



**STATEMENT OF ACCOUNTS
2009/10**

**AUDIT COMMITTEE
30 SEPTEMBER 2010**

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INTRODUCTION AND EXPLANATORY FOREWORD

INTRODUCTION

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31st March 2010.

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 46 to 47 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 108 to 112. The information can be viewed in large print on the Council's website at 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 727435, or email 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 120 presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2010 and its income and expenditure for the year ended 31 March 2010.

Signed	Date
Bernard Clarke CPFA Head of Strategic Finance	
Signed	Date
Ian Brown Chair – Audit Committee	

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 108 to 112.

During the compilation of the 2009/10 Accounts a number of presentational adjustments to the 2008/09 comparative figures were identified. These changes have been made in the necessary statements and the word 'restated' has been added to show that there has been a change to last year's published figures.

2. FINANCIAL STATEMENTS

The financial statements attached include the following:

a) Statement of Accounting Policies

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

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

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

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

This statement is fundamental to the understanding of a local authority's activities, in that it reports the gross and net cost for the year of all the functions for which the authority is responsible and demonstrates how those costs have been financed. The net operating expenditure for 2009/10 amounted to £23.653 million. After reversing items which have no impact on the Council Tax, the General Fund has a net break-even position after transferring £0.989 million from 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 £6.716 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. After transferring £0.989 million from earmarked reserves, the outcome is that the General Fund balance position has not changed and stood at £1.696 million as at 31st March 2010.

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.

EXPLANATORY FOREWORD

The statement reveals a decrease in net worth of £44.991 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 31st March 2010. The balance sheet total is £112.486 million which represents the net worth of the Council at that date.

The Fixed Assets had a net book value of £157.599 million at 31st March 2010, an increase of £3.059 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 £1.596 million.

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

The Housing Revenue Account records the financial position of the Council's statutory obligation to account separately for the costs of its housing provision. The transactions included in the HRA this year relate to items in existence prior to the transfer of the Council's Housing Stock on 10th September 2007. The surplus for the period is £18,204.

The accumulated reserve on the Housing Revenue Account increased from £1.233 million to £1.251 million as at 31st March 2010. It is anticipated that the remaining balance will be transferred to the General Fund at the end of the 2010/11 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 2009/10 amounted to £49.524 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 2009/10 amounted to £61.120 million.

The deficit for the year on the Collection Fund was £14,000, and the final balance on the Fund a surplus of £0.881 million. Watford Borough Council's proportion of the surplus is accounted for through the Collection Fund Adjustment Account shown on the Balance Sheet.

i) **Shared Services**

The Council's joint arrangement with Three Rivers District Council to provide shared Human Resources, Finance, Revenues & Benefits and ICT services became operational in April 2009. The full income and expenditure of the Shared Services are not reported in these financial statements – only Watford's share as shown in Note 17 on page 60. A separate set of accounts is prepared for the Shared Services Joint Board.

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 £78.694 million shortfall as calculated at 31st March 2010. While the figure is substantial, it should be remembered that:

- The deficit was increased by £40.456 million during 2009/10
- 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 78 to 82 of these statements.

4. CAPITAL

Capital expenditure during 2009/10 amounted to £ 8.664 million. The Council acquired a major new High Street building in year at a cost of around £4.2 million. Plans are already in place to undertake structural alterations to enable new tenants to take up the retail space providing a valuable rental stream for the Council.

5. CURRENT BORROWING

At the Council meeting held on 27 January 2010, 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 2010/11.

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 on page 11 shows the resources that have been generated and consumed by the Council in providing and managing services during the year.

The Council made a surplus of £158,000 in the year on its operations which has been transferred to the Spend to Save Reserve shown within the net transfers from reserve of £989,000. The General Fund Balance as at 31 March 2010 was unchanged at £1.696 million. Notable variations to budget included:

- Underspend on Shared Services Implementation costs of approximately £177,000 which would have been funded from reserves.
- Concessionary Fares (£250,000) is due to ending pooling arrangements of Watford's specific grant with other Hertfordshire Districts.

EXPLANATORY FOREWORD

- Controlled Parking Zone (£144,000) being the balance of net income to be transferred to the CPZ reserve largely relates to increased penalty charges income.
- Transport Subsidies (£124,000) – Hertfordshire County Council carried out a review in the early part of 2009/10 of the extent to which it would subsidise certain bus routes across the County. The consequence of that review is a saving of £124,000 which will accrue to Watford by the cessation of minor services and conversion of others to commercial operation.
- Rent Allowances and Council Tax rebates £200,000. This is largely made up of the claw back of Housing Subsidy of £188,000 relating to 2006/07. The amount is to be charged to a provision set up specifically for this purpose.
- Investment interest £270,000 under performance. The actual rate of return for 2009/10 was 2.0% compared to an estimate of 2.2% and would only account for £89,000 of the under performance. The major cause was the average size of the investment portfolio being lower than anticipated and is due to elements of the capital programme being spent.
- Additional contribution to the provision for Housing Benefit Subsidy losses of £300,000. The 2009/10 claim has yet to be audited and the 2008/09 claim has recently been qualified. Under the circumstances it is deemed prudent that the provision is increased.
- National Insurance surcharge £82,000 is due to the late submission of information to HMRC in 2006/07 and the Council has been penalised as a consequence.
- Provision for Bad Debts (£131,000). This has been reviewed and in the light of the Council's debt collection experience, it was felt that the Council was now overprovided and this has now been brought back into the accounts.

