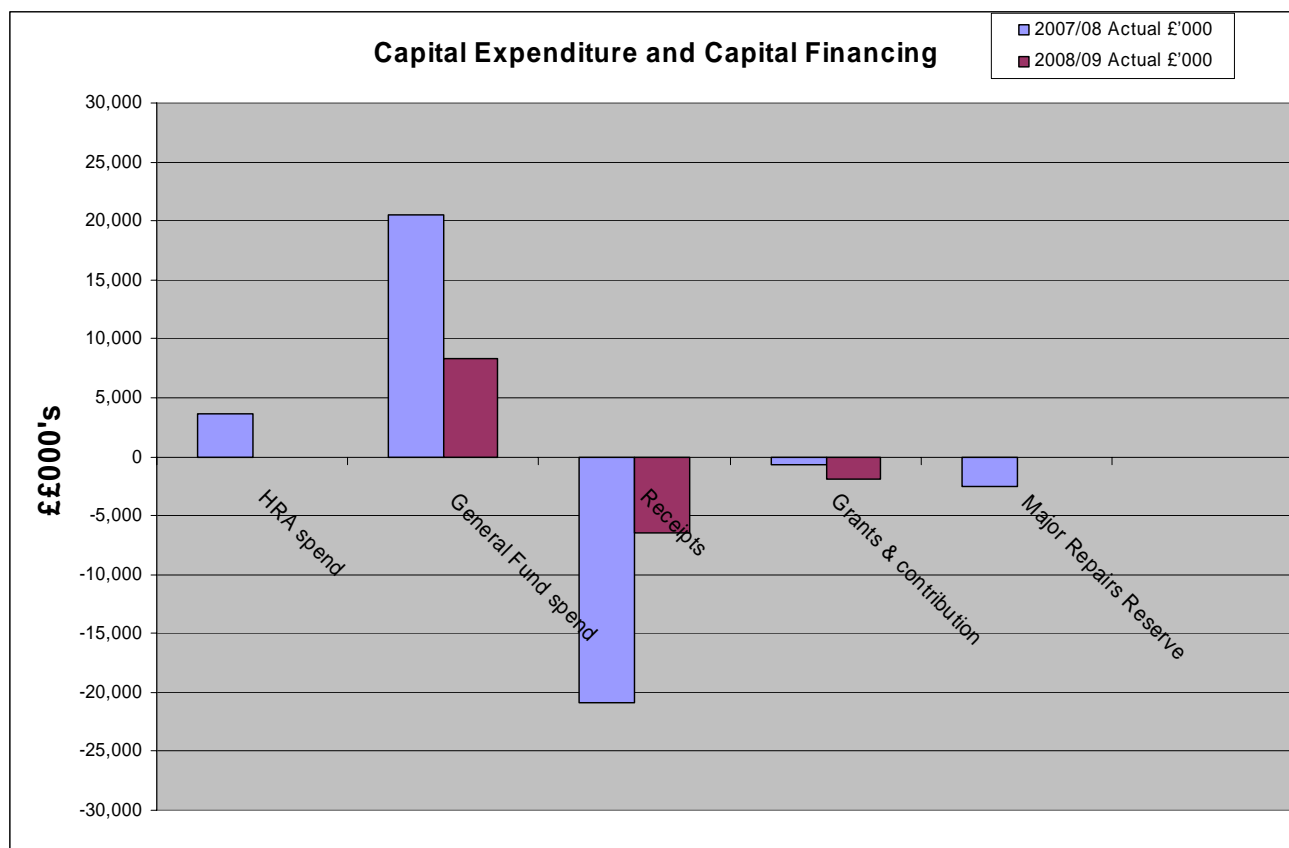
#### Adverse variances

- £338k adverse variance on the Leisure Centre budget due to a reprofiling of spend
- Development consultancy fees of £118k for Charter Place have been capitalised
- Additional expenditure in respect of prior year adjustment for the capitalisation of housing stock transfer costs previously charged to revenue of £436k.

#### Favourable variances

- £106k underspend on Disabled Facility Grants
- £225k underspend on empty property Compulsory Purchase Orders
- Slippage on Woodside all weather pitch works £291k
- Slippage on refurbishment works to Town Hall and Colosseum £216k
- Slippage on Charter place and Town centre CCTV installation £161k
- Slippage on Section 106 funded schemes in relation to parks and open spaces £462k

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



## EXPLANATORY FOREWORD

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

#### **The Statement of Recommended Practice (SORP)**

There have been technical changes to the accounting requirements contained within the SORP which have affected the content and presentation of the Statement of Accounts. The majority of these changes were minor, the key changes being the recognition of finance leases and the replacement of Deferred Charges with Revenue Expenditure Funded Under Capital by Statute.

#### **Ongoing impact of the Transfer of Council Housing Stock**

There are two important consequences of the Housing Stock Transfer which have affected the Statement of Accounts, and will have a continuing effect in future years.

Firstly, under the VAT shelter agreement with Watford Community Housing Trust (WCHT), a capital receipt of £1,050,000 has been received in the year. This has resulted in increased capital resources and therefore future capital spending abilities. Similar receipts, which could amount to £8.5 million over the next 8 years, are expected but the timing and amounts are at present uncertain.

Secondly, a further £1,026,000 has been received under the preserved Right To Buy. These receipts relate to former Council Housing Stock subsequently sold by WCHT. These receipts will also continue to accrue but will be dependent on the uptake of property purchases by former Council housing tenants.

#### **Major Capital Investment**

Major new construction work was in progress during the year on new leisure facilities. A total of £4.583 million was expended on construction during the year. The facilities were completed during 2008/09 and assets have been reclassified as operational assets as at 31 March 2009. The total book value of operational land and buildings amounts to £21.65 million, representing major new operational assets for the community.

#### **Impact of the 'Credit Crunch'**

The Council has experienced significant impact from the major economic downturn. For the first time, major downward adjustments (impairments) have been made to assets values. Whilst the regular revaluation of assets on 1 April 2008 resulted in an overall increase in asset values, a further review as at 31 March 2009 identified a total impairment of assets amounting to £8.662 million.

The Pension Fund has also been affected by the credit crunch and the fall in the value of investments held by the fund. Watford's deficiency is reported in the final accounts at £39.753 million as at the 31 March 2009, and was stated at £23.379 million as at 1 April 2008, representing a £16.374 million adverse movement during the year.

### 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.

## EXPLANATORY FOREWORD

An analysis of revenue and capital spend has been provided of the budget compared to actual for 2008/09 with an explanation of significant budget variances provided. In addition comparisons of the overall spend and resources have been provided against the previous financial year 2007/08.

There have been key changes in the year, most significantly the ongoing impact of the transfer of housing stock and the effect of the downturn in the economic climate reducing asset values, with its consequences on the pension fund deficiency of Watford Borough Council.



# **STATEMENT OF ACCOUNTING POLICIES**



## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2008 – A Statement of Recommended Practice (SORP)*, published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Any departures from the SORP are noted within the relevant notes to the statements. The SORP 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.

Accounting Policies are defined in *FRS18 Accounting Policies* as those principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are reflected in the financial statements. These include estimation techniques that have been used in applying the policies.

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 Policy 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, Contingent Liabilities and Contingent Assets

Under the requirements of *FRS12 Provisions, Contingent Liabilities and Contingent Assets*, provisions are made for any liabilities of uncertain timing or amount that have been identified. 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 recognised only when:

- the Council has a present obligation (legal or constructive) as a result of a past event,
- it is probable that a transfer of economic benefits will be made to settle the obligation, and
- a reliable estimate can be made of the amount of the obligation.

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.

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

Contingent liabilities and contingent assets are not recognised as liabilities or assets. However, a contingent liability will be disclosed if the possibility of an outflow of economic benefit to settle an obligation is more than remote and a contingent asset will be disclosed if an inflow of economic benefit is probable (See Note 34, pages 78 & 79).

### 4. Bad Debt Provisions

Bad debt provisions are calculated as a percentage of outstanding debt as follows:

General Fund – Sundry Debtors		Collection Fund – Council Tax & NNDR	
Age of Debt	Provision	Year debt raised	Provision
<1 month	0%	2007/08 – 2008/09	25%
1 – 3 months	10%	2006/07	50%
3 – 6 months	25%	2002/03 – 2005/06	75%
6 – 12 months	75%	Prior to 1 <sup>st</sup> April 2002	100%
>1 year	95%		

For sundry debtors, in individual circumstances, a 100% provision may be made where additional information is known about the debtor and the probability of recovering the debt.

Housing Benefit Overpayments are provided for at 90% of total debt outstanding as at 31<sup>st</sup> March 2009.

## STATEMENT OF ACCOUNTING POLICIES

### 5. 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.

The following reserves are maintained to manage specific accounting requirements and do not represent usable resources for the Council and are explained in the notes to the appropriate financial statement:

- Fixed Asset Reserves (Revaluation Reserve & Capital Adjustment Account) (See Note 35 pages 80 & 81).
- Pension Reserve (See Note 32, page 75).
- Financial Instrument Reserves (Financial Instruments Adjustment Account) (See Note 35, page 82).

### 6. 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.

### 7. Retirement Benefits

The financial information provided in the Statement of Accounts in respect of retirement benefits is made 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.

Watford Borough Council participates in the Local Government Pension Scheme, administered by Hertfordshire County Council.

#### **The Local Government Pension Scheme**

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

- Liabilities 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. Liabilities are discounted to their current value at a rate of 6.9% as at 31<sup>st</sup> March 2009. The rate as at 31<sup>st</sup> March 2008 was 6.9%, and the impact is negligible on liabilities.

## STATEMENT OF ACCOUNTING POLICIES

- Assets within the scheme attributable to the Council are included in the Balance Sheet at their fair value as at the Balance Sheet date on the following bases:
  - quoted securities – Bid Value
  - Bonds – Bid value
  - Property – Bid value

These assets were reported as at the 31 March 2009 at bid value while at the 31 March 2008 they were stated at mid market value. However, The Pension fund have confirmed that on the grounds of materiality figures from the previous accounting periods do not need to be restated.
- The change in the net pensions liability is analysed into a number of components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year – included in the I&E Account to the revenue accounts for services for which the employees worked
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the I&E Account as part of Non Distributed Costs
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the I&E Account
  - Expected return on assets – the annual investment return on the fund assets based on long term expectations at the beginning of the period – credited to Net Operating Expenditure in the I&E Account
  - Gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited to the Net Cost of Services in the I&E Account as part of Non Distributed Costs
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the STRGL
  - Contributions paid to the fund – cash paid to the fund as employer's contributions

The 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. The requirement to recognise the net pensions liability in the Balance Sheet has reduced the reported net worth of the Council by 20.28% (2007/08 12.98%)

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.

### 8. VAT

Value Added Tax (VAT) 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.

## STATEMENT OF ACCOUNTING POLICIES

### 9. 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 2008. 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.

### 10. Fixed Assets

#### i) **Categorisation**

Fixed Assets are categorised into two classes:

##### Intangible Assets

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

##### Tangible Fixed Assets

- Operational Assets: assets held and occupied for the direct delivery of services or administrative purposes on a continuing basis, including infrastructure and community assets.
- Non-Operational Assets: assets held but not directly occupied or used in the delivery of services, including assets held primarily for investment purposes, surplus assets awaiting disposal and land and buildings in the course of development but not yet completed (assets under construction).

#### j) **Recognition**

Expenditure on the acquisition, creation or enhancement of fixed assets (i.e. which adds to, and not merely maintains, the performance of the assets) is capitalised on an accruals basis provided that it yields benefits to the Council and services it provides for a period of more than one year. Expenditure that secures but does not extend the performance of the asset (e.g. repairs and maintenance) is charged to the I&E Account in the year that it is incurred.

#### k) **De-minimus**

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

#### l) **Measurement**

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

## STATEMENT OF ACCOUNTING POLICIES

- Intangible assets – purchase cost, net of amortisation to revenue over the economic life of the investment.
- Operational land and buildings – 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, vehicles, plant & equipment – historical cost.
- Non-Operational assets – open market value.

### m) Revaluation

The Council's policy is to undertake a complete valuation of all assets over a five year period, with approximately 20% of assets re-valued each year. However, Operational Land and buildings have been subject to an annual revaluation of approximately 62% of assets. In view of the economic down turn in the economy and its affect on property prices the valuation has been extended to this higher percentage rather than the normal 20%, so the revalued sum of £17.57 million appears in this statement, rather than the Asset value as at 1st April 2008 of £21.160 million and the figures are different to the 31st March 2009 valuation in light of the impairment review .

Non-operational assets have also been subject to an annual revaluation of approximately 58% of assets, including the major assets. Although the assets revalued represents 58% of the portfolio it includes the major assets, there is a large number of smaller assets such as access licences and bowls pavilions etc which have low capital values. The revalued sum of £123.929 million appears in this statement, rather than the Asset value as at 1<sup>st</sup> April 2008 of £ £125.320 million and the figures are different to the 31<sup>st</sup> March 2009 valuation in light of the impairment review .