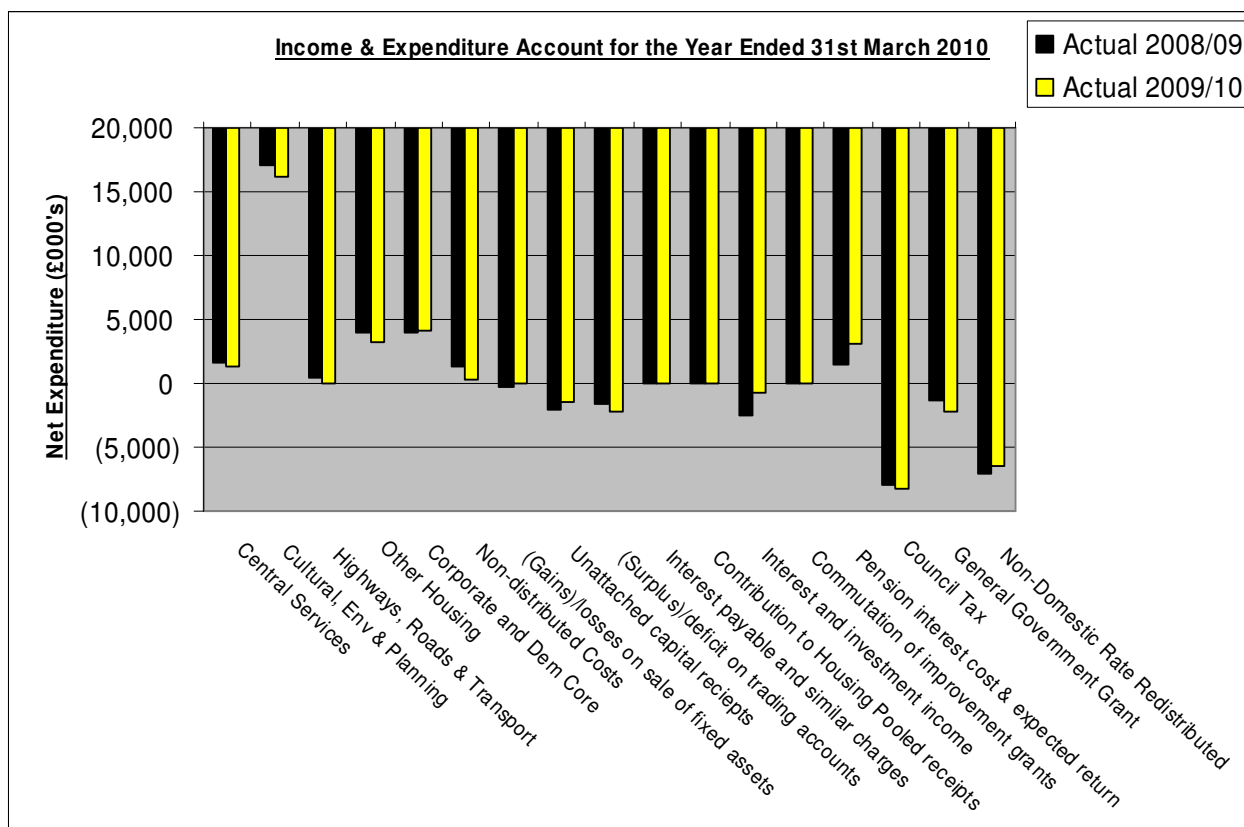
To support the revenue budget position a net transfer from reserves of £1.147 million was made resulting in a net surplus of £158,000 which has been transferred to the Spend to Save Reserve. More details of the transfers to reserves are set out on pages 87 to 89.

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	Net Expenditure		
	Original Budget £'000	Actual £'000	Over / (Under) £'000
SERVICE			
Central Services to the Public	1,432	1,258	(174)
Cultural, Environmental & Planning Services	15,827	16,109	282
Highways, Roads & Transport Services	683	22	(661)
Other Housing Services	5,806	3,242	(2,564)
Corporate and Democratic Core	5,107	4,112	(995)
Non-distributed Costs	269	252	(17)
Exceptional Items	0	0	0
Net Cost of Services	29,124	24,995	(4,129)
(Gains)/losses on sale of fixed assets	0	(16)	(16)
Unattached capital receipts	0	(1,488)	(1,488)
(Surplus)/deficit on trading accounts	(5,065)	(2,163)	2,902
Interest payable and similar charges	0	24	24
Contribution to Housing Pooled receipts	0	5	5
Interest and investment income	(1,013)	(746)	267
Commutation of improvement grants	(22)	0	22
Pension interest cost & expected return	0	3,060	3,060
Net Operating Expenditure	23,024	23,671	647
Less: Funding			
Council Tax	8,229	8,229	0
General Government Grant	2,189	2,189	0
Non-Domestic Rate Redistributed	6,526	6,526	0
	16,944	16,944	0
(Surplus)/Deficit for the Year	6,080	6,727	647
Less: amounts required by statute to be excluded from the General Fund Balance	(6,080)	(8,905)	(2,825)
Add: amounts required by statute to be included in the General Fund Balance	0	3,167	3,167
Transfers to/(from) reserves	0	(989)	(989)
(Increase)/Decrease in General Fund Balance in the Year	0	0	0
General Fund Balance at 1st April 2009	(1,696)	(1,696)	0
General Fund Balance at 31st March 2010	(1,696)	(1,696)	0

EXPLANATORY FOREWORD

A comparison of Net Expenditure for 2008/09 and 2009/10 is show 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 101 to 102.

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.

At the beginning of the year the Council held an HRA balance of £1.233 million. The outturn for 2009/10 was a net surplus of £18,204 arising from minor income and expenditure such as internal interest, adjustments in the provision for former tenant arrears and bad debts and previously unpaid utility charges, resulting in a balance of £1.251 million as at 31 March 2010.

Analysis of Income and expenditure is shown on page 43.

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Capital

The Council's capital expenditure was estimated at £12.152 million. Actual expenditure in the year was £8.664 million, mainly due to slippage. Further details are found on pages 95 to 98 with notable variations including:

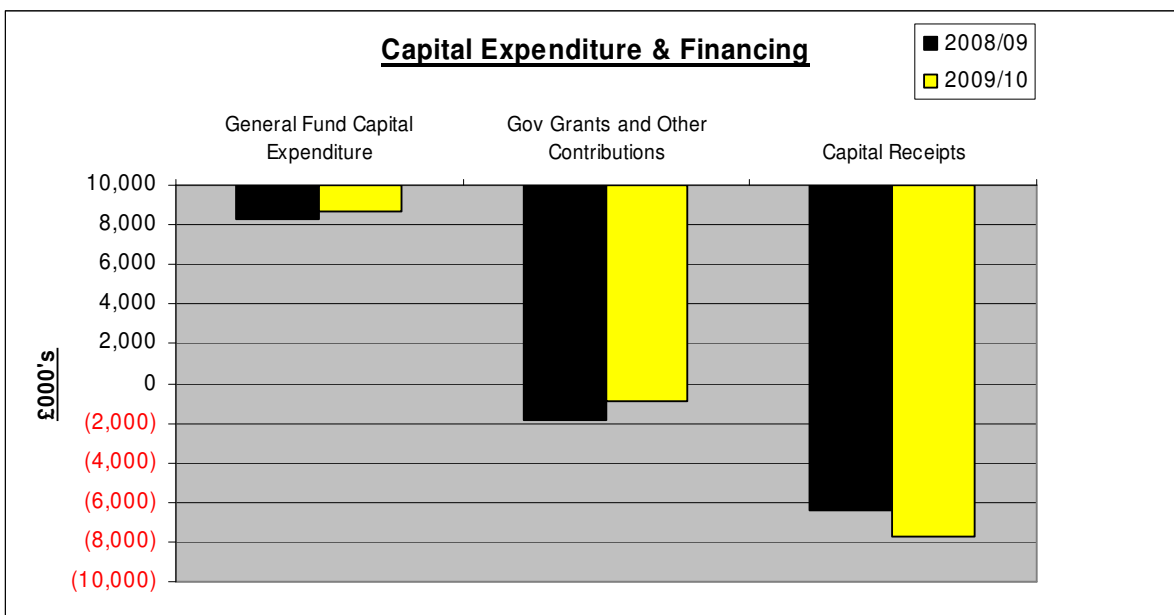
Adverse variances

- Reduced grant funding on Woodside Stadium track - £76,000
- Development consultancy fees of £166,000 for Charter Place have been capitalised

Favourable variances

- No identified spend on feasibility studies - £100,000
- Slippage on Cardiff Road Health Campus - £983,000
- Customer Relationship Management – no defined projects - £125,000
- No affordable housing schemes requiring funding - £450,000
- Slippage on refurbishment works to Town Hall and Colosseum - £768,000
- No spend on decent homes assistance - £150,000
- Slippage on Section 106 funded schemes - £620,000

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 changes to the accounting treatment for the Collection Fund – see Note 35 on page 90.