The valuation of assets ensures that current values are provided as well as identifying signs of impairment and recognising increases in asset values, thus avoiding unacceptable differences between the Balance Sheet and current value.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the I&E Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

### n) Depreciation

In accordance with *FRS15 Tangible Fixed Assets* and CIPFA's *Consolidated Guidance Note on Capital Accounting by Local Authorities*, together with its *Best Value Accounting Code of Practice*, the Council has established a detailed policy on the principles it has adopted with regard to the calculation of asset lives and depreciation on its assets as follows.

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 assets in the year of acquisition (except with regard to finance leases)
- Community assets held in perpetuity

Assets depreciated include:

- Buildings & Infrastructure assets – on a straight line basis over the remainder of economic useful life
- Vehicles, plant and equipment – at 25% on a reducing balance basis
- Finance leases as appropriate to each leased asset

## STATEMENT OF ACCOUNTING POLICIES

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

### **o) Amortisation of Intangible Assets**

Intangible assets are amortised to the revenue account over their useful life, in accordance with *FRS10 Goodwill and Intangible Assets*, reflecting their consumption of benefit to the service.

### **p) Impairment**

Assets are reviewed for impairment in accordance with the requirement of the SORP and any material effects reflected in the Balance Sheet valuation of Fixed Assets.

Where an impairment loss is caused by a clear consumption of economic benefits (e.g. physical damage or deterioration in the quality of the service provided by the asset), the loss is charged to the relevant service revenue account. In other instances, the loss is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the Capital Adjustment Account.

As at the 31 March 2009 a review was undertaken for impairment and there were assets which have been adversely affected by market conditions and the other criteria embodied in *FRS11 Impairment of Fixed Assets and Goodwill*. In addition, an impairment review has been undertaken in accordance with *FRS15*, for assets which have long lives and immaterial depreciation charges, and also due to the credit crunch a more fundamental review has taken place on many more assets than is required by the SORP.

### **q) 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 2008/09, 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.

### **r) Disposal and Gains or Losses on Disposal**

A number of accounting entries are required on disposal of an asset as follows:

## STATEMENT OF ACCOUNTING POLICIES

- The value of the asset in the Balance Sheet is written off to the I&E Account as part of the gain or loss on disposal.
- Receipts from disposals are credited to the I&E Account as part of the gain or loss on disposal (i.e. they are netted off against the carrying value of the asset at the time of disposal).
- Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.
- Amounts in excess of £10,000 are categorised as capital receipts and are required to be credited to the Useable Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the Capital Financing Requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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.

### **11. Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of fixed assets has been charged as expenditure to the relevant service revenue account in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of Council Tax.

### **12. Leases**

Finance Leases: The Council accounts for finance leases when substantially all the risks and rewards of ownership relating to the leased asset transfer to the Council.

Operating Leases: Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged as and when they become payable.

Authority as Lessor: The Council owns various commercial and investment property that it leases out. All properties are non-operational and, therefore, depreciation does not apply to these assets. The rental income from these properties is credited to the relevant service revenue account and included in Net cost of Services in the I&E Account.

### **13. 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



## STATEMENT OF ACCOUNTING POLICIES

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

### 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 (e.g. 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.

## STATEMENT OF ACCOUNTING POLICIES

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.

### **14. 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 *SSAP9 Stocks and Long Term Contracts*, 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.





# **ANNUAL GOVERNANCE STATEMENT**

## ANNUAL GOVERNANCE STATEMENT

### 1.0 Scope of responsibility

- 1.1 Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, 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.
- 1.2 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.
- 1.3 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 Property 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.

### 2.0 The purpose of the governance framework

- 2.1 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.
- 2.2 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.
- 2.3 The governance framework has been in place at Watford Borough Council for the year ended 31<sup>st</sup> March 2009 and up to the date of approval of the Statement of Accounts for the 2008/2009 financial year .

### 3.0 The governance framework

- 3.1 The Council is a major contributor to the Local Strategic Partnership, One Watford, which is made up of key stakeholders such as Hertfordshire County Council, Hertfordshire Police Authority, West Herts College, Watford and West Herts Chamber of Commerce, the Council for Voluntary Service, Watford and Three Rivers Primary Care Trust, and Watford Community Safety Partnership. One Watford has produced the Borough's Sustainable Community Strategy. This cascades down whereby the Council identifies and communicates its aims and ambitions for Watford through the Corporate Plan. This Plan has recently been reviewed and agreed by Cabinet on 21<sup>st</sup> April 2009 and covers the period 2009/2014. The Council has also approved a Code of Corporate Governance which identifies community focus, service delivery

## ANNUAL GOVERNANCE STATEMENT

arrangements, structures and processes, risk management, internal control arrangements and standards of conduct.

- 3.2 The key documents driving the governance framework are included in the Council's Constitution (published in full on the Council's website). This sets out how the Council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens. 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.
- 3.3 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/commercial reasons or as a matter of proper practice.
- 3.4 Each year, Full Council sets key policies and objectives, including the corporate plan and the budget, as well as individual strategies for key activities.
- 3.5 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.
- 3.6 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.
- 3.7 The Mayor and Cabinet form the Executive and are responsible for ensuring that the Council's plans are carried out by officers.
- 3.8 Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from Members include comments on financial, legal, equalities and other appropriate issues such as potential risks to non achievement, all of which ensures 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, other financial matters and value for money progress. The Audit Committee reviews the overall and service related control and risk management environment as well as Annual Accounts and Treasury Management policies.
- 3.9 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 Directors and Heads of Service to review performance.
- 3.10 The Council is committed to delivering value for money, and has published its Value for Money Strategy and Action Plan 2008/2014. It is developing a programme of reviews that will be used to test the value for money that it derives from its services and to assess the areas for improvement. The outcomes of such value for money assessments will be used to deliver real improvements in the efficient, effective and economic delivery of services and to inform the development of future budget proposals and the Medium Term Financial Plan for 2009/2013.

## ANNUAL GOVERNANCE STATEMENT

- 3.11 The Council seeks to ensure the economic, effective and efficient use of resources and to secure continuous improvement through:
- work carried out as part of the annual budget process
  - project appraisal and formal project management for major schemes
  - undertaking Best Value/Value for Money and managerial reviews
  - implementing the recommendations of Internal Audit
  - implementing the recommendations of external auditors and inspectors
  - the adoption of best practice where cost-effective
  - modernisation of working practices
  - consultation with the public and staff
  - partnership working with companies and other public bodies
  - setting challenging targets for improvement
- 3.12 Budget monitoring reports are submitted to Cabinet periodically. Senior officers, Cabinet Members and Members on the Budget Panel receive monthly monitoring reports.
- 3.13 The Council's protocols and procedures are reviewed and updated on a regular basis for standing orders, financial regulations, a scheme of delegation and supporting procedure notes/manuals clearly defining how decisions are taken and the process and controls required to manage risks. Compliance with established policies, procedures, laws and regulations is achieved through a combination of: training events, written policy and procedural documentation, authorisation procedures, managerial supervision, review by internal audit and use of the disciplinary procedure where appropriate.
- 3.14 Codes of Conduct defining the standards of behaviour for members, staff, our partners and the community have been developed and communicated and are available on the Council's website. These include:
- Members Code of Conduct
  - Code of Conduct for staff
  - Anti fraud and corruption policy
  - Members and officer protocols
  - Regular performance appraisals, linked to service and corporate objectives.
  - Service standards that define the behaviour of officers
  - A Standards Committee which has a key role in promoting and maintaining high standards of conduct for members.
  - Officers are subject to the standards of any professional bodies they belong to.
- 3.15 The Head of Legal & Property 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.
- 3.16 The Head of Strategic Finance is the statutory Chief Finance Officer. His 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.
- 3.17 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

## ANNUAL GOVERNANCE STATEMENT

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.

- 3.18 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 key lines of enquiry, through periodic inspection of services. The Annual Audit and Inspection Letter is circulated to all Members and formally reported to Cabinet and the Audit Committee.
- 3.19 The Audit Committee's terms of reference are consistent with CIPFA's guidance. It approved the annual 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 and reviews the operation of Treasury Management.
- 3.20 The 2008/09 Statement of Accounts is due to be approved by the Audit Committee on 30<sup>th</sup> June 2009.
- 3.21 The Council has a complaints procedure, and reports on complaints as well as compliments are circulated to Senior Officers and discussed at quarterly review meetings. A whistle-blowing policy whereby staff and others can report concerns about various sorts of wrongdoing or alleged impropriety is also in place and regularly reviewed. This policy is published on the staff intranet and is referred to in Induction Training Programmes.
- 3.22 The development needs of Senior Officers in relation to their strategic roles are identified within a learning and development process, one to one interviews and review by HR managers. Similarly, member training is well advanced with an individual development planning process for every member having been established.
- 3.23 The Council has developed an effective performance management system that underpins the delivery of its priorities and improved outcomes for residents. The development, implementation and review of the Council's key plans and strategies, which all take the delivery of the Council's Sustainable Community Strategy is a key element of its performance management system. The Council develops a five year medium term strategy, which it reviews annually and which is published in its Corporate Plan. This, in turn informs the five year service delivery plans for all its services, which are developed through workshop sessions and in discussion with relevant portfolio holders. Performance targets are identified in the Corporate Plan to reflect corporate priorities and disseminated through the service delivery plans and unit plans to individual performance appraisals.
- 3.24 The Council keeps residents and stakeholders informed of its progress through an Annual Report. A full version is published once final accounts have been agreed, whilst a condensed version appears at the end of the financial year in the Council's magazine so that local people are kept well informed as to how their Council is performing.
- 3.25 During the year performance is monitored regularly through a number of channels. Each service is responsible for reporting performance quarterly as part of the Council's Quarterly Review process when progress against service plans is evaluated with the relevant portfolio holder and Executive Director. Performance of key indicators is also discussed along with financial performance, complaints and progress against the Council's equalities agenda.
- 3.26 Leadership Team receive quarterly updates on progress against the Council's key performance indicators, which are identified each year to measure key priorities. Quarterly performance



## ANNUAL GOVERNANCE STATEMENT

reports with updates on all corporate projects and indicators go to Call-In and Performance Scrutiny Committee for discussion and, where necessary, relevant heads of service and portfolio holders are invited to attend.

- 3.27 The Council exercises community leadership and effectively engages with local people and stakeholders, including partnerships, to ensure accountability, encourage community involvement in decision making and to strengthen relationships and a sense of belonging within the community. The directly elected Mayor takes the lead in ensuring there is open and effective community leadership and provides an effective means for people, communities, businesses and organisations to engage with the Council. The Mayor is also the Chair of the borough's Local Strategic Partnership, One Watford, which developed the Sustainable Community Strategy through extensive consultation and engagement and which is communicated through its own website and that of the Council.
- 3.28 The Council has established twelve Neighbourhood Forums, which mirror the borough's ward boundaries and each have a devolved budget of £5k. These are organised and managed by the relevant local Councillors as part of their commitment to community leadership and engagement.
- 3.29 The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the Council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the Council magazine 'About Watford', which is distributed to every home in the borough. The magazine is now published six times a year and one edition includes an 'Annual Report' so local people can see how well the Council is doing in terms of delivering against its priorities.
- 3.30 The Council's Corporate Medium Term Plan, which runs for 5 years, is published both on the website and in paper format and articulates its purpose and vision and shows how consultation and engagement with the local community has shaped its priorities.
- 3.31 The Council has established the 'One Watford Equalities Panel', which provides an opportunity for traditionally harder to reach groups to take an active part in Council decision making and feedback on areas and issues that might impact on their quality of life.
- 3.32 A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the borough's Citizens' Panel, which incorporates the Council's annual budget survey. Local residents are also invited to attend the Mayor's budget seminar to build understanding about Council finances and the implications for future service delivery. A young people's online forum has been set up to support the Council's engagement with what is often a harder to reach group. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community. All signatories to this document adhere to the national Compact standards and prepare an annual statement showing how the Compact has supported their work over the past year and how it will inform their work in the coming year.
- 3.33 The Council has a strong track record of working in partnership and is increasingly acting in partnership with other organisations in delivering its services and in pursuing its strategic objectives and efficiency targets. It has identified its strategic partnerships and its work within these is supported with a partnership framework, which ensures there are clear and robust governance and management arrangements and accountabilities. The framework ensures that any partnership arrangements are proportionate and strike the right balance between delivering

## ANNUAL GOVERNANCE STATEMENT

value for money, protecting public funds and minimising risks and ensuring that benefits from organisations collaborating such as innovation and flexibility are realised.

### 4.0 Review of effectiveness

4.1 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 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.

4.2 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 2008 to the publication of the Annual Statutory Accounts) are as follows:

#### 4.3 The Council:

- Amended the Constitution to incorporate Neighbourhood Forums to replace Area Committees and make other improvements, on the advice of the Constitution working party
- Considered Scrutiny reports which included the Annual Report of Overview & Scrutiny; and the work programmes for 2008/09 for Policy Review & Development, Call-in & Performance and Budget Panel.
- Approved the update of the Medium Term Financial Plan.
- Approved appointments to the Independent Member Remuneration Panel.
- Approved a Freedom of Information Publication Scheme
- Approved an updated Code of Corporate Governance
- Approved the Council's Budgets and other key strategy plans, including a revised Treasury Management policy
- Considered the first year results of the Members Performance Scheme which included self assessments of the community representative role carried out by each member.