Major Capital Investment

A major investment property was acquired in the High Street (the former Woolworths store) at a total cost of £4.226 million.

Impact of the 'Credit Crunch'

The impact of the global economic downturn continues to impact on the Council, most significantly the fall in the value of investments in the Pension Fund. Watford Borough Council's deficiency is reported in the accounts at £78.694 million as at the 31 March 2010, and was stated at £38.238 million as at 1 April 2009, representing a £40.456 million adverse movement during the year.

9. CONCLUSION

Council net expenditure for 2009/10 was £16.786 million showing a surplus against budget of £158,000, which has been transferred to the Spend to Save Reserve to fund future initiatives.

There were a number of in-year significant variances including reduced investment interest and increased Housing Benefit expenditure which have been off-set by reductions in subsidies on bus routes, concessionary fares and shared serves.

On capital, the Council under spent its original budget by £3.488 million, with significant scheme slippages on Section 106 funded schemes, affordable housing and Cardiff Road Health Campus. Capital receipts at £26.646 million are sufficient to fund future year's capital programmes.

The Council's General Fund Working Balance was left unchanged at £1.696 million and additionally there is a HRA Working Balance of £1.251 million which will be transferred to the General Fund at the end of next financial year after obtaining approval from the Secretary of State. In addition, the Council has earmarked reserves totalling £9.295 million to cushion itself against future eventualities arising from further economic downturn or future changes in Government policy.





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 2009 – 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 33, page 83).

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%	2008/09 – 2009/10	25%
1 – 3 months	10%	2007/08	50%
3 – 6 months	25%	2003/04 – 2006/07	75%
6 – 12 months	75%	Prior to 1 st April 2003	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 100% of total debt outstanding as at 31st March 2010.

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 34 pages 85 & 86).
- Pension Reserve (See Note 31, page 78).
- Financial Instrument Reserves (Financial Instruments Adjustment Account) (See Note 34, page 85).

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 5.5% as at 31st March 2010. The rate as at 31st March 2009 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 2010 at bid value while at the 31 March 2009 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 41.16% (2008/09 20.28%)

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 2009. 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**

1 **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).

2 **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.

3 **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.

4 **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:

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- 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.

5 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.

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.

6 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

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

Grants and Contributions

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

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

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7 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.

8 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 2010 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.

9 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 2009/10, 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.

10 Disposal and Gains or Losses on Disposal

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

- 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.

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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 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.

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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.

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

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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.





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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. 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 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. This is shown in diagrammatic form, at the end of this statement, on page 41.
- 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 31st March 2010 and up to the date of approval of the Statement of Accounts for the 2009/2010 financial year.

3.0 Strategic Aims and Objectives

- 3.1 The Governance Framework enables the Council's key objectives to be met. Underpinning these overarching priorities are a series of measurable objectives, so that every member of staff and our community can feel fully engaged in the process.
- 3.2 The Council, under its statutory duty, plays a major role in 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 & West Herts. Chamber of Commerce, the Council for Voluntary Service, Hertfordshire NHS, 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 15th March 2010 and by full council on 26th May 2010; it covers the period 2010 – 2014.
- 3.3 The Corporate Plan is the key document for translating the aims and ambitions for Watford into a concise, readable document with SMART targets. (Specific, Measurable, Achievable, Resourced and Timely.)

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4.0 Decision Making Structures

- 4.1 Watford Borough Council has a directly elected Mayor (just one of 11 local authorities to have this form of leadership) and means that the community elect the person to lead the Council. The Mayor is supported by a Cabinet that plays a key role in determining the overall budget and policy framework of the Council. Each member of the Cabinet has a portfolio for which they are responsible and they can make decisions within their area responsibility.
- 4.2 The major check upon executive decisions taken by the Mayor and Cabinet is the Full Council, with key decisions such as setting the Annual Budget and establishing the Constitutional Framework can only be approved by Council.
- 4.3 In addition, the Council has three scrutiny panels which review and scrutinise the policy of the Council, its performance and its budget. There are also four further committees covering Development Control, Licensing, Audit and Functions.
- 4.4 At an officer level, the senior management comprises the Managing Director and two Executive Directors and is supported by Heads of Service. This combined management comprise the Leadership Team, who meet fortnightly to review and progress the key objectives of the Council.

5.0 The governance framework

- 5.1 The Council has approved a Code of Corporate Governance which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct.
- 5.2 The key documents driving the governance framework are included in the Council's Constitution (published in full on the Council's website www.watford.gov.uk). 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.
- 5.3 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.
- 5.4 Each year, the Full Council meeting sets key policies and objectives, including the corporate plan and the budget, as well as individual strategies for key activities.
- 5.5 The Council publishes its Corporate Plan annually, which sets out key service improvement priorities for the medium term, with targets for performance and deadlines for achievement. This has been informed by public consultation on the Sustainable Community Strategy and agreed by the Local Strategic Partnership, One Watford, and by consultation and surveys carried out on a range of topics. It is also informed by a detailed analysis and understanding of Watford in terms of what are the key issues and factors influencing the context of the borough. Feedback from Members and external review organisations is also taken into account, as is the Council's budget and financial planning.
- 5.6 The Corporate Plan is publicised and 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 report' on the Council's achievements and how well it has delivered its commitments within the Plan.
- 5.7 Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from Members include comments on financial, legal, equalities, sustainability, community safety and other appropriate issues such as potential risks to non achievement, all of which ensures that comprehensive advice is provided. Policy Development Scrutiny Committee considers selected topics

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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.

- 5.8 Monitoring reports on the achievement of service improvements and financial performance are submitted to Cabinet meetings, to the Call-In and Performance Scrutiny Committee and to the Budget Panel. 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.
- 5.9 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, 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.
- 5.10 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.
- 5.11 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.
- 5.12 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.
- 6.0 Operational Issues**
- 6.1 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 2009/2014.
- 6.2 The Council seeks to ensure 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

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- 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

- 6.3 Budget monitoring reports are produced monthly as a Finance Digest and distributed to all members of the Council. They are also submitted quarterly to Cabinet and six times a year to the Budget Panel and are discussed at quarterly review meetings between Executive Directors, Portfolio Holders and Heads of Service.
- 6.4 The Council has a complaints procedure, and reports on complaints and compliments are circulated to Senior Officers and discussed at quarterly review meetings and annually at Leadership Team. Similarly a record is kept of all Freedom of Information requests and this is continuously monitored to ensure compliance and reported to the Audit Committee.
- 6.5 A revised anti-fraud and corruption strategy (including the whistle blowing policy) was reviewed by Watford's Audit Committee in January 2010. It brings together best practice and also includes reference to fraud in partnering organisations and the voluntary sector. It is being promoted via the Intranet, the staff magazine (Wat's Up) and training sessions. Hard copies are available at Wiggshall Road Depot for staff without access to the Intranet and is referred to in Induction Training Programmes. Fraud reporting arrangements for residents have been improved with new entries in an updated version of the A to Z of council services which has been distributed to all homes in the Borough.
- 6.6 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 personal development planning process for every member having been established. The Council has attained the IDeA charter for member development.

7.0 Performance Management

- 7.1 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 is a key element of its performance management system. As part of this process the Council develops a four year medium term strategy, which it reviews annually and which is published in its Corporate Plan. This, in turn informs the four 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 are disseminated through the service delivery plans and unit plans to individual performance appraisals.
- 7.2 During the year performance is monitored regularly through a number of channels. The council services not within the shared services programme, are 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. For those services within shared services, this quarterly monitoring is achieved through reports to the Shared Services Joint Committee.
- 7.3 Leadership Team receive quarterly updates on progress against the Council's key performance indicators and monthly against 'managing the organisation' indicators, which are identified each year to measure key priorities and areas relating to the corporate health of the organisation. Quarterly performance 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.
- 7.4 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.

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8.0 Data Quality and Risk Management

- 8.1 The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the Council has a senior member of staff who acts as the Senior Information Risk Officer (SIRO) who is concerned with identifying and managing the information risks to the organisation and with its business partners.
- 8.2 There is a council wide Data Quality Champions Group which meets quarterly and adopts a risk based approach to data quality recognising that poor quality can seriously hinder the decision making process. The Council also has a Data Quality Policy and an Information Security Policy (both of which are held on the intranet). A data asset register is in place which provides a framework to monitor the councils information assets and assess risk in relation to these assets against loss, quality and/or achievement of targets. Information management training modules are also available for staff on the intranet.
- 8.3 All senior managers, staff responsible for Key Performance Indicators and staff with a strong information focus have received information governance training which has very much focussed upon accuracy, validity, reliability, timeliness, relevance and completeness. Members of the scrutiny committees have also received this training.
- 8.4 The Council's approach to risk management is governed by its Risk Management Strategy which has been approved by the Audit Committee and is overseen by the Risk Management Corporate Group. This leads to a consistent approach to risk management across the Council.
- 8.5 The Corporate Risk Register is considered and approved by the Leadership Team (the last consideration was on 23rd March 2010). Each service maintains its own risk registers and which shows the perceived impact and likelihood of risks, mitigating measures and responsible officers. These risks include fraud and data quality. All registers are dynamic and subject to regular review and challenge.
- 8.6 Training has been provided for the Audit Committee and four sessions have been held for staff (40 managers attended) in which risk management and the new Whistle blowing Policy were presented. A guidance note on risk management was sent out to every single member of staff with their payslips.
- 8.7 The Council's Risk Management guidance notes have been revisited and are available on the intranet. This includes a new section on how to approach risk management in partnerships, and the risk management section within the Partnership Framework has been revised. All committee reports contain a 'risk implications' section as an aid to decision taking.

9.0 Shared Services with Three Rivers District Council

- 9.1 Watford Borough Council has been a leading authority in developing a shared service for revenues, benefits, ICT, financial services, and human resources with the neighbouring district council. In order to monitor and control this arrangement a Shared Services Joint Committee was formed and had its first meeting on 6th October 2008 and comprises statutory officers from both councils and leading members.
- 9.2 The Joint Committee is required to produce its own statutory Statement of Accounts which are subject to audit by Watford Borough Council's external auditors. This process clearly provides a degree of comfort to both constituent authorities that good governance practices are being followed.
- 9.3 Reliance upon external audit scrutiny is totally insufficient however and prior to the start of the financial year the constituent bodies had put in place:
- * a detailed joint agreement which includes all aspects of best practice financial administration and risk management.
 - * detailed estimates to be approved by the constituent authorities prior to each financial year. Budget monitoring information provided to the constituent authorities on a monthly basis.
 - * the Joint Committee to receive detailed quarterly performance management monitoring reports.
 - * the draft Statutory Statement of Accounts to be considered and approved by the Joint Committee.
 - * the statutory Section 151 Finance Officer for Watford Council to attend all meetings of the Shared Services Joint Committee as an independent client and challenge agent.

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- 9.4 In addition to these embedded controls an assessment of key risks is considered as part of the fortnightly meetings of the Officer Shared Services Management Board (which is again attended by the statutory Section 151 officer for Watford). This has resulted in an independent 'health check' carried out in July 2010 into the revenues and benefits service; a similar external check into the service performance, service capacity, and effectiveness of the ICT structure is to be carried out in early September 2010.
- 9.5 During 2009/2010 Internal Audit (Deloittes) carried out planned audits into the HR and Payroll Shared Service. The Internal Audit Plan for 2010/2011 also includes 308 audit days (49%) in auditing systems and financial administration within the Shared Services operations.

10.0 Community Engagement

- 10.1 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. The Community Engagement Strategy provides an overarching framework and key principles for effective management.
- 10.2 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.
- 10.3 The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the Council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the Council magazine 'About Watford', 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.
- 10.4 The Council's Corporate Medium Term Plan, which runs for 4 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.
- 10.5 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.
- 10.6 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. The Citizens' Panel has recently been completely refreshed to ensure it is representative of the Watford community. 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.
- 10.7 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 value for money, protecting public funds and minimising risks and ensuring that benefits from organisations collaborating such as innovation and flexibility are realised.

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11.0 The Role of Audit

- 11.1 It is essential to appreciate that the governance framework and its compliance mechanisms must be distinguished from the role of audit which is to review the effectiveness of the compliance framework, not to be a substitute for it.
- 11.2 The Council's internal audit team carry out a programme of reviews during the year (39 such reviews during 2009/10) which are based upon a fraud risk assessment. As part of these audits, any failures to comply with legislation, Council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to Senior Officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported to quarterly reviews and to Leadership Team.
- 11.3 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.
- 11.4 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.
- 11.5 The 2009/10 Statement of Accounts is due to be approved by the Audit Committee on 30th June 2010.

12.0 Other Aspects of the Governance Framework

12.1 Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful.

The Council's Constitution sets out how members and officers ensure compliance with policies, procedures and legislation.

12.2 Whistle-blowing and arrangements for receiving and investigating complaints from the public.

An anti-fraud and corruption policy exists and arrangements for whistle-blowing are in place. Any allegations of fraud and corruption are pursued by dedicated staff.

12.3 Identifying the development needs of Members and Senior Officers.

Appropriate training is identified to support members and officers in relation to their strategic roles.

12.4 Establishing clear channels of communication with all sections of the community.

The Council has a Consultation Strategy and Communications Strategy which it follows in order to ensure accountability and encourage open consultation with the community and other stakeholders.

12.5 Incorporating good governance arrangements in respect of partnerships.

This issue is more prevalent with the implementation of shared service arrangements for back office services with Three Rivers District Council. The Council will seek to work with Three Rivers to ensure that good governance standards are maintained throughout these areas.

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13.0 Review of effectiveness

13.1 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. The Mayor and Portfolio Holders maintain a continuous review of the Council's policies, activities and performance of officers both through quarterly reviews and on a day to day basis.

13.2 The Cabinet on 14th December 2009 received a report upon achievement of Corporate and Service Plan Outcomes during 2009/10.