#### 4.4 The Cabinet:

- Received, from the Audit Commission, the Annual Audit and Inspection Letter relating to the 2007/2008 Financial Year. This letter provided an unqualified opinion on the accounts and concluded there are adequate arrangements in place for ensuring value for money. It also highlighted, as part of a 'Direction of Travel' report, that the Council is improving rapidly and has improved outcomes against its short term priorities
- Approved a Value for Money Strategy and Action Plan 2008/2014
- Has considered and proposed key strategy plans for Council approval
- Has agreed operational strategies and plans
- Reviewed budget monitoring reports
- Considered the Shared Services initiative with Three Rivers DC
- Approved the Annual (Planning) Monitoring Report 2008

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

## ANNUAL GOVERNANCE STATEMENT

### 4.6 Council Functions Committee:

- Has approved the Managing Director's proposals to amend the officer structure to meet the needs of the Council in the future
- Considered a consultation paper from DCLG on a code of conduct for Officers and a revised code of conduct for Members.
- Reviewed travel allowances

### 4.7 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 received a report on Treasury Management activities for 2008/2009.
- Approved the annual Statement of Accounts and annual governance Statement
- Received the annual governance report on the accounts from the external auditors
- Received the annual letter from the Ombudsman
- Considered the annual audit and inspection letter from the Audit Commission
- Reviewed requests made under the Freedom of Information Act

### 4.8 Standards Committee

- Approved revised criteria for the assessment of complaints about Councillor conduct.
- Considered a consultation paper from the DCLG seeking to introduce a new code of conduct for Officers and amend the code of conduct for Members.
- Held two assessment sub committees and one review sub committee regarding alleged breaches of the code of conduct by Councillors.

### 4.9 Scrutiny Committees

- Reviewed a range of activities and reported to Cabinet on suggestions for improvement
- Considered the results of the Scrutiny Survey for 2008

### 4.10 Budget Panel

- Considered Cabinet's budget proposals which included a review of spending priorities, savings and growth proposals, council tax levels and trends.
- Received training related to financial issues such as use of virement/balance sheet comparators
- Considered the Medium Term Financial Plan and Outturn for the previous financial year.
- Considered some benchmarking work for street cleansing and housing benefit.
- Received and considered regular budget monitoring reports.

### 4.11 Internal Audit:

- Have carried out a programme of audits (37) throughout the year across the Council's range of activities, achieving 90% of the audit work set out in the annual plan for 2008/09. These reports included a number of recommendations to remedy weaknesses, improve existing controls and to adopt measures of best practice. All recommendations are re-visited to

## ANNUAL GOVERNANCE STATEMENT

ensure improvement has been made. Failure to implement recommendations is reported, in the first instance, to the relevant Director.

- 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 2009, concluded that, based on the work done by internal audit, the internal control environment is satisfactory and operates effectively.
- Statements of Assurance are completed by Heads of Service confirming they have assessed risks facing their respective services and have implemented Internal Audit recommendations.
- Internal Audit reviewed the Council's arrangements for Corporate Governance for 2008/2009 and produced its report in April 2009. The Audit Opinion provided a 'Qualified Assurance'—a satisfactory report. Basically sound evidence of adherence to corporate governance principles.

### 4.12 The Audit Commission/ External Auditor (Grant Thornton):

- 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.
- 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 2009. This highlighted that the Council is improving rapidly, and has achieved improved outcomes against local priorities. It has improved its value for money but remains relatively high cost.
- Reviewed data quality and concluded that the Council continued to demonstrate adequate performance and noted that a new data quality policy for 2008/2009 is expected to strengthen future management arrangements.
- Reported upon the grant certification processes within the Council as part of the Annual Audit and Inspection Letter.

### 4.13 Other External Review mechanisms

- The Legal service has successfully retained its Lexcel status
- Green Flag accreditation for Cassiobury Park
- East of England Charter for elected member development
- Charter Mark for the Development and Building Control Service
- IIP accreditation across the Council

## ANNUAL GOVERNANCE STATEMENT

### 4.14 Significant Governance Issues

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

No.	Issue	Action	Lead
1	Management of Partnerships: a need for clear corporate direction and guidance on partnership working	The Council has developed a Partnership Framework for adoption in all partnership arrangements  By 30/9/09	Head of Corporate Services and Heads of Service
2	Risk Management needs to be embedded across the Council and reflected consistently within Service Plans and Risk Registers	Need to continue internal seminars/ courses to ensure all staff are aware of its importance in delivering key objectives  By 31/12/09	Head of Strategic Finance and Audit Manager to organise events. Heads of Service to ensure high priority is given
3	Quality of Budget Monitoring	Monitoring needs to be more robust and a better guide to likely outturn  By 30/9/09	Head of Strategic Finance/ Shared Service SLA
4	Arrangements for managing software changes (Also outstanding from last year and not yet signed off formally)	Refresh and Implement revised change control procedure for all IT changes  By 31/ 07/ 09	Head of Business Information Services

4.15 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.

.....

.....

**Mayor**

**Managing Director**

Date

Date



# **CORE FINANCIAL STATEMENTS**

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009**

2007/08 NET EXPENDITURE £000		Note	GROSS EXPENDITURE £000	2008/09 GROSS INCOME £000	NET EXPENDITURE £000
	<b>Continuing Operations:</b>				
	Central Services:				
506	Council Tax Collection		1,480	(495)	985
509	Other Central Services		897	(274)	623
	Cultural, Environmental, Regulatory & Planning Services:				
4,155	Leisure Services		6,923	(1,066)	5,857
118	Cemeteries and Crematoria		333	(153)	180
1,253	Environmental Health		2,311	(356)	1,955
4,111	Waste Collection and Disposal		5,774	(1,166)	4,608
2,328	Planning and Development		3,169	(791)	2,378
2,436	Other Services		2,036	(13)	2,023
304	Highways and Transport Services		5,542	(5,128)	414
	Housing Services:				
2,096	Housing General Fund		33,625	(29,694)	3,931
5,803	Housing Revenue Account		0	0	0
3,276	Corporate and Democratic Core		4,110	(144)	3,966
333	Non Distributed Costs	2	1,254	0	1,254
27,228			67,454	(39,280)	28,174
	<b>Discontinued Services transferred to Watford Community Housing Trust:</b>				
0	Housing Revenue Account	3	18	41	59
<b>27,228</b>	<b>NET COST OF SERVICES</b>		<b>67,472</b>	<b>(39,239)</b>	<b>28,233</b>
366,643	(Gain) or loss on disposal of fixed assets				(241)
0	Unattached capital receipts				(2,076)
(5,510)	(Surplus) or deficit on trading undertakings not included in Net Cost of Services	5			(1,600)
80	Interest payable and similar charges				6
310	Contribution of Housing Capital Receipts to Government Pool				71
(2,552)	Interest and investment income				(2,493)
226	Pension interest costs and expected return on assets				1,453
(60)	Commutation of improvement grants				(22)
<b>386,365</b>	<b>NET OPERATING EXPENDITURE</b>				<b>23,331</b>
(7,742)	Demand on the Collection Fund				(7,952)
(1,130)	General Government Grants	6			(1,284)
(6,735)	Non-domestic rates redistribution				(7,015)
<b>370,758</b>	<b>(SURPLUS) / DEFICIT FOR YEAR</b>				<b>7,080</b>

## STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. However, the authority is required to raise 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 of fixed assets, deferred charges and capital grants charged or credited to the Income and Expenditure Account are reversed out.
- The payment of a share of housing capital receipts to the Government pool is charged to the Income and Expenditure Account but is met from the useable capital receipts balance rather than from Council Tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as the future benefits are earned. Therefore, the amounts included in the Income and Expenditure Account are reversed out and replaced with the actual payments made to the pension fund.

The General Fund Balance compares the Council's spending against the Council Tax that is raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

2007/08 £000		2008/09 £000
370,758	(Surplus)/Deficit for the year on the Income and Expenditure Account	7,080
(370,841)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(7,439)
(83)	(Increase) / Decrease in General Fund Balance for the year	<b>(359)</b>
(1,254)	General Fund Balance brought forward	(1,337)
(1,337)	General Fund Balance carried forward	<b>(1,696)</b>



## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

2007/08 £000		2008/09 £000
370,758	(Surplus) / Deficit for the year on the Income and Expenditure Account	7,080
(7,611)	(Surplus) / Deficit arising on revaluation of fixed assets	(19,944)
	Actuarial (gains)/losses on pension fund assets and liabilities:	
(4,091)	- Relating to Watford Borough Council	16,450
(1,282)	- Relating to Watford Community Housing Trust	0
8	(Surplus) / Deficit on the Collection Fund attributable to Watford Borough Council	(52)
<b>357,782</b>	<b>Total recognised (gains)/losses for the year</b>	<b>3,534</b>

A prior year adjustment to the opening balance on the pension fund deficiency was necessary due to an overstatement of the liabilities of Watford Council by the Actuary. The Actuary had double counted the compensatory added years and the liabilities were reduced by £7.060 Million. This had the impact of improving net worth by 4.4%.

**BALANCE SHEET AS AT 31 MARCH 2009**

<i>* Restated</i>				
2007/08				2008/09
£000		Note		£000
	<b>Tangible Fixed Assets</b>			
	<u>Operational Assets</u>			
21,082	Land and Buildings		39,819	
2,066	Vehicles, Plant and Equipment		3,410	
0	Community Assets		0	
8,752	Infrastructure Assets		8,781	
31,900				52,010
	<u>Non Operational Assets</u>			
86,565	Investment Properties		100,360	
16,170	Assets Under Construction		0	
2,500	Surplus Assets		2,170	
105,235				102,530
<b>137,135</b>	<b>Total Fixed Assets</b>			<b>154,540</b>
1,133	Long Term Investments	28		0
1,360	Long Term Debtors	24		1,411
<b>139,628</b>	<b>TOTAL LONG TERM ASSETS</b>			<b>155,951</b>
	<b>Current Assets</b>			
52	Stocks and Work-in-Progress	25	28	
10,355	Debtors	26	10,487	
48,100	Investments	27	47,594	
1,092	Bank		744	
8	Cash in Hand		8	
59,607				58,861
<b>199,235</b>	<b>TOTAL ASSETS</b>			<b>214,812</b>
	<b>Current Liabilities</b>			
0	Short Term Borrowing		0	
(12,091)	Creditors	28	(12,222)	
(715)	Bank Overdraft		(995)	
(12,806)				(13,217)
<b>186,429</b>	<b>Total Assets less Current Liabilities</b>			<b>201,595</b>
	<b>Long Term Liabilities</b>			
0	Long Term Borrowing		0	
(1,460)	Government Grants and Contributions Deferred	29	(3,065)	
(1,594)	Government Grants and Contributions Unapplied	30	(1,857)	
0	Deferred Liabilities	20	(137)	
(500)	Provisions	31	(821)	
(23,379)	*Liability related to Defined Benefit Pension Scheme	32	(39,753)	
(26,933)				(45,633)
<b>159,496</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>155,962</b>

**BALANCE SHEET AS AT 31 MARCH 2009 - *continued***

<b>* Restated 2007/08 £000</b>		<i>Note</i>	<b>2008/09 £000</b>
	<b>Financed by:</b>		
128,589	Capital Adjustment Account	<i>35b</i>	124,828
(80)	Financial Instruments Adjustment Account	<i>35c</i>	(79)
4,018	Revaluation Reserve	<i>35d</i>	23,440
1,500	Deferred Capital Receipts	<i>35e</i>	1,524
36,155	Useable Capital Receipts Reserve	<i>35f</i>	32,635
(23,379)	*Pensions Reserve	<i>32</i>	(39,753)
9,999	Earmarked Reserves	<i>35g</i>	10,284
<u>156,802</u>			<u>152,879</u>
	<b>Revenue Balances</b>		
1,337	General Fund Balance		1,696
102	Collection Fund		154
1,255	Housing Revenue Account Balance		1,233
<u>2,694</u>			<u>3,083</u>
<b>159,496</b>	<b>TOTAL NET WORTH</b>		<b><u>155,962</u></b>

\* The prior year adjustment relates to an error made by the actuary for the Hertfordshire Local Government Pension Scheme – see Note 36, page 85.

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009**

2007/08 £000		Note	2008/09 £000
(8,123)	<b>Net Cash (Inflow)/Outflow from Revenue Activities</b>	40a	2,092
	<b>Returns on Investment and Servicing of Finance</b>		
	<u>Cash Outflows</u>		
0	Interest paid	2	
0	Interest element of finance lease rentals	7	
0			9
	<u>Cash Inflows</u>		
(2,206)	Interest received		(3,115)
			(3,106)
	<b>Capital Activities</b>		
	<u>Cash Outflows</u>		
25,990	Purchase of fixed assets	8,524	
1,133	Purchase of long term investments	0	
27,123			8,524
	<u>Cash Inflows</u>		
(36,731)	Sale of fixed assets	(828)	
(291)	Capital grants received	(1,821)	
0	Other capital cash receipts	(3,165)	(5,814)
(37,022)			2,710
(20,228)	<b>Net Cash (Inflow) / Outflow before financing</b>		1,696
	<b>Management of Liquid Resources</b>		
18,500	Net increase/(decrease) in short-term deposits		(1,100)
	<b>Financing</b>		
0	Capital element of finance lease rental payments		32
(1,728)	<b>NET (INCREASE) / DECREASE IN CASH</b>		628





# **NOTES TO THE CORE FINANCIAL STATEMENTS**

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. Reconciling Items for the Statement of Movement on the General Fund Balance

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account 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.

2007/08 £000		2008/09 £000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	
(1,079)	Amortisation of intangible fixed assets	0
(7,195)	Depreciation and impairment of fixed assets	(9,562)
689	Government Grants Deferred amortisation	283
0	Revenue Expenditure Funded from Capital Under Statute	(795)
(366,643)	Net gain/(loss) on disposal of fixed assets	241
0	Capital receipts not arising from the sale of fixed assets	2,076
	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1
(80)		1
(2,463)	Net charges made for retirement benefits in accordance with FRS17	(4,000)
<b>(376,771)</b>		<b>(11,756)</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	
0	Minimum revenue provision for capital financing	0
0	Capital expenditure charged in-year to the General Fund Balance	18
(310)	Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(71)
3,455	Employer's contributions payable to the HCC Pension Fund and retirement benefits payable direct to pensioners	4,075
<b>3,145</b>		<b>4,022</b>
	<b>Transfers to / (from) the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
(476)	Housing Revenue Account Balance	(22)
0	Voluntary revenue provision for capital financing	32
0	Net transfer to/(from) earmarked reserves	285
<b>(476)</b>		<b>295</b>
<b>(374,102)</b>	<b>Net additional amount required to be debited / (credited) to the General Fund Balance for the year</b>	<b>(7,439)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 2. Non Distributed Costs

The majority of central support services costs such as finance, legal, personnel, etc. should be charged, allocated or apportioned to the service divisions as shown within Net Cost of Services on the Income and Expenditure Account. However, the *Best Value Accounting Code of Practice* (BVACOP) specifically excludes certain costs and overheads from this requirement, and these costs are defined as Non Distributed Costs.

The amount included within the Income and Expenditure Account relates to the Past Service Costs of Retirement Benefits. (See also Note 32, page 73)

### 3. Discontinued Operations (Services transferred to Watford Community Housing Trust)

The Income and Expenditure account shows the discontinued service of the Housing Revenue Account, which refers to subsequent transactions from the date of transfer which took place on the 10 September 2007. All assets have been transferred to the WCHT or appropriated to the Council's General Fund.

### 4. Overheads and Support Service Costs

The costs of the Council's support services recharged in the year to the services shown within Net Cost of Services were as follows:

	2007/08 £000	2008/09 £000
Strategic Services	1,569	1,492
Managing Director	590	604
Financial Services	1,644	1,543
Revenues & Benefits	516	582
Legal & Democratic Services	685	677
Personnel Services (Human Resources)	1,018	1,257
Information Technology	1,610	1,652
Office Accommodation	1,315	1,534
<b>Total Overheads and Support Service Costs</b>	<b>8,947</b>	<b>9,341</b>

### 5. Trading Operations

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

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



**NOTES TO THE CORE FINANCIAL STATEMENTS**

2007/08 £000 Net		2008/09		
		£000 Expenditure	£000 Income	£000 Net
(5,535)	Property	5,385	(7,054)	(1,669)
25	Market	669	(600)	69
<b>(5,510)</b>		<b>6,054</b>	<b>(7,654)</b>	<b>(1,600)</b>

The significant reduction in Trading Operations net income is primarily due to impairment charges against the respective properties as a result of reductions in asset values in the current economic climate. The variance from 2007/08 to 2008/09 can be analysed as follows:

	2008/09 £000
Net surplus 2007/08	(5,510)
Net surplus 2008/09	(1,600)
<b>Variance</b>	<b>3,910</b>
Management Costs	33
Premises Costs	309
Depreciation & Impairment	3,365
Income Reduction	203
	<b>3,910</b>

**6. General Government Grants**

The total amount of General Government Grant received and shown on the Income and Expenditure Account can be analysed as follows:

	2007/08 £000	2008/09 £000
Revenue Support Grant	1,130	977
Local Authority Business Growth Incentive ( <i>see note</i> )	70	83
Area Based Grant	0	224
	<b>1,200</b>	<b>1,284</b>

*Note: In 2007/08 the LABGI grant was credited to Corporate & Democratic Core within Net Cost of Services on the Income & Expenditure Account. The total sum of £337,222 was transferred to an earmarked reserve and therefore there was no impact on either the overall surplus or the balance sheet position disclosed in 2007/08.*

The change in 2008/09 from Local Area Agreement Grant (LAAG) to Area Based Grant (ABG) has simplified the way in which the Council accounts for such monies. Whereas under LAAG grants

## NOTES TO THE CORE FINANCIAL STATEMENTS

were payable to the accountable body for distribution to members of the Local Strategic Partnership, ABG is paid directly to the individual authority that benefits from the grant. In addition, ABG is also paid without any constraint on what it can be used for.

Of the total ABG received in the year £70,000 has been utilised as follows, with the remainder being transferred to an earmarked reserve to support future spending on specific projects:

	<b>2008/09 £000</b>
Community Safety - Anti-Social Behaviour	70
	<b>70</b>

### 7. Discretionary (Section 137) Expenditure

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the United Kingdom and mayoral appeals. The Council's expenditure under this power in 2008/09 was 728,087 (£739,142 2007/08) mainly on donations to voluntary organisations or other charitable groups working within the local community.

### 8. Publicity

Under Section 5(1) of the Local Government Act 1986, the Council is required to keep a record of all expenditure on its publicity. The Council's spending on publicity in 2008/09 was as follows:

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Recruitment advertising	45	93
Other advertising	26	16
	71	109
Information relating to council activities	68	54
Other publicity	336	260
	404	314
	<b>475</b>	<b>423</b>

### 9. Building Control 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The statement below shows the total cost of operating the building control function divided between the chargeable and non-chargeable activities.

	Non-Chargeable £000	2008/09 Chargeable £000	Total £000
<b>Expenditure</b>			
Employee Expenses	112	184	296
Premises	8	12	20
Transport	2	4	6
Supplies and Services	12	20	32
Support Services	69	112	181
	203	332	535
<b>Income</b>			
Building Regulation Fees	0	(221)	(221)
Other Income	(3)	0	(3)
	(3)	(221)	(224)
<b>(Surplus) / Deficit for year</b>	<b>200</b>	<b>111</b>	<b>311</b>
<b>Comparatives for 2007/08</b>			
Expenditure	157	256	413
Income	0	(229)	(229)
(Surplus) / Deficit for year	157	27	184

### 10. Agency Income and Expenditure

Under various statutory powers, an authority may agree with other local authorities to carry out work on their behalf. The authority carrying out agency services is reimbursed by the responsible body to the extent of approved expenditure together with any agreed contribution towards administrative costs.

The Council was not involved in any significant agency activities during the financial year.

### 11. Local Authority (Goods & Services) Act 1970

Under the provisions of Section 1 of this Act, a local authority may enter into an agreement with certain specified public bodies for the supply of goods or materials, provision of professional and technical services, maintenance of land or buildings, etc.

There were no material charges under this definition in 2008/09.

### 12. Members Allowances

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

The total of Members' Allowances paid in the year were £0.479 million (£0.466 million in 2007/08).

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### 13. Officers Remuneration

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	2007/08 No. of Employees	2008/09 No. of Employees
£50,000 - £59,999	6	3
£60,000 - £69,999	7	4
£70,000 - £79,999	2	2
£80,000 - £89,999	1	0
£90,000 - £99,999	2	3
£100,000 - £109,999	0	0
£110,000 - £119,999	0	0
£120,000 - £129,999	0	0
£130,000 - £139,999	1	0
£140,000 - £149,999	0	1

### 14. 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.

#### a) Central Government

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Housing Benefits).

The Council received the following grants from Government Departments in 2008/09:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2007/08 £000	2008/09 £000
Revenue Support Grant	1,130	977
Non-Domestic Rate redistribution	6,735	7,015
Housing Benefit Subsidy	25,552	27,418
Homelessness Grant	185	185
Council Tax Benefit Administration Grant	707	681
Planning Delivery Grant	370	205
Local Authority Business Growth Incentive	70	83
Area Based Grant	0	224
	<b>34,749</b>	<b>36,788</b>

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 97 to 101.

### b) Members and Chief Officers

The Council is one of five Districts (the others being Dacorum, Hertsmere, St Albans and Three Rivers) that oversee the operation of the West Hertfordshire Crematorium. Watford provides the honorary Clerk to the 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 2008/09, as in 2007/08, 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 2009 were £5.07million (31 March 2008 £4.6million). However, Watford's share of the net assets excludes the Fixed Assets which are vested in the Council where the Crematorium is sited, and therefore Watford's share only represents £71k.

Councillor Sheila Smillie was nominated as a Director of the Palace Theatre Trust in 2007/08. The Trust received £0.254 million in grant aid and £0.033 million in rent support from the Council (£0.239 million and £0.032 million respectively in 2007/08). In addition, the Trust was granted a loan of £0.275 million in October 2004 which is being repaid over five years.

Following the transfer of the Council's housing stock, Councillors Ellie Burtenshaw, Rabi Martins and Janet Baddeley 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.

### c) Hertfordshire Pension Fund

The details of the transactions with the Council's pension fund are provided in Note 32, pages 73 – 78.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 15. Audit Costs

In 2008/09 the Council incurred the following fees relating to external audit and inspection:

	2007/08 £000	2008/09 £000
Fees payable to the appointed auditor (Grant Thornton) with regard to external audit services	173	128
Fees payable to the Audit Commission in respect of statutory inspection	0	9
Fees payable to Grant Thornton for the certification of grant claims and returns	95	31
Fees payable to the Audit Commission in respect of other services provided	16	19
	<b>284</b>	<b>187</b>

The fees for other services payable related to outstanding grant claims from previous years and the National Fraud Initiative.

### 16. Minimum Revenue Provision

The Local Authority (Capital Finance and Accounting) (England) Regulations 2003, as amended, require local authorities to determine each year an amount of 'minimum revenue provision' for the repayment of debt which is considered to be prudent.

As a debt free authority with no such borrowings, there is no requirement for the Council to make such a provision.

However, due to the recognition of Finance leases entered into in 2008-09 a voluntary minimum provision has been made to ensure that the burden on the Council tax is unchanged. A sum of £32K was therefore provided in the I&E account.

### 17. 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 £22,354 for 2008/09 as approved by the Department for Communities and Local Government.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 18. Intangible Fixed Assets

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

During 2008/09 no capital expenditure was recorded in this category.

	2007/08 £000	2008/09 £000
Geographical Information System	12	0
Customer Relationship Management System	70	0
E-Democracy	2	0
Environmental Health System	2	0
General IT Development	36	0
Document Image Processing	196	0
Electoral Services System	11	0
	<b>329</b>	<b>0</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 19. Tangible Fixed Assets

#### a) Information on Assets Held

The tangible fixed assets of the Council comprise of:

	2007/08 No. / area	2008/09 No. / area
<b>Operational Land &amp; Buildings</b>		
Museum	1	1
Community Centres	6	5
Assembly Hall	1	1
Play Facilities	2	2
Theatres	2	2
Council Offices	3	3
Depot	2	2
Car Parks	4	4
Cemeteries	2	2
Leisure Pools	0	2
<b>Non Operational Land &amp; Buildings</b>		
Commercial Properties	209	209
Business Park	1	1
Charter Place Shopping Area	250,000 sq.ft	250,000 sq.ft
Market	1	1
Share in Harlequin Shopping Centre	7% of net profit	7% of net profit
Cardiff Road Industrial Estate	1	1
<b>Community Assets (see note below)</b>		
Parks and Open Spaces	915 acres	915 acres
Allotments	9	9
<b>Surplus Assets</b>	2	2
<b>Non Operational Assets Under Construction</b>		
Leisure Centre	1	0
Swimming Pool	1	0

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 value of £93 (for the 93 held by the Council).