13.3 In addition, it is also necessary to specifically highlight other actions taken during the year. Key elements of the process of maintaining and reviewing the effectiveness of the governance framework is carried out through the Council's committee structure:

13.4 The Council:

- Approved the appointment of a suitably qualified Chief Finance Officer
- Extended the Terms of reference of the Call In and Performance Scrutiny Committee.
- Updated the Code of Corporate Governance
- Reminded Members of their responsibilities regarding the Register of Interests
- Noted the Executive Scheme of Delegation
- Reviewed the Members Performance Scheme
- Approved the appointment of a new Managing Director
- Approved changes to the Constitution
- Considered the Scrutiny and Neighbourhood Forums Annual Reports
- Reviewed the Standards Committee
- Approved the Medium Term Financial Strategy and the Asset Management and capital Strategies
- Considered the report of the Independent Members Remuneration Panel on the Scheme of Remuneration
- Approved procedures for performance management, budgetary control and service plans for the Shared Services operating units.
- Reviewed the Treasury management Strategy and Practice notes
- Agreed the Budget for 2010/2011
- Approved changes to the contract procedure rules.

13.5 The Cabinet:

- Received, from the Audit Commission, the Annual Audit and Inspection Letter relating to the 2008/2009 Financial Year.
- Approved report on Public Pride which focussed upon how the external community perceived the Council and its environment.
- Considered the Managing Director's annual Stock take report.
- Considered results of gypsy and traveller consultation
- Approved MTFS and Asset management/ capital Strategy
- Considered report on services for older people
- Approved commissioning and funding of voluntary sector
- Considered regular financial monitoring reports
- Approved half year and annual reviews of treasury management
- Approved sustainable procurement strategy
- Approved Equalities Scrutiny Review and the Single Equality Scheme
- Approved the Annual (planning) Monitoring Report and progress against the LDF
- Approved Corporate Plan 2010/2014
- Recommended budget, capital programme and council tax for 2010

ANNUAL GOVERNANCE STATEMENT

13.6 Council Functions Committee:

- Approved the Pay and Grading Scheme and Market Supplements Policy
- Approved Council Tax for 2010/2011

13.7 Standards Committee:

- Approved revised Code of Corporate Governance
- Considered the Annual Report for 2009/2010 of complaints/ referrals under the standards protocols.
- Through its sub committees considered complaints received regarding breaches to the code of conduct for councillors

13.8 Scrutiny Committees:

- Reviewed a range of activities and reported to Cabinet on suggestions for improvement
- Considered the results of the Scrutiny Survey
- Considered the annual Complaints Report and Sickness management
- Regular reviews of council performance (and KPIs)
- Overview of Sustainable Community Strategy
- Overview of Data Quality, Information and Security

13.9 Budget Panel:

- Considered and made recommendations to Cabinet re budget proposals and which included a review of spending priorities, savings and growth proposals and council tax levels and trends.
- Received training related to financial issues such as effective monitoring of budgets, medium term planning, asset management and capital planning, use of reserves and council tax setting.
- Considered all aspects of budgeting in a recession.
- Considered the Medium Term Financial Strategy and Outturn for the previous financial year.
- Considered value for money comparators for the Planning and Development Service.
- Received and considered regular budget monitoring reports.

13.10 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 an 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 quarterly reports on Treasury Management activities for 2009/2010.
- 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
- Received reports on FOI requests

13.11 Internal Audit:

- Have carried out a programme of audits (39) throughout the year across the Council's range of activities, achieving 94% of the audit work set out in the annual plan for 2009/10. 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 ensure improvement has been made. Failure to implement recommendations is reported, in the first instance, to the relevant Director, subsequently to Leadership Team/Quarterly reviews and Audit Committee.
- All internal audit staff are suitably experienced and qualified and work in accordance with CIPFA standards

ANNUAL GOVERNANCE STATEMENT

- The Audit Manager, in his report to the Audit Committee in June 2010, concluded that, based on the work done by internal audit, the control environment operates effectively and internal controls have been satisfactorily applied.
- 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.

13.12 The Audit Commission/ External Auditor (Grant Thornton):

- Issued its Annual governance report in September 2009. 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.
- Carried out the managing performance assessment – the council was assessed as 'performing well'.
- Issued council's Organisational Assessment from the Audit Commission which highlighted that the council is 'performing well'.
- Issued its Annual Audit and Inspection Letter in March 2010. 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.
- Reported upon the grant certification processes within the Council as part of the Annual Audit and Inspection Letter.

13.13 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
- Submitted a Single Equality Scheme Policy document.

ANNUAL GOVERNANCE STATEMENT

14.0 Significant Governance Issues

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

No.	Issue	Action	Lead	Update
1	Revenues and Benefits reconciliations between ICT systems urgently need to be addressed both for 2009/2010 and going forward.	A consultant has been engaged to undertake a comprehensive 'health check' into all aspects of the revenues and benefits service. This has identified further work needing to be carried out following an initial review by Capita Academy external consultants which identified a number of issues associated with the transfer of data from the Civica system to the Academy system. Most of these have now been actioned.	Head of Revenues and Benefits Shared Services.	Report to be issued by the middle of August 2010. A detailed Action Plan to be produced by end of August and to be reported to the Shared Services Joint Committee in September 2010. Internal Audit will monitor achievement against action plan target dates.
2	During 2009/10 a new Revenues and Benefits computer system, Academy, was implemented. During final accounts closedown differences were found in the balances carried forward from the old Civica system and those brought forward into Academy due to inadequate reconciliation of balances on system transfer.	Significant staff resource has been dedicated to identifying the differences, during final accounts closedown and this has been augmented by the engagement of capita external consultants.	Head of Revenue and Benefits Shared Services/ Head of Finance Shared Services	The difference of £555k of credit balances not brought forward into the Academy system has been identified to individual accounts and action is now being taken to transfer these onto Academy and process them accordingly. This must be actioned by 30 th September 2010...

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3	<p>The controls in place for the monitoring of the payroll service provided by NorthgateArinso require strengthening to ensure that quality and standards in the payment of employees is maintained. A particular issue has related to incorrect data relating to the P11D returns. Changes of key personnel at NorthgateArinso has resulted in poor performance and penalty clauses within the contract are due to be activated.</p>	<p>Officers are in the process of producing an action plan to ensure that suitable controls are implemented to rectify inaccuracies since the commencement of the contract in September 2009.</p>	<p>Head of Human Resources Shared Services</p>	<p>Action plan to be implemented by the end of September 2010</p>
4	<p>Problems with the Microsoft Exchange and with the age of Watford's Storage Area Network (SAN) resulted in considerable downtime and loss of service.</p>	<p>The Exchange issue has been resolved and a procurement exercise is currently in progress with a view to replace the SAN by March 2011.</p>	<p>Head of ICT Shared Services</p>	<p>Tenders for the SAN are due to be received by the end of August 2010.</p>

14.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements.

.....