**NOTES TO THE CORE FINANCIAL STATEMENTS**

**b) Movement of Fixed Assets 2008/09**

Operational Assets				
	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure Assets £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2008	23,836	6,312	12,345	42,493
Additions	3,590	1,899	468	5,957
Donations	0	0	0	0
Disposals	0	0	0	0
Reclassifications	16,294	0	145	16,439
Revaluations	2,055	0	0	2,055
At 31 March 2009	<b>45,775</b>	<b>8,211</b>	<b>12,958</b>	<b>66,944</b>
<b>Depreciation and Impairments</b>				
At 1 April 2008	(2,754)	(4,246)	(3,593)	(10,593)
Charge for 2008/09	(3,714)	(555)	(584)	(4,853)
Disposals	0	0	0	0
Reclassifications	12	0	0	12
Revaluations	500	0	0	500
At 31 March 2009	<b>(5,956)</b>	<b>(4,801)</b>	<b>(4,177)</b>	<b>(14,934)</b>
<b>Balance Sheet Value at 31 March 2009</b>	<b>39,819</b>	<b>3,410</b>	<b>8,781</b>	<b>52,010</b>
<b>Balance Sheet Value at 1 April 2008</b>	<b>21,082</b>	<b>2,066</b>	<b>8,752</b>	<b>31,900</b>
<b>Nature of asset holding</b>				
Owned	39,819	3,279	8,781	51,879
Finance Lease	0	131	0	131
	<b>39,819</b>	<b>3,410</b>	<b>8,781</b>	<b>52,010</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS**

<b>Non Operational Assets</b>				
	<b>Invest- ment Properties £000</b>	<b>Assets Under Construction £000</b>	<b>Surplus Assets £000</b>	<b>Total £000</b>
<b>Cost or valuation</b>				
At 1 April 2008	86,565	16,170	2,500	105,235
Additions	0	0	0	0
Donations	0	0	0	0
Disposals	0	0	0	0
Reclassifications	483	0	0	483
Revaluations	19,922	0	0	19,922
At 31 March 2009	<b>106,970</b>	<b>16,170</b>	<b>2,500</b>	<b>125,640</b>
<b>Depreciation and Impairments</b>				
At 1 April 2008	0	0	0	0
Charge for 2008/09	(5,125)	0	(330)	(5,455)
Disposals	(587)	0	0	(587)
Reclassifications	(898)	(16,170)	0	(17,068)
Revaluations	0	0	0	0
At 31 March 2009	<b>(6,610)</b>	<b>(16,170)</b>	<b>(330)</b>	<b>(23,110)</b>
<b>Balance Sheet Value at 31 March 2009</b>	<b>100,360</b>	<b>0</b>	<b>2,170</b>	<b>102,530</b>
<b>Balance Sheet Value at 1 April 2008</b>	<b>86,565</b>	<b>16,170</b>	<b>2,500</b>	<b>105,235</b>
<b>Nature of asset holding</b>				
Owned	100,360	0	2,170	102,530
Finance Lease	0	0	0	0
	<b>100,360</b>	<b>0</b>	<b>2,170</b>	<b>102,530</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Depreciation

The Council's policy on estimating the useful lives or depreciation rates in calculating the annual depreciation charge for different categories of fixed asset is detailed in the Statement of Accounting Policies – Note 10(n) on page 22.

Service revenue accounts have been charged with depreciation as follows:

	2007/08 £000	2008/09 £000
Central Services	168	191
Cultural Services	233	293
Environmental Services	305	390
Regulatory and Planning Services	662	771
Highways and Transport Services	0	0
Housing Services	45	0
	<b>1,413</b>	<b>1,645</b>

### d) Valuation Data

The Balance Sheet includes net fixed assets of £154,540 million at 31 March 2009. Valuations are carried out by Watford Borough Council's internal valuers, Peter Mitchell MRICS and Ann Collins MRICS. The basis of valuations is in accordance with the *Statement of Asset Valuation Practice and Guidance Notes of the Royal Institute of Chartered Surveyors*. All assets have been valued individually, with the final statements of account reconciled to the valuation certificates. The basis of valuing individual classes of assets owned by the Council is detailed in the Statement of Accounting Policies – Note 10 on page 21.

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.

Operational Land and buildings have been subject to an annual revaluation of approximately 62% of assets. In view of the economic down turn in the economy and its affect on property prices the valuation has been extended to this higher percentage rather than the normal 20%, so the revalued sum of £ 17.57 million appears in this statement, rather than the asset value as at 1st April 2008 of £21.160 million. The figures are different to the 31st March 2009 valuation in light of the impairment review .

Non operational assets have also been subject to an annual revaluation of approximately 58% of assets, including the major assets. Although the assets revalued represents 58% of the portfolio it includes the major assets, there is a large number of smaller assets such as access licences and bowls pavilions etc which have low capital values. The revalued sum of £123.929 million appears in this statement, rather than the Asset value as at 1<sup>st</sup> April 2008 of £ £125.320 million. The figures are different to the 31<sup>st</sup> March 2009 valuation in light of the impairment review.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

	Council Dwellings £000	Operational Land & Buildings £000	Investment Properties £000	Vehicles, Plant, Furniture & Equipment £000	Total £000
<b>Valued at historical cost</b>	-	-	-	3,410	<b>3,410</b>
<b>Valued at current value in:</b>					
2008/09	-	17,570	123,929	-	<b>141,499</b>
2007/08	386,945	7,491	21,745	-	<b>416,181</b>
2006/07	368,729	8,131	26,636	-	<b>403,496</b>
2005/06	349,998	4,663	37,507	-	<b>392,168</b>
2004/05	430,696	7,266	44,610	-	<b>482,572</b>

### e) Gains and Losses on Disposal of Fixed Assets

During 2008-09 assets with a book value of £587,000 were sold for £828,000 resulting in a profit on sale of £241,000. This sum is reflected in the Income and expenditure statement.

## 20. Assets Held Under Finance and Operating Leases

### a) Operating Leases

The Council holds a number of operating leases – four significant lease arrangements relating to operational land and buildings and vehicles, parks plant and printing equipment. The total amount paid under these arrangements in 2008/09 was £775,813 (£807,642 2007/08) as follows:

	2007/08 £000	2008/09 £000
Operational Land and Buildings	136	209
Vehicles, Plant and Equipment	671	567
	<b>807</b>	<b>776</b>

The Council was committed as at 31 March 2009 to making payments of £640,832 under operating leases, comprising the following elements:

**NOTES TO THE CORE FINANCIAL STATEMENTS**

	<b>Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>	<b>Total £000</b>
Leases expiring in 2009/10	97	91	188
Leases expiring between 2010/11 and 2013/14	50	363	413
Leases expiring 2014/15 and after	40	0	40
<b>Total Liability at 31 March 2009</b>	<b>187</b>	<b>454</b>	<b>641</b>

**b) Finance Leases**

Vehicle Plant and Equipment includes vehicles and machinery that have been acquired under finance leases for delivery of services at a fair value of £169,000. The following table shows the values of assets held under finance by the Authority accounted for under Vehicle Plant and Equipment:

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
<b>Vehicles, Plant and Equipment</b>		
- Additions	0	169
- Depreciation	0	(38)
<b>Book value at 31 March 2009</b>	<b>0</b>	<b>131</b>

The Council is committed to making the following payments in respect of finance leases:

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
<b>Vehicles, Plant and Equipment</b>		
Obligations payable in 2009/10	0	48
Obligations payable between 2010/11 and 2013/14	0	89
<b>Total Obligation</b>	<b>0</b>	<b>137</b>

The aggregate finance charges made under these finance leases during the year amounted to £7,000. This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 21. Authority as Lessor

With regard to the Council's activity as a lessor, the Council owns various commercial and investment property that it leases out. The gross value of assets which were held for use under operating leases was £98.7 million valued at 31 March 2009. All properties are non operational and therefore are not depreciated.

The total rental income received under these lease arrangements and credited to services was £7.399 million (£7.381 million 2007/08).

### 22. Revenue Expenditure Funded from Capital Under Statute

A significant amount of the expenditure incurred by local authorities does not fall within the SORP's definition of fixed assets, but is classified as capital expenditure under statute so that it can be financed from capital resources.

The main types of expenditure which fall into this category are home improvement grants and similar payments to other parties for capital projects where there is no expectation of repayment.

The following revenue expenditure funded from capital under statute has been incurred in 2008/09 and charged to the relevant service account in the Income and Expenditure Account. Where appropriate, an amount equal to the value of financing from capital resources has then been credited to the Statement of Movement on the General Fund Balance to eliminate any impact on Council Tax.

	Charged to I&E Account £000	Funded from Capital Resources £000	Net Revenue Cost £000
Renovation & Improvement Grants:	0	0	0
- Mandatory Disabled Facilities	644	(644)	0
- Private Sector Renewal	80	(80)	0
- Home Repair Assistance	17	(17)	0
- Common Parts	14	(14)	0
- LGHA 1989 (1) Act DFG	5	(5)	0
Private Purchase Grants	0	0	0
Commutation Charge	22	(22)	0
Grants to New Hope Trust	13	(13)	0
<b>Total 2008/09</b>	<b>795</b>	<b>(795)</b>	<b>0</b>
<b>Total 2007/08</b>	<b>750</b>	<b>(750)</b>	<b>0</b>

### 23. Long Term Investments

The Council held no long term investments at the 31<sup>st</sup> March 2009; the previous long-term investment held last year was called by the borrower in 2008/09.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 24. Long Term Debtors

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

	2007/08 £000	2008/09 £000
Watford Irish Association	254	249
Housing Association Loans	14	14
Rent to Mortgage	1,058	1,147
Other Mortgages	0	0
Palace Theatre	31	0
Car Loans	3	1
	<b>1,360</b>	<b>1,411</b>

### 25. Stocks and Work-in-Progress

The following stocks were held as at 31 March 2009:

	2007/08 £000	2008/09 £000
Community Centres (Food & Drink Stocks)	14	1
Watford Museum (Saleable Items)	4	4
Civic Gifts	2	1
Colosseum (Bar Stock)	0	4
Printing Section (Paper, inks, etc.)	11	8
Fuel Stock	21	10
	<b>52</b>	<b>28</b>

There was no work-in-progress as at 31 March 2009.

**NOTES TO THE CORE FINANCIAL STATEMENTS**

**26. Debtors and Bad Debt Provisions**

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

	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
<b>Collection Fund</b>		
Council Tax Arrears	2,533	2,899
less: provision for bad debts / impairment	(567)	(954)
	1,966	1,945
Non-domestic Rate Arrears	1,523	2,184
less: provision for bad debts / impairment	(278)	(621)
	1,245	1,563
<b>Total Collection Fund Debtors</b>	<b>3,211</b>	<b>3,508</b>
Housing Rent Arrears	78	92
Housing Benefit Overpayments	1,124	1,321
less: provision for bad debts / impairment	(1,099)	(1,294)
	<b>103</b>	<b>119</b>
<b>Other Debtors</b>		
Government Departments	3,972	1,697
Local Authorities	294	1,104
Sundry Debtors	3,005	4,174
Payments in Advance	296	536
	7,567	7,511
less: provision for bad debts / impairment	(526)	(651)
<b>Total Other Debtors</b>	<b>7,041</b>	<b>6,860</b>
<b>Total Debtors (due within one year)</b>	<b>10,355</b>	<b>10,487</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 27. Financial Instruments

#### a) Categories and Balances of Borrowings and Investments

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

	Long Term		Current	
	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000
Loans and receivables**	1,360	1,410	3,005	4,174
Available-for-sale financial assets	1,133	0	48,100	47,594
<b>Total Investments</b>	<b>2,493</b>	<b>1,410</b>	<b>51,105</b>	<b>51,768</b>

Financial liabilities at amortised cost include operational creditors. Loans and receivables include long term debtors and trade debtors.

#### b) Events with Material Effect

There have been no events with material effect during the year.

#### c) Gains and Losses

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

	Financial Liabilities	Financial Assets		Total £000
	At Amortised Cost £000	Loans & Receivables £000	At Fair Value through Profit & Loss £000	
Interest payable and similar charges	0	0	(1)	(1)
Impairment losses	0	0	0	0
Interest income	0	0	(1)	(1)
(Gains)/losses on revaluation	0	2,493	0	2,493
	0	0	0	0
<b>Total (Gain)/Loss for year</b>	<b>0</b>	<b>2,493</b>	<b>(1)</b>	<b>2,492</b>

The loss recognised on financial assets carried at fair value through profit and loss relates to a 125 year loan given by the Council in respect of accommodation at the YMCA.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Fair Value of Assets & 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 will take place over the remaining term of the instruments, using the following assumptions:

- for investments maturing after 12 months of the balance sheet date, prevailing benchmark market rates have been applied
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

	31 March 2008		31 March 2009	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial liabilities	0	0	0	0
<b>Loans and receivables</b>				
Current Investments	48,100	48,100	47,598	47,865
Long Term Investments	1,000	1,133	0	0
Trade Debtors	7,519	7,519	7,511	7,511
<b>Total</b>	<b>56,619</b>	<b>56,752</b>	<b>55,109</b>	<b>55,376</b>

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates for similar loans at the Balance Sheet date. This guarantee to receive interest above current market rates increases the amount the Council would receive if it agreed to early repayment of the loans.

### e) Nature and Extent of Risks Arising from Financial Instruments

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;

## NOTES TO THE CORE FINANCIAL STATEMENTS

- *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 exposure to investments maturing beyond one year.
- By approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counter-parties 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.

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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Amount at 31 March 2009	Historical experience of default	Historial experience adjusted for market conditions	Estimated maximum exposure to default
	£000 (A)	% (B)	% (C)	£000 (AxC)
Deposits with banks & financial institutions				
- AA- rated counterparties	18,500	0.000%	0.000%	0
- AA/AA- rated counterparties	11,500	0.000%	0.000%	0
- Non rated Building Societies	17,000	0.000%	0.000%	0
- Other Counterparties	0	0.000%	0.000%	0
Trade Debtors	7,511	0.000%	0.000%	0
<b>Total</b>	<b>54,511</b>			<b>0</b>

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

The Council does not generally allow credit for its trade debtors, such that £0.801 million of the £1.620 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	2007/08 £000	2008/09 £000
Less than 3 months	56	55
More than 3 months, less than 1 year	383	224
More than 1 year	225	522
	<b>664</b>	<b>801</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.

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 2009 is as follows:

	2007/08		2008/09	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Less than 1 year	48,100	48,100	47,594	47,865
Between 1 and 2 years	1,000	1,000	0	0
	<b>49,100</b>	<b>49,100</b>	<b>47,594</b>	<b>47,865</b>

The table excludes accrued interest which is due to be paid within 12 months. Trade debtors of £1.620 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 and 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure.