Mayor

Date

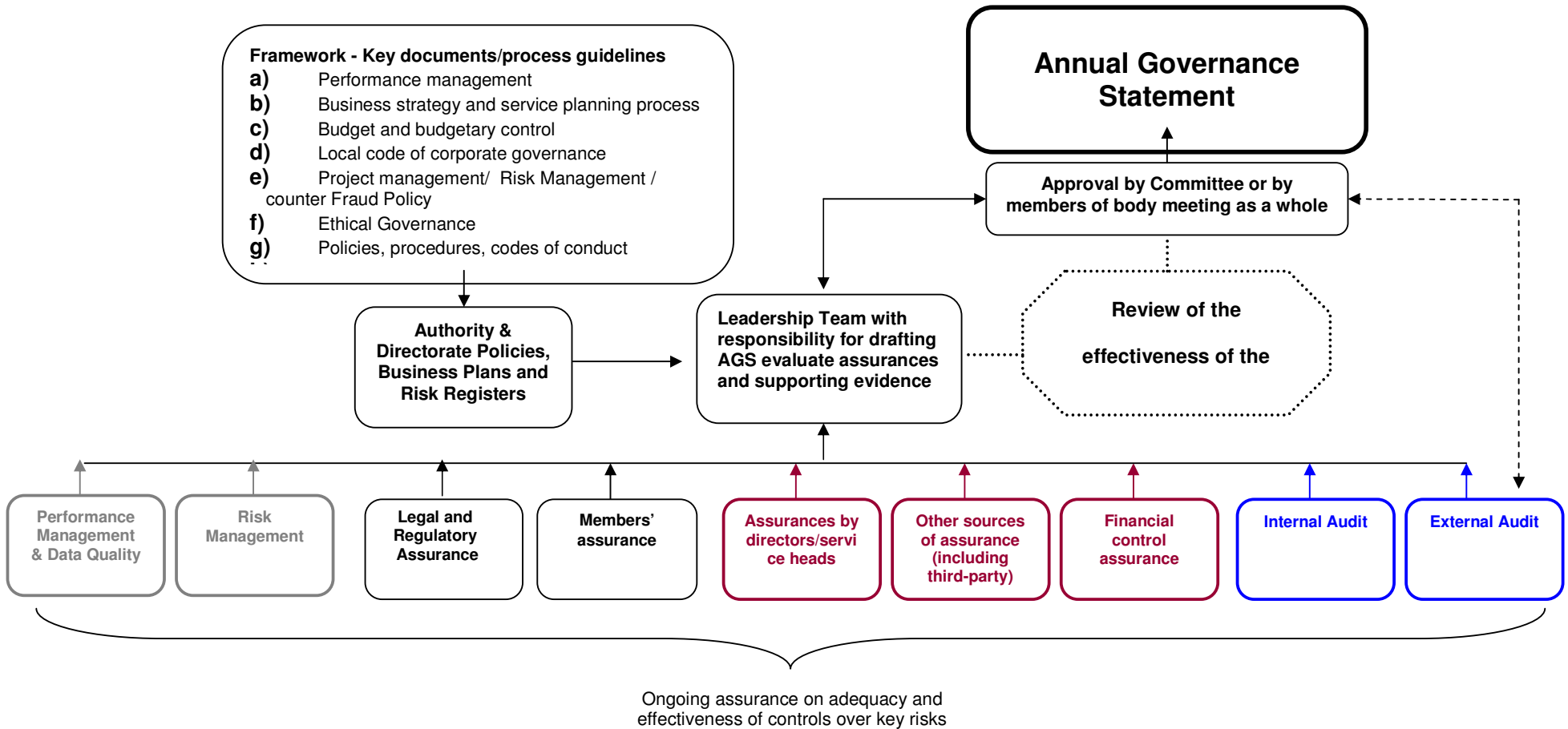
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Managing Director

Date

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ANNUAL GOVERNANCE STATEMENT FRAMEWORK





CORE FINANCIAL STATEMENTS

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

*Restated 2008/09 NET EXPENDITURE £000		Note	GROSS EXPENDITURE £000	2009/10 GROSS INCOME £000	NET EXPENDITURE £000
	Continuing Operations				
	Central Services:				
985	Council Tax Collection		1,226	(455)	771
623	Other Central Services		924	(438)	486
	Cultural, Environmental, Regulatory & Planning Services:				
5,857	Leisure Services		6,356	(948)	5,408
180	Cemeteries and Crematoria		513	(176)	337
1,955	Environmental Health		1,793	(384)	1,409
4,608	Waste Collection and Disposal		5,872	(1,417)	4,455
2,378	Planning and Development		3,128	(734)	2,394
2,023	Other Services		2,160	(54)	2,106
414	Highways and Transportation Services		5,449	(5,427)	22
3,931	Housing General Fund		39,576	(36,334)	3,242
3,966	Corporate and Democratic Services		4,444	(331)	4,113
1,254	Non Distributed Costs	2	252	0	252
28,174			71,693	(46,698)	24,995
	Discontinued Services transferred to Watford Community Housing Trust:				
22	Housing Revenue Account	3	18	(36)	(18)
28,196	NET COST OF SERVICES		71,711	(46,734)	24,977
(241)	(Gain) or loss on disposal of fixed assets				(16)
(2,076)	Unattached capital receipts				(1,488)
(1,600)	(Surplus) or deficit on trading undertakings not included in Net Cost of Services	5			(2,164)
6	Interest payable and similar charges				24
71	Contribution of Housing Capital Receipts to Government Pool				5
(2,456)	Interest and Investment Income				(745)
1,453	Pension interest costs and expected return on assets				3,060
(22)	Commutation of improvement grants				0
23,331	NET OPERATING EXPENDITURE				23,653
(8,004)	Demand on the Collection Fund*				(8,222)
(1,284)	General Government Grants	6			(2,189)
(7,015)	Non-domestic Rates redistribution				(6,526)
7,028	(SURPLUS) / DEFICIT FOR YEAR				6,716

*The prior year adjustment relates to a change in accounting practice in the 2009 SORP – further details are provided in Note 35, page 90.

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.

Restated 2008/09 £000		2009/10 £000
7,028	(Surplus)/Deficit for the year on the Income and Expenditure Account	6,716
(7,387)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(6,716)
(359)	(Increase) / Decrease in General Fund Balance for the year	0
(1,337)	General Fund Balance brought forward	(1,696)
(1,696)	General Fund Balance carried forward	(1,696)

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.

<i>Restated</i> 2008/09 £000		2009/10 £000
7,028	(Surplus) / Deficit for the year on the Income and Expenditure Account	6,716
(19,944)	(Surplus) / Deficit arising on revaluation of fixed assets	(798)
14,935	Actuarial (gains) / losses on pension fund assets and liabilities	39,073
2,019	Total recognised (gains) / losses for the year	44,991

BALANCE SHEET AS AT 31 MARCH 2010

<i>Restated</i> 2008/09 £000		<i>Note</i>	2009/10	
			£000	£000
	Tangible Fixed Assets			
	<u>Operational Assets</u>			
39,819	Land and Buildings		40,709	
3,410	Vehicles, Plant and Equipment		3,217	
0	Community Assets		0	
8,781	Infrastructure Assets		9,298	
52,010				53,224
	<u>Non Operational Assets</u>			
100,360	Investment Properties		102,140	
2,170	Surplus Assets		2,235	
102,530				104,375
154,540	Total Fixed Assets	19b		157,599
1,411	Long Term Debtors	23		1,463
155,951	TOTAL LONG TERM ASSETS			159,062
	Current Assets			
28	Stock and Work-In-Progress	24	37	
8,446	Debtors	25	17,397	
47,594	Investments	26	34,827	
744	Bank		387	
8	Cash in Hand		9	
56,820				52,657
212,771	TOTAL ASSETS			211,719
	Current Liabilities			
(10,181)	Creditors	27	(11,828)	
(995)	Bank Overdraft		(2,234)	
(11,176)				(14,062)
201,595	Total Assets less Current Liabilities			197,657
	Long Term Liabilities			
(3,065)	Government Grants & Other Contributions Deferred	28	(3,568)	
(1,857)	Government Grants & Other Contributions Unapplied	29	(1,811)	
(137)	Deferred Liabilities		(286)	
(821)	Provisions	30	(812)	
(38,238)	Liability related to Defined Benefit Pension Scheme	31	(78,694)	
(44,118)				(85,171)
157,477	TOTAL ASSETS LESS LIABILITIES			112,486

BALANCE SHEET AS AT 31 MARCH 2010- *continued*

<i>Restated</i> 2008/09 £000		<i>Note</i>	2009/10	
			£000	£000
	Financed by:			
124,828	Capital Adjustment Account	<i>34b</i>	126,135	
(79)	Financial Instruments Adjustment Account	<i>34c</i>	(78)	
154	Collection Fund Adjustment Account		147	
23,440	Revaluation Reserve	<i>34d</i>	24,541	
1,524	Deferred Capital Receipts	<i>34e</i>	1,547	
32,635	Useable Capital Receipts Reserve	<i>34f</i>	26,646	
(38,238)	Pensions Reserve	<i>31</i>	(78,694)	
10,284	Earmarked Reserves	<i>34g</i>	9,295	
154,548				109,539
	Revenue Balances			
1,696	General Fund Balance		1,696	
1,233	Housing Revenue Account Balance		1,251	
2,929				2,947
157,477	TOTAL NET WORTH			112,486

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

<i>Restated</i> 2008/09 £000		<i>Note</i>	2009/10 £000	
5,198	Net Cash (Inflow) / Outflow from Revenue Activities	38a		6,684
	Returns on Investment and Servicing of Finance			
	<u>Cash Outflows</u>			
2	Interest paid		0	
7	Interest element of finance lease rental payments		25	
			<u>25</u>	
	<u>Cash Inflows</u>			
(3,115)	Interest received		<u>(1,233)</u>	(1,208)
	Capital Activities			
	<u>Cash Outflows</u>			
8,453	Purchase of fixed assets		6,974	
0	Purchase of long term investments		0	
71	Other capital cash payments		0	
			<u>6,974</u>	
8,524				
	<u>Cash Inflows</u>			
(828)	Sale of fixed assets		(212)	
(1,821)	Capital grants received		(675)	
(3,165)	Other capital cash receipts		<u>(1,547)</u>	<u>(2,434)</u>
(5,814)				4,540
4,802	Net Cash (Inflow) / Outflow before financing			10,016
	Management of Liquid Resources	38d		
(1,100)	Net increase / (decrease) in short-term deposits		(12,400)	
(3,106)	Net increase / (decrease) in other liquid resources		<u>3,906</u>	(8,494)
(4,206)				
	Financing			
32	Capital element of finance lease rental payments			74
628	NET (INCREASE) / DECREASE IN CASH			1,596





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.

<i>Restated</i> 2008/09 £000		2009/10 £000
	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	
0	Amortisation of intangible fixed assets	0
(9,562)	Depreciation and impairment of fixed assets	(4,992)
283	Government Grants Deferred amortisation	410
(795)	Revenue Expenditure Funded from Capital Under Statute	(1,352)
241	Net gain/(loss) on disposal of fixed assets	16
2,076	Capital receipts not arising from the sale of fixed assets	1,488
	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
1	Net charges made for retirement benefits in accordance with FRS17	(4,476)
(4,000)		
(11,756)		(8,905)
	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	
0	Minimum revenue provision for capital financing	0
18	Capital expenditure charged in-year to the General Fund Balance	5
	Transfer to Collection Fund Adjustment Account in respect of accrued Council Tax income	(7)
52	Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(5)
(71)	Employer's contributions payable to the HCC Pension Fund and retirement benefits payable direct to pensioners	3,093
4,075		
4,074		3,086
	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	
(22)	Housing Revenue Account Balance	18
32	Voluntary revenue provision for capital financing	74
285	Net transfer to/(from) earmarked reserves	(989)
295		(897)
	Net additional amount required to be debited / (credited) to the General Fund Balance for the year	(6,716)
(7,387)		

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 31, page 78)

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:

	2008/09 £000	2009/10 £000
Strategic Services	1,492	1,783
Managing Director	604	661
Financial Services	1,543	1,483
Revenues & Benefits	582	505
Legal & Democratic Services	677	654
Personnel Services (Human Resources)	1,257	1,171
Information Technology	1,652	1,679
Office Accommodation	1,534	1,417
Total Overheads and Support Service Costs	9,341	9,353

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.

2008/09 £000 Net		2009/10		
		£000 Expenditure	£000 Income	£000 Net
(1,669)	Property Market	4,589	(6,927)	(2,338)
69		755	(581)	174
(1,600)		5,344	(7,508)	(2,164)

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:

	2008/09 £000	2009/10 £000
Revenue Support Grant	977	1,506
Local Authority Business Growth Incentive	83	52
Area Based Grant	224	285
Housing & Planning Delivery Grant	138	194
Performance Reward Grant	0	152
	1,422	2,189

In 2008/09 H&PDG was recognised as income in the Net Cost of Services, but carried forward as a creditor, having no impact on the I&E surplus. In 2009/10 the total accumulated H&PDG has been transferred to an earmarked reserve.

7. 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 2009/10 was as follows:

	2008/09 £000	2009/10 £000
Recruitment advertising	93	40
Other advertising	16	28
	109	68
Council activities	54	52
Other publicity	260	233
	314	285
	423	353

8. 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 2009/10 was £749,212 (£728,087 2008/09) mainly on donations to voluntary organisations or other charitable groups working within the local community

9. Building Control Account

The Building Control (Local Authority Charges) Regulations 1998 SI 1998/3129 which came into force on 1st April 1999 require local authorities to break even on chargeable building control services over a three year rolling period. The 2009 SORP removed the requirement for Local Authorities to publish this information within the Statement of Accounts, however the Council has deemed that in the interest of transparency and consistency this information will continue to be disclosed.

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

	2009/10		
	Non-Chargeable	Chargeable	Total
	£000's	£000's	£000's
Expenditure			
Employee Expenses	114	187	301
Premises	8	13	21
Transport	4	6	10
Supplies and Services	11	18	29
Support Services	96	59	155
	233	283	516
Income			
Building Regulation Fees	0	(249)	(249)
Other Income	(3)	0	(3)
	(3)	(249)	(252)
(Surplus) / Deficit for year	230	34	264
Comparatives for 2008/09			
Expenditure	203	332	535
Income	(3)	(221)	(224)
(Surplus) / Deficit for year	200	111	311

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 2009/10.

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 £0.460 million (£0.479 million in 2008/09).