The 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:

	2007/08 £000	2008/09 £000
Impact on interest receivable on investments - with consequent change in Income and Expenditure Account	457	537
	<b>457</b>	<b>537</b>

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.

### 28. Creditors

	2007/08 £000	2008/09 £000
Government Departments	806	808
Local Authorities	663	1,207
Non-domestic Rates Prepaid	1,471	895
Council Tax Prepaid	467	486
Sundry Creditors	8,091	8,315
Receipts in Advance	593	511
	<b>12,091</b>	<b>12,222</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 29. 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.

	2007/08 £000	2008/09 £000
Balance brought forward	1,764	1,460
Transferred to Grants & Contributions Unapplied	(192)	(205)
Grants Received		
- Regional Housing Pot	124	157
- Disabled Facilities Grant	164	166
- Section 106	289	311
- Three Rivers District Council	0	1,334
- PDG	0	51
- Others	0	74
Grants applied to assets not adding value	(577)	(166)
Released to Income and Expenditure Account to match depreciation	(112)	(117)
	<b>1,460</b>	<b>3,065</b>

### 30. Government Grants and Contributions Unapplied Account

The balance represents 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 assets to which they relate are completed.

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2007/08 £000	2008/09 £000
Balance brought forward	1,485	1,594
Received in year		
- Planning Delivery Grant (Capital Element)	100	51
- Council Tax efficiency	0	5
- St Albans Road lighting	0	148
- Others	0	4
- Section 106 (Oxhey Park)	192	0
	292	208
Interest allocated	69	69
Applied to finance capital expenditure	(252)	(14)
	<b>1,594</b>	<b>1,857</b>

Within the unapplied amount at 31<sup>st</sup> March 2009 is an amount of £1,359 million 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 £640,000 and a contribution in respect of the Fairview Development in the sum of £565,000.

### 31. Provisions

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

	Balance at 1 April 2008 £000	Appropriations or receipts in year £000	Appropriations from or payments in year £000	Balance at 31 March 2009 £000
Housing Benefit Subsidy repayment	500	200	0	700
Concessionary Fares	0	121	0	121
<b>Total 2008/09</b>	<b>500</b>	<b>321</b>	<b>0</b>	<b>821</b>
<b>Total 2007/08</b>	<b>518</b>	<b>233</b>	<b>(251)</b>	<b>500</b>

The Housing Benefits repayment provision relates to the potential reclaim of Housing Benefit Subsidy, representing approximately 2.8% of the 2006/07 Housing Benefit Subsidy claim. The total claim for 2006/07 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.

The provision for concessionary fares relates to the Council's share of payments to bus operators the exact terms of which have yet to be agreed with the other Council's in Hertfordshire.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### 32. Retirement Benefits

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.

#### Participation

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.

#### Change of Accounting Policy

Under the 2008 SORP the Council has adopted the amendment to FRS17, *Retirement Benefits*. As a result, quoted securities held as assets in the scheme are now valued at bid price rather than mid-market value. The effect of this change is considered immaterial and the restatement of the difference in value was not provided by the Pension Fund.

#### Transactions relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge 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 and Statement of Movement on the General Fund Balance during the year:

**NOTES TO THE CORE FINANCIAL STATEMENTS**

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
<b>Income and Expenditure Account</b>		
<i>Net Cost of Services</i>		
- Current Service Cost	2,329	1,427
- Past Service Costs, Settlements and Curtailments	333	1,120
<i>Net Operating Expenditure</i>		
- Interest Cost	7,030	7,247
- Expected Return on Assets in the Scheme	(6,804)	(5,794)
- Compulsory Added Years	(425)	0
<b>Net Charge to the Income and Expenditure Account</b>	<b>2,463</b>	<b>4,000</b>
<b>Statement of Movement on the General Fund Balance</b>		
Reversal of net charges made for retirement benefits in accordance with FRS17	<b>(2,463)</b>	<b>(4,000)</b>
<b>Actual amount charged against the General Fund Balance for pensions in the year</b>		
- Employers contributions payable to scheme by Watford BC	3,455	4,075
- Contributions payable by WCHT in respect of transferred staff	1,282	0
- less: contributions resulting from stock transfer	(1,282)	0
	<b>3,455</b>	<b>4,075</b>

During 2008/09 the contributions of £2.812million (representing 25.8% of employees' pensionable pay, when pension strain - the excess cost of early retirement - is excluded) were payable into the Hertfordshire pension scheme.

In addition the Council is responsible for all pension payments and related increases in respect of Pension strain. In 2008/09 these amounted to £1.263 million representing 11.6% of pensionable pay.

The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations.

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.

In addition to the recognised gains and losses included in the Income & Expenditure Account, actuarial (gains) and losses of £16.450 million (2007/08 £ (4.091) million WBC £ (1.282) million WCHT as restated) were included in the Statement of Total Recognised Gains and Losses (STRGL). The cumulative amount of actuarial gains and losses recognised in the STRGL is £3.993 million.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The estimated employer contributions for the year to 31 March 2010 will be approximately £2,903,900 as reported in the Actuarial report

### Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

	2007/08 £000	2008/09 £000
Net Pensions Liability as at 1 April	(36,804)	(23,379)
Contributions paid	4,737	4,198
Current Service Costs	(2,329)	(1,427)
Past Service Costs	(333)	(860)
Gain / (Loss) on Curtailments	0	(260)
Compulsory added-years	425	0
Expected return on Pension Fund Assets	6,804	5,794
Interest on Pension Fund Liabilities	(7,030)	(7,247)
Actuarial Gains / (Losses)	4,091	(16,573)
Prior year adjustment	7,060	0
<b>Net Pensions Liability as at 31 March</b>	<b>(23,379)</b>	<b>(39,754)</b>

Reconciliation of fair value of the scheme assets:

1 April 2008	94,485	82,595
Expected rate of return	6,804	5,794
Actuarial Gains / (Losses)	(13,821)	(25,489)
Employer Contributions	4,737	4,198
Assets distributed on Settlements	(5,831)	(708)
Contributions by scheme participants	712	717
Benefits paid	(4,491)	(4,361)
	0	
<b>31 March 2009</b>	<b>82,595</b>	<b>62,746</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experiences in the respective markets.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The actual return on scheme assets in the year was -£25.489 million (2007/08 -£13.821 million).

### Scheme History

	2004/05 *see note £000	2005/06 *see note £000	2006/07 As restated £000	2007/08 As restated £000	2008/09 £000
Present value of liabilities	(110,600)	(132,502)	(131,288)	(105,974)	(102,500)
Fair value of assets	66,089	87,767	94,485	82,595	62,746
<b>Surplus/(Deficit) in the Scheme</b>	<b>(44,511)</b>	<b>(44,735)</b>	<b>(36,803)</b>	<b>(23,379)</b>	<b>(39,754)</b>

\*The Council has elected not to restate the fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17 (as revised).

The liabilities show the estimated underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £102,500 million 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 £39,754 million net liability represents the difference between the value of the Council's pension fund assets at 31 March 2009 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 2009 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.

### 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 principal assumptions adopted were:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2007/08	2008/09
Rate of inflation	3.6%	3.1%
Rate of increase in salaries	5.1%	4.6%
Rate of increase in pensions	3.6%	3.1%
Rate for discounting scheme liabilities	6.9%	6.9%
Take-up of option to covert annual pension into retirement grant	50.0%	50.0%
<u>Mortality Assumptions</u>		
Longevity at 65 for current pensioners		
- Men	21.4	21.4
- Women	24.3	24.3
Longevity at 65 for future pensioners		
- Men	22.5	22.5
- Women	25.4	25.4
<u>Long-term expected rate of return on assets</u>		
Investments	7.7%	7.0%
Bonds	5.7%	5.4%
Property	5.7%	4.9%
Other Assets	4.8%	4.0%

The Scheme assets consist of the following categories, by proportion of the total assets held:

	31 March 2008 %	31 March 2009 %
Investments	73.0	67.0
Bonds	13.0	19.0
Property	6.0	4.0
Other Assets	8.0	10.0
	<b>100.0</b>	<b>100.0</b>

### History of experience Gains and Losses

The actuarial loss identified as movements on the Pension Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2009:

## NOTES TO THE CORE FINANCIAL STATEMENTS

	2004/05	2005/06	2006/07 As restated	2007/08 As restated	2008/09
	%	%	%	%	%
Difference between the expected and actual returns on assets	2.9	16.0	0.2	(16.7)	(40.6)
Experience gains and losses on liabilities	(15.5)	0.5	5.9	10.8	(16.2)

### 33. Net Assets Employed

	Restated 2007/08 £000	2008/09 £000
General Fund	157,991	154,268
Housing Revenue Account	1,255	1,233
Trading Operations	250	461
<b>Total Net Assets</b>	<b>159,496</b>	<b>155,962</b>

### 34. Contingent Assets and Liabilities

#### a) Contingent Liabilities

##### Municipal Mutual Insurance

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. No further information regarding the maximum repayment is available at this time.

MMI's accounts for the year ended 30 June 2008 include the statement that "The Directors remain of the view that a solvent run off is achievable on the basis that future investment income will be available to support the Company's operation". 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 THE CORE FINANCIAL STATEMENTS

### b) Contingent Assets

#### VAT Claim

Following a VAT Tribunal case (Fleming t/a Bodycraft) challenging the restriction that prevents the correction of VAT errors more than three years old, HM Revenue and Customs announced a 'transitional period' of twelve months, ending 31<sup>st</sup> March 2009, during which time VAT registered organisations were able to make claims for VAT overpaid from 1<sup>st</sup> April 1973 to December 1996. The Council worked with its advisors to identify opportunities to submit claims in respect of activities where the VAT liability had changed (either through HMRC review or litigation) but the Council had been prevented from making earlier claims due to the three year rule. As a result of this exercise claims totalling £687,482, plus interest, mainly in relation to EU rulings involving sporting activity exemptions, were submitted on the Council's behalf. HMRC are now in the process of verifying and repaying claims submitted on this basis, but we understand that this exercise could take up to one year to complete due to the volume of claims received.

#### WCHT VAT Shelter Agreement

Watford Borough Council employed a VAT structure scheme when the Council's housing stock was transferred to the Watford Community Housing Trust (WCHT). The scheme involves the Council contracting with WCHT for the Trust to deliver works and this enabled the WCHT to recover VAT on those future major works. Both the WCHT and the Council gain by these arrangements. The recovery of VAT on major works will amount to an estimated £18 million, of which the first £1.1 million will be paid to Watford Borough Council along with 50% of the remaining £16.9 million. The rate at which this sum is received will depend on the WCHT work programme. However, £1,050K has been received during 2008-09 leaving a contingent asset of approximately £8.5 Million which will be received in the future.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 35. Reserves and Revenue Balances

#### a) Summary of Movements on 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 and balances are shown below:

Reserve	Balance at 1 April 2008 £000	Net Movement in Year £000	Balance at 31 March 2009 £000	Purpose of Reserve	Further Detail Note
Capital Adjustment Account	128,589	(3,761)	124,828	Store of capital resources set aside to meet past expenditure	Note 35b
Financial Instruments Adjustment Account	(80)	1	(79)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	Note 35c
Revaluation Reserve	4,018	19,422	23,440	Store of gains on revaluation of fixed assets not yet realised through sales	Note 35d
Deferred Capital Receipts	1,500	24	1,524	Sum of future capital receipts deferred until capital benefit can be realised	Note 35e
Useable Capital Receipts	36,155	(3,520)	32,635	Proceeds of fixed asset sales available to meet future capital investment	Note 35f
Pensions Reserve	(23,379)	(16,374)	(39,753)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 32
Earmarked Reserves	9,999	285	10,284	See Note for Detail	Note 35g
General Fund Balance	1,337	359	1,696	Resources available to meet future running costs	Page 40
Collection Fund	102	52	154	Balance of taxpayers' income attributable to WBC	Collection Fund Page 101
Housing Revenue Account Balance	1,255	(22)	1,233	See Note for Detail	HRA Page 96
<b>TOTAL NET WORTH</b>	<b>159,496</b>	<b>(3,534)</b>	<b>155,962</b>		



## NOTES TO THE CORE FINANCIAL STATEMENTS

### b) Capital Adjustment Account

The balance on this account represents the timing differences between the amount of the of the historical cost of fixed assets that have been consumed and the amount that has been financed in accordance with statutory requirements.

	£000	2008/09 £000
Balance brought forward at 1 April 2008		128,589
<u>Historical cost of acquiring, creating or enhancing fixed assets</u>		
- Depreciation and impairment losses	(9,128)	
- Historical cost depreciation and impairment loss adjustment	(2)	
- Book value of assets on disposal	(795)	
- Transfer of revaluation gains for assets outstanding on disposal	(586)	(10,511)
<u>Resources set aside to finance capital expenditure</u>		
- Capital Receipts	6,417	
- Direct Revenue Financing	18	
- Voluntary revenue contribution for capital financing	32	
- Government Grants and Contributions Deferred	283	6,750
<u>Revenue Expenditure Funded from Capital under Statute</u>		0
<b>Balance carried forward at 31 March 2009</b>		<b>124,828</b>

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

A debit balance on the Account shows that fixed assets have been consumed in advance of their being financed, and the Council has a nominal deficit when comparing financing to consumption of resources.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### c) Financial Instruments Adjustment Account

This Account provides a balancing mechanism, holding the accumulated difference between the financing costs included in the Income and Expenditure Account and the accumulated financing costs required in accordance with regulations to be charged to the General Fund Balance.

	2008/09 £000
Balance brought forward at 1 April 2008	(80)
Financing costs written out	1
Government Grants Deferred	0
Premiums / Discounts on early repayment of debt	0
<b>Balance carried forward at 31 March 2009</b>	<b>(79)</b>

### d) Revaluation Reserve

The balance on the Revaluation Reserve represents the amount by which the current value of fixed assets carried in the Balance Sheet is greater because they are carried at re-valued amounts rather than depreciated historical cost.

	2008/09 £000
Balance brought forward at 1 April 2008	4,018
Gains / (Losses) on revaluation of fixed assets	22,477
Historical Cost depreciation adjustment	(2,921)
Write-out of balances on assets disposed	(134)
<b>Balance carried forward at 31 March 2009</b>	<b>23,440</b>

### e) Deferred Capital Receipts

Deferred Capital Receipts 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 forms part of the mortgages under long term debtors. In addition, equity interest in the rent to mortgage scheme is included the total deferred credit amounts to £1.524million.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### f) Useable Capital Receipts

The Useable Capital Receipts Reserve holds capital receipts from the sale of assets which have been received and have not yet been used to finance capital expenditure. The balance on the Reserve is held to fund future years' expenditure in the approved Capital Budget.

	£000	2008/09 £000
Balance brought forward at 1 April 2008		36,155
<u>Received in year</u>		
- Loan repayments	64	
- Proceeds from sale of fixed assets	828	
- Repayment of receipts applied as forward funding of capital spend in prior years	0	
- Receipts not related to asset sales	2,076	
- Repaid discounts	0	2,968
<u>Applied in year</u>		
- Transferred to Capital Adjustment Account to finance new capital expenditure	(6,395)	
- Commutation	(22)	
- Transferred to Capital Reserves to finance previous capital spend		
- Pooling of Housing Capital Receipts	(71)	(6,488)
<b>Balance carried forward at 31 March 2009</b>		<b>32,635</b>

### g) Earmarked Reserves

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

For each Reserve established the Council identifies:

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

**NOTES TO THE CORE FINANCIAL STATEMENTS**

	<b>Balance at 1 April 2008 £000</b>	<b>Appropriations to Reserve £000</b>	<b>Appropriations from Reserve £000</b>	<b>Balance at 31 March 2009 £000</b>
Charter Place Tenants Reserve	1,902	168	(645)	1,425
Repairs Fund - Le Marie Reserve	14	0	(1)	13
Multi-Storey Car Park Repair Reserve	153	26	(41)	138
Car Parking Zones Reserve	682	175	0	857
Special Project Reserve	2,059	0	(513)	1,546
Leisure Redevelopment Reserve	500	0	0	500
Herts Young People's Project Reserve	62	32	(21)	73
Private Sector Bond Reserve	65	35	0	100
LABGI Reserve	730	83	0	813
Spend to Save Reserve	1,755	488	0	2,243
Local Development Plan Reserve	264	44	0	308
Leisure Services Corporate Reserve	123	115	0	238
Energy Fund Reserve	190	0	(44)	146
Economic Impact Reserve	500	0	0	500
Pension Funding Reserve	1,000	0	0	1,000
Concessionary Fares Reserve	0	145	0	145
Recycling Reserve	0	85	0	85
Area Based Grant Reserve	0	154	0	154
<b>Total 2008/09</b>	<b>9,999</b>	<b>1,550</b>	<b>(1,265)</b>	<b>10,284</b>
<b>Total 2007/08</b>	<b>7,776</b>	<b>5,122</b>	<b>(2,899)</b>	<b>9,999</b>

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

<b>Reserve</b>	<b>Purpose</b>
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.
Hertfordshire Young People's Project Reserve	to assist with homelessness among young people
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

## NOTES TO THE CORE FINANCIAL STATEMENTS

	service
Energy Fund Reserve	to fund energy saving initiatives to reduce energy consumption.
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
Concessionary Fares Reserve	Arising from reduced amount of expenditure on concessionary fares in 2008/09 compared to budget this reserve, totalling £145k, has been created to 'smooth out' potential increased expenditure in future years in an area which is prone to fluctuations
Recycling Reserve	The Council was awarded additional income of approximately £85k in 2008/09 for exceeding its recycling target. The recycling budget will come under pressure in 2009/10 due to falling prices for recyclable materials. A reserve for this amount will help to 'smooth out' these potential one-off reductions in income
Area Based Grant Reserve	This grant replaces specific government grants given by the government in respect of areas such as ,Preventing Violent Extremism and Anti Social Behaviour. The creation of this reserve totalling £154k relates to the residual amount of grant that remains to be spent at the balance sheet date

### h) Revenue Balances

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

	2007/08 £000	2008/09 £000
General Fund	1,337	1,696
Housing Revenue Account	1,255	1,233
Collection fund	102	154
	<b>2,694</b>	<b>3,083</b>

### 36. Prior Period Adjustments

The Hertford County Council Pension Fund provide the information needed to produce the pension accounting required by Watford Council, and it was discovered that the HCC had included liabilities for Compensatory added year twice, and the removal of £7.060 Million liabilities was necessary to correct the 31.03.08 balance. The effect of this was to improve the net worth of the Council by 4.4%

### 37. Events After the Balance Sheet Date

No material events after the Balance Sheet date have been identified.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 38. Authority to Issue

The Statement of Accounts were authorised for issue by Bernard Clarke, Head of Strategic Finance on 26 June 2009.

Only events which have taken place prior to this date will have been recognised in the Statement of Accounts 2008/09.

### 39. Notes to the Cash Flow Statement

#### a) Reconciliation of Net (Surplus)/Deficit on the Income and Expenditure Account to Net Cash Flow from Revenue Activities

2007/08 £000		2008/09 £000
370,758	<b>(Suplus) / Deficit on Income and Expenditure Account</b>	7,080
34	<b>(Suplus) / Deficit on Collection Fund</b>	(310)
	<b>Adjustments for non-cash transactions</b>	
(8,274)	Amortisation, depreciation and impairment of fixed assets	(9,562)
689	Amortisation of Deferred Government Grants	0
(366,643)	Net gain/(loss) on disposal of fixed assets	241
992	Net charges made for retirement benefits in accordance with FRS17	75
(2,048)	Other non-cash transactions (e.g. provisions)	2,101
<b>(375,284)</b>		<b>(7,145)</b>
	<b>Items on an accruals basis</b>	
(4)	Increase / (Decrease) in Stocks and Work-in-Progress	(24)
(3,373)	Increase / (Decrease) in Debtors and Payments in Advance	133
(2,726)	(Increase) / Decrease in Creditors and Receipts in Advance	(131)
0	Other Accruals	2
<b>(6,103)</b>		<b>(20)</b>
	<b>Items identified elsewhere on the Cash Flow Statement</b>	
(80)	Interest payable and similar charges	(6)
2,552	Interest receivable	2,493
<b>2,472</b>		<b>2,487</b>
<b>(8,123)</b>	<b>NET CASH (INFLOW)/OUTFLOW FOR REVENUE ACTIVITIES</b>	<b>2,092</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS**

**b) Reconciliation of Movement in Cash to Movement in Net Debt**

	£000	2008/09 £000
<b>Increase / (Decrease) in cash for the period</b>		<b>(628)</b>
Cash (inflow)/outflow from increase in liquid resources		(1,100)
<b>Changes in net debt resulting from cash flows</b>		<b>(1,728)</b>
Non-cash changes in net debt		594
<b>Movement in net debt in the period</b>		<b>(1,134)</b>
<b>Net Debt at 1 April 2008</b>		<b>48,485</b>
<b>Balance carried forward at 31 March 2009</b>		<b>47,351</b>

**c) Analysis of Changes in Net Debt**

	As at 1 April 2008 £000	Cash Movement £000	Non-cash Movement £000	As at 31 March 2009 £000
Bank and Cash in Hand	1,100	(348)	0	752
Bank Overdraft	(715)	(280)	0	(995)
	385	(628)	0	(243)
Current Asset Investments	48,100	(1,100)	594	47,594
<b>Total Net Debt</b>	<b>48,485</b>	<b>(1,728)</b>	<b>594</b>	<b>47,351</b>
<b>Total 2007/08</b>	<b>28,257</b>	<b>21,228</b>	<b>133</b>	<b>49,618</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### d) Items included within 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.

The movement in liquid resources in the year is shown below:

	2008/09 £000
<b>Liquid Resources (Investments and Bank Deposits)</b>	
New investments raised	865,444
Investments repaid	(866,544)
Interest accrued	594
<b>Net movement in liquid resources</b>	<b>(506)</b>

### e) Analysis of Government Grants

	2007/08 £000	2008/09 £000
Revenue Support Grant	1,130	977
Non-domestic Rates redistribution	6,735	7,015
DWP - Housing Benefits	25,552	27,418
Homelessness Grant	185	185
Council Tax Benefit Administration Grant	707	681
Planning Delivery Grant	370	205
Local Authority Business Growth Incentive	70	83
Area Based Grant	0	224
	<b>34,749</b>	<b>36,788</b>



**NOTES TO THE CORE FINANCIAL STATEMENTS**

**40. Capital Expenditure and Financing**

**a) Summary of Capital Expenditure**

2007/08		2008/09		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
	<b>IT Systems</b>			
163	PC and printer replacement	122	137	15
70	Customer Relationship Management Middleware	185	108	(77)
2	IT Systems Development	79	119	40
196	Document Mangement Processing	0	0	0
11	Electoral Services	0	0	0
2	Environmental Health IT System	39	22	(17)
13	Service Transformation GIS	0	0	0
457		425	386	(39)
	<b>Environmental Services</b>			
207	Recycling Kerbside Vehicles (x2)	0	0	0
163	Green Spaces Strategy	219	142	(77)
0	Depot Ramp and enhancements	11	40	29
0	Noise monitoring equipment	25	25	0
0	Charter Place Toilet refurbishment	166	101	(65)
46	Public Toilet refurbishment	203	201	(2)
0	Building safer Communities	0	43	43
145	Pop-up Toilets	0	0	0
10	Recycling Containers	30	30	0
44	Streetcare Depot Improvements	62	62	0
615		716	644	(72)
	<b>Community Services</b>			
303	Cardiff Road Health Campus	105	91	(14)
0	Citizens Advice	18	16	(2)
0	Holywell Community Centre	27	17	(10)
0	Orbital Community Centre	51	0	(51)
22	Charter Place market refurbishment	125	100	(25)
0	Charter Place redevelopment	0	118	118
4	Community Centre (Inc BECC) refurbishment	0	0	0
329		326	342	16
	<b>Leisure Services</b>			
16,170	Redevelopment of Leisure Facilities	4,200	4,538	338
0	Westfield Pitch	3	3	0
0	Woodside stadium	577	213	(364)
0	Museums and galleries	10	8	(2)
16,170		4,790	4,762	(28)
<b>17,571</b>	<b>carried forward</b>	<b>6,257</b>	<b>6,134</b>	<b>(123)</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS**

2007/08		2008/09		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
<b>17,571</b>	<b><i>brought forward</i></b>	<b>6,257</b>	<b>6,134</b>	<b>(123)</b>
	<b>Property Services</b>			
25	Bushey Arches Improvements	132	132	0
151	Civic Quarter	76	24	(52)
0	Demolition Cardiff road units	105	86	(19)
0	Charter Place Shopping centre CCTV	105	0	(105)
0	Town Centre CCTV	56	0	(56)
0	York House Fire alarms	50	0	(50)
0	Emergency lighting community centres	20	0	(20)
30	Rickmansworth Road repairs	0	0	0
7	Refurbishment of Holywell CC	0	0	0
213		544	242	(302)
	<b>Planning &amp; Transportation Services</b>			
83	Surface car parks	65	103	38
	<b>Corporate Services (Community Safety)</b>			
36	Town Centre CCTV System Upgrade	0	0	0
0	Staff Amenity Area	84	83	(1)
0	Refurbishment - Town Hall & Colosseum	517	301	(216)
2	Bushey Arches (CCTV)	0	0	0
52	Automatic Number Plate Recognition	0	0	0
90		601	384	(217)
	<b>Housing Services</b>			
3	CPO of Private Sector Dwellings	240	15	(225)
0	Choice Based Letting	22	22	0
0	Stock Condition Survey	25	0	(25)
1,390	Housing Transfer Costs	0	436	436
81	Tibbles Close Hostel	34	32	(2)
1,474		321	505	184
<b>19,431</b>	<b><i>carried forward</i></b>	<b>7,788</b>	<b>7,368</b>	<b>(420)</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS**

2007/08		2008/09		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
19,431	<i>brought forward</i>	7,788	7,368	(420)
	<b>Capital Grants</b>			
65	Grants to Housing Associations	0	0	0
0	Watford New Hope Trust	12	12	0
390	Private Sector Housing Renewal	120	80	(40)
131	Disabled Facilities Grants	750	644	(106)
13	Home Repair Assistance Grants	0	17	17
48	Common Parts Renovation Grants	0	14	14
30	LGHA 1989 Act DFGs	0	5	5
677		882	772	(110)
	<b>Works under Section 106</b>			
69	Town Scheme Enhancements	38	35	(3)
113	Cassiobury Park Green Flag Status	0	3	3
0	Other Schemes	585	123	(462)
105	Watford Fields Upgrade	0	0	0
287		623	161	(462)
60	Commutation Adjustment Charge	64	22	(42)
20,455	<b>Total General Fund Capital Expenditure</b>	9,357	8,323	(1,034)

**NOTES TO THE CORE FINANCIAL STATEMENTS**

2007/08		2008/09		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
20,455	Total General Fund Expenditure	9,357	8,323	(1,034)
3,657	Total Housing (HRA) Expenditure	0	0	0
<b>24,112</b>	<b>Total Capital Expenditure</b>	<b>9,357</b>	<b>8,323</b>	<b>(1,034)</b>
	<b>Total capital expenditure comprises:</b>			
17,844	Expenditure adding value	6,475	5,787	(688)
5,189	Non-enhancing expenditure	1,948	1,741	(207)
329	Intangible Fixed Assets	0	0	0
750	Revenue Expenditure Funded from Capital Under Statute	934	795	(139)
<b>24,112</b>		<b>9,357</b>	<b>8,323</b>	<b>(1,034)</b>

**b) Commitments under Capital Contracts**

At 31 March 2009 the Council had contractual commitments totalling £0.560 million relating to the following capital schemes for which the Council has in place the necessary funding.

	Period over which investment will take place	Commitments £000
Redevelopment of Leisure Centres	2009/10	340
Refurbishment of Colosseum	2009/10	220
<b>Total commitments under Capital Contracts</b>		<b>560</b>

**c) Capital Financing Requirement**

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 therefore reflects the movement in the Balance Sheet Accounts for Fixed Assets, Capital Adjustment Account, Government Grants and Contributions Deferred and the Revaluation Reserve.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The net movement in the Capital Financing Requirement illustrates the change in the Council's underlying need to borrow (either temporarily from bank overdraft or by long term term borrowing) to fund capital investment which cannot be funded immediately from existing resources. This statement does not determine the Minimum Revenue Provision which is now determined by the adjusted credit ceiling from 2004. The Council remains debt free and does not need to make a MRP, however a voluntary contribution has been made due to the taking up of Finance leases.

2007/08 £000		2008/09 £000
2,666	<b>Opening Capital Financing Requirement</b>	2,666
	<b>Capital Investment in Year</b>	
23,033	Tangible Fixed Assets	7,529
329	Intangible Assets	0
0	Finance Leases	169
750	Revenue Expenditure Funded from Capital Under Statute	795
<b>24,112</b>		<b>8,493</b>
	<b>Direct Funding of Capital Investment in Year</b>	
(671)	Government Grants and Other Contributions	(1,888)
(20,812)	Capital Receipts	(6,395)
(60)	Commutation	(22)
0	Direct Revenue Financing	(18)
(2,569)	Major Repairs Reserve	0
<b>(24,112)</b>		<b>(8,323)</b>
0	Voluntary Revenue Provision	(35)
<b>0</b>	<b>Net increase in Capital Financing Requirement</b>	<b>135</b>
<b>2,666</b>	<b>Closing Capital Financing Requirement</b>	<b>2,801</b>



# **SUPPLEMENTARY FINANCIAL STATEMENTS**

## HOUSING REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2009

### Housing Revenue Account

The Housing Revenue Account has been prepared for 2008-09 even though the Housing stock and all assets have been transferred either to the Watford Community Housing Association or the Council's General Fund. The transactions for 2008-09 are belated entries from the transfer.

The Council will eventually be able to close the HRA and at that point no accounting will be required, however, until that point has been reached the account will appear as a discontinued operation. This is due to the stock having been transferred on the 10 September 2007.

2007/08 £000		Note	2008/09	
			£000	£000
	<b>Income</b>			
8,045	Dwelling Rents		(38)	
385	Non-dwelling Rents		0	
241	Charges for Services and Facilities		(3)	
47	Contributions toward Expenditure		0	
135	Other Income		0	
<b>8,853</b>	<b>Total Income</b>			<b>(41)</b>
	<b>Expenditure</b>			
3,274	Repairs and Maintenance		0	
2,263	Supervision and Management		0	
74	Rents, Rates, Taxes and Other Charges		0	
2,500	HRA Subsidy Payable		0	
6,559	Depreciation and Impairment of Fixed Assets		0	
(15)	Increased /(decreased) provision for Bad Debts		18	
<b>14,655</b>	<b>Total Expenditure</b>			<b>18</b>
<b>5,802</b>	<b>Net Cost of HRA Services</b>			<b>59</b>
363,474	(Gain) / Loss on Disposal of Fixed Assets			0
0	Interest payable and similar charges			30
(328)	Interest and investment income			(67)
<b>368,948</b>	<b>(SURPLUS) / DEFICIT FOR YEAR</b>			<b>22</b>

**STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE**

2007/08 £000		2008/09 £000
368,948	(Surplus)/Deficit for the year on the HRA	22
	<b>Additional items required by statute and non-statutory proper practices to be taken into account in determining the movement in the Housing Revenue Account Balance</b>	
(6,559)	Depreciation and Impairment of Fixed Assets	0
(363,474)	Gain / (Loss) on Disposal of Fixed Assets	0
(123)	Net Charges for Retirement Benefits	0
1,531	Transfers to Major Repairs Reserve	0
153	Employers Pension Fund Contributions	0
<b>476</b>	(Increase) / Decrease in General Fund Balance for the year	<b>22</b>
(1,731)	Housing Revenue Account Balance brought forward	(1,255)
(1,255)	Housing Revenue Account Balance carried forward	<b>(1,233)</b>



## COLLECTION FUND

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.

2007/08 £000		Note	2008/09	
			£000	£000
	<b>Income</b>			
39,743	Council Tax Payers	CF1	42,034	
5,076	Transfers from the General Fund - Council Tax Benefit		5,467	
57,048	Business Rate Payers	CF2	61,950	
<b>101,867</b>	<b>Total Income</b>			<b>109,451</b>
	<b>Expenditure</b>			
44,031	Precepts and Demands Business Rates	CF3	46,285	
56,860	- Payments to National Pool	CF2	60,715	
179	- Cost of Collection		182	
	Write-offs			
295	- Council Tax		278	
199	- Non-domestic Rates		710	
	Increase/(decrease) in provision for Bad and Doubtful Debts			
23	- Council Tax		387	
(190)	- Non-domestic Rates		343	
504	Distribution of previous years' Fund surplus		241	
<b>101,901</b>	<b>Total Expenditure</b>			<b>109,141</b>
<b>34</b>	<b>(Increase) / Decrease in Collection Fund</b>			<b>(310)</b>
(619)	Balance of Fund at 1 April 2008			(585)
<b>(585)</b>	<b>Balance of Fund at 31 March 2009</b>	CF5		<b>(895)</b>

## NOTES TO THE COLLECTION FUND

### CF1. Council Tax System

Under the Council Tax system, Watford Borough Council must collect each year enough money from local residents to cover the cost of the services we provide, not funded by sources such as Government Grants and charges for services. The Council must also collect its share of the cost of services provided by Hertfordshire County Council and Hertfordshire Police Authority.

Council Tax is payable on any dwelling which is not exempt. The amount of Council Tax that each household must pay depends upon the valuation band in which the property is placed based on valuations on 1 April 1991.

The amount of Council Tax charged is based on an estimate of the number of dwellings in each of the eight valuation bands, converted into an "equivalent number of Band D dwellings". The table below sets out the calculation of the Council Tax Base for 2008/09.

Valuation Band	Total Dwellings in Band	Discounts & Exemptions	Total Chargeable Dwellings	Conversion Fraction	Number of Band D Dwellings
A (Disabled Relief)	0	0.00	0.00	5/9	0.0
A	293	(59.25)	233.75	6/9	155.8
B	3,628	(616.50)	3,011.50	7/9	2,342.3
C	12,554	(1,528.75)	11,025.25	8/9	9,800.2
D	11,454	(1,079.25)	10,374.75	1	10,374.8
E	3,360	(234.00)	3,126.00	11/9	3,820.7
F	2,053	(132.75)	1,920.25	13/9	2,773.7
G	1,772	(108.00)	1,664.00	15/9	2,773.3
H	70	(12.75)	57.25	2	114.5
	<b>35,184</b>	<b>(3,771.25)</b>	<b>31,412.75</b>		<b>32,155.3</b>

The total number of "equivalent Band D dwellings" is divided into the total cost of services to arrive at an "average Band D Tax" per dwelling. Dwellings in bands below Band D will pay proportionately less than this average and dwellings in bands above Band D will pay proportionately more than this average.

### CF2. National Non-Domestic Rates

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

The Council is responsible for collecting the total amount of NNDR payable (less certain reliefs and other deductions) and paying this into a national fund - the 'Pool'. Central Government then re-distribute the amount paid into the Pool back to local authorities based on a standard amount per head of the local adult population.

The relevant rateable value and multiplier data for Watford is shown below:

## NOTES TO THE COLLECTION FUND

	2007/08	2008/09
Total Non-domestic Rateable Value at 31 March	£147,215,600	<b>£145,637,915</b>
National Non-domestic Rate Multiplier - Standard	44.4p	<b>46.2p</b>
National Non-domestic Rate Multiplier - Small Business	44.1p	<b>45.8p</b>

### CF3. Precepts and Demands on the Fund

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

	2007/08 £000	2008/09 £000
Hertfordshire County Council	32,312	<b>34,068</b>
Hertfordshire Police Authority	4,067	<b>4,307</b>
Watford Borough Council	7,652	<b>7,910</b>
	44,031	<b>46,285</b>

**NOTES TO THE COLLECTION FUND**

**CF4. Tax Payers' Arrears**

**a) Arrears and Prepayments**

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Council Tax Arrears	2,533	2,899
Community Charge Arrears	0	0
Business Rate Arrears	1,523	2,184
<b>Gross Tax Payers' Arrears at 31 March</b>	<b>4,056</b>	<b>5,083</b>
Council Tax Prepayments	(467)	(486)
Business Rate Prepayments	(1,471)	(895)
<b>Total Payers' Prepayments at 31 March</b>	<b>(1,938)</b>	<b>(1,381)</b>
<b>Total Net Tax Payers' Arrears at 31 March</b>	<b>2,118</b>	<b>3,702</b>

**b) Provision for Tax Payers' Bad and Doubtful Debts**

	<b>2007/08 £000</b>	<b>2008/09</b>	
		<b>£000</b>	<b>% of arrears</b>
Council Tax	567	954	33%
Community Charge	0	0	0%
Business Rates	278	621	28%
<b>Total Net Tax Payers' Bad Debt Provison</b>	<b>845</b>	<b>1,575</b>	

## NOTES TO THE COLLECTION FUND

### CF5. Collection Fund Balance

Surpluses and deficits on the Collection Fund are distributed / charged in the subsequent year. The surplus or deficit in respect of Council Tax is distributed between the major precepting authorities in proportion to the precepts levied.

The accumulated surplus at 31 March 2009 amounted to £0.895million and will be distributed in 2009/10. The amount attributable to each of the precepting authorities is shown below:

	<b>Balance at 1 April 2008 £000</b>	<b>Movement in Year £000</b>	<b>Balance at 31 March 2009 £000</b>
Hertfordshire County Council	429	229	658
Hertfordshire Policy Authority	54	29	83
Watford Borough Council	102	52	154
	<b>585</b>	<b>310</b>	<b>895</b>



# **GLOSSARY OF TERMS AND ABBREVIATIONS**

## GLOSSARY OF TERMS AND ABBREVIATIONS

### **Accounting Period**

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

### **Accruals**

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

### **Amortisation**

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

### **Billing Authority**

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

### **Capital Expenditure**

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

### **Capital 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 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.

## GLOSSARY OF TERMS AND ABBREVIATIONS

### **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.

### **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



## GLOSSARY OF TERMS AND ABBREVIATIONS

### **Long Term Debtors**

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

### **National Non-Domestic Rates (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.

### **Operating Lease**

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

### **Pension Fund**

An employees' pension fund maintained by an authority, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

### **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 (e.g. a County Council) requires from a Billing Authority (e.g. District Councils) 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 Expenditure Funded from Capital under Statute**

Capital expenditure which is allowable by statute to be funded from capital resources but which does not fall within the SORP's definition of fixed assets. Examples include grants and similar advances made to other parties to finance capital investment.

## GLOSSARY OF TERMS AND ABBREVIATIONS

### **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 Recommended Practice (SORP)**

The Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority. It prescribes the accounting treatments and disclosures for all normal transactions of an authority and involves interpretations of accounting standards issued by the Accounting Standards Board.

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

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





# **INDEPENDENT AUDITORS REPORT AND CERTIFICATE**

**INDEPENDENT AUDITORS REPORT AND CERTIFICATE**

**INDEPENDENT AUDITORS  
REPORT AND CERTIFICATE TO BE INCLUDED WHEN THE  
FINAL ACCOUNTS AUDIT HAS BEEN COMPLETED**

**INDEPENDENT AUDITORS REPORT AND CERTIFICATE**

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