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

13. Audit Costs

In 2009/10 the Council incurred the following fees relating to external audit and inspection:

	2008/09 £000	2009/10 £000
Fees payable to the appointed auditor (Grant Thornton) with regard to external audit services	128	120
Fees payable to the Audit Commission in respect of statutory inspection	9	9
Fees payable to Grant Thornton for the certification of grant claims and returns	31	18
Fees payable to the Audit Commission in respect of other services provided	19	1
	187	148

The element of Audit Fee shown above, referred to as 'other services', relates to the 2008-09 National Fraud Initiative work undertaken by the Audit Commission.

Not included above is Watford's share of the accrued audit fees for the Shared Service Joint Committee. A total of £10,800 has been accrued within the Shared Services accounts, of which the Council has been charged its share of £6,480

14. Officers Remuneration

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

Remuneration Band	2008/09 No. of Employees	2009/10 No. of Employees
£50,000 - £54,999	0	6
£55,000 - £59,999	2	3
£60,000 - £64,999	1	5
£65,000 - £69,999	3	3
£70,000 - £74,999	1	1
£75,000 - £79,999	1	1
£80,000 - £84,999	0	2
£85,000 - £89,999	0	0
£90,000 - £94,999	1	0
£95,000 - £99,999	2	2
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	1
£120,000 - £124,999	0	0
£125,000 - £129,999	1	0
£130,000 - £134,999	0	0
£135,000 - £139,999	0	0
£140,000 - £144,999	0	0
£145,000 - £149,999	1	0
	13	24

The number of officers whose total remuneration exceeded £50,000 has increased significantly from 13 in 2008/09 to 24 in 2009/10. In 2009/10, 6 officers have been included due to the payment of compensation for loss of office under the Council's restructuring exercise and therefore these officers will only be included for 2009/10.

In addition, a number of senior officers were appointed in 2008/09, and therefore with 2009/10 being their first complete financial year in office, they are included in the employee numbers given above for the first time .

In a small number of cases, the cost of living and other incremental increases have led to more officers total remuneration exceeding £50,000.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2008/09 Senior Officer Remuneration where the salary for the establishment post falls between £50,000 and £150,000

Post	Salary (including fees & allowances) £	Bonuses £	Expenses allowances £	Compensation for loss of office £	Total Remuneration excluding pension contribution £	Pension Contribution £	Total Remuneration £
Managing Director	143,650	5,400	-	-	149,050	39,945	188,995
Head of Revenues & Benefits	62,290	-	650	62,990	125,930	33,749	159,679
Director of Finance	97,680	-	700	-	98,380	26,366	124,746
Executive Director - Resources	95,510	-	700	-	96,210	25,784	121,994
Executive Director - Services	91,160	-	700	-	91,860	24,618	116,478
Head of Corporate Services	65,820	-	700	-	66,520	17,827	84,347
Head of Community Services	62,130	-	160	-	62,290	16,694	78,984
Head of Legal & Property Services	71,060	-	700	-	71,760	19,232	90,992
Head of Finance ¹	-	-	-	-	-	-	-
Head of Environmental Services	65,650	-	700	-	66,350	17,782	84,132
Head of Planning & Transportation ²	37,470	-	190	-	37,660	10,093	47,753
Head of ICT	65,650	-	700	-	66,350	17,782	84,132
HR Operations Manager	55,930	-	-	-	55,930	14,989	70,919
	914,000	5,400	5,900	62,990	988,290	264,861	1,253,151

¹ The Head of Finance joined the Council on 23 March 2009 – the annualised salary for the post is £66,650

² The Head of Planning & Transportation joined the Council on 18 August 2008 – the annualised salary for the post is £66,540

NOTES TO THE CORE FINANCIAL STATEMENTS

2009/10 Senior Officer Remuneration where the salary for the establishment post falls between £50,000 and £150,000

Post	Salary (including fees & allowances) £	Bonuses £	Expenses allowances £	Compensation for loss of office £	Total Remuneration excluding pension contribution £	Pension Contribution £	Total Remuneration £
Managing Director A ¹	84,431	3,110	-	-	87,541	23,148	110,689
Managing Director B ²	78,311	-	-	-	78,311	20,970	99,281
Director of Finance ³	3,543	-	11	114,727	118,281	141,097	259,378
Executive Director - Resources	98,510	-	300	-	98,810	26,401	125,211
Executive Director - Services	95,239	-	300	-	95,539	25,524	121,063
Head of Corporate Services	66,455	-	300	-	66,755	17,810	84,565
Head of Community Services	63,887	-	300	-	64,187	17,122	81,309
Head of Legal & Property Services	71,860	-	300	-	72,160	17,122	89,282
Head of Strategic Finance	68,729	-	307	-	69,036	-	69,036
Head of Environmental Services	66,455	-	300	-	66,755	17,810	84,565
Head of Planning & Transportation	63,077	-	300	-	63,377	16,905	80,282
Head of ICT A ⁴	2,202	-	10	43,911	46,123	30,809	76,932
Head of ICT B ⁵	61,430	-	150	-	61,580	1,464	63,044
HR Operations Manager ⁶	44,249	-	-	10,219	54,468	11,436	65,904
Head of Human Resources ⁷	54,270	-	150	-	54,420	14,544	68,964
	922,648	3,110	2,728	168,857	1,097,343	382,162	1,479,505

¹ The Managing Director A left the Council on 11 October 2009 – the annualised salary for the post is £135,920

² The Managing Director B joined the Council on 7 September 2009 – the annualised salary for the post is £135,920

³ The Director of Finance left on 13 April 2009 – the annualised salary for the post was £98,380

⁴ The Head of ICT A left on 12 April 2009 – the annualised salary for the post was £66,350

⁵ The Head of ICT B joined the Council on 12 April 2009 – the annualised salary for the post is £64,146

⁶ The HR Operations Manager left the Council on 9 January 2010 – the annualised salary for the post was £53,400

⁷ The Head of Human Resources joined on 26 May 2009 – the annualised salary for the post is £65,000

15. 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).

Details of grant funding transactions with Government Departments and Agencies are set out in a note to the Cash Flow Statement – see Note 38e on page 94.

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 103 to 107.

b) Members and Chief Officers

The Council is one of five Districts (the others being Dacorum, Hertsmeare, 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). Councillor Ian Brown is the Council's Member representative on the Board in 2009/10, for 2008/09 it was previously Councillor Derek Scudder. In 2009/10, as in 2008/09, no contribution towards the running of the Crematorium was required from the Council. The Crematorium practice is to meet all running cost from its own income, and build up reserves to meet future capital improvement costs. Should a deficiency contribution from Watford Borough be necessary, the contribution would be calculated in proportion to its population. The net assets of the Joint Committee as at 31 March 2010 were £4.82 million (31 March 2009 £5.19 million). However, Watford's share of the net assets excludes property acquired or constructed for the purpose of Cremation which belong to and are vested in the Authority where the Crematorium is sited.

Councillors Scudder, Hastrick and Derbyshire were members of the Citizens Advice Management Board. The Board was paid an amount of £130,644 in grant and £40,617 in rent support during 2009/10 (£167,343 and £36,654 for grant and rent respectively in 2008/09).

Councillor Sheila Smillie was nominated as a Director of the Palace Theatre Trust in 2007/08. The Trust received £0.227 million in grant aid and £0.033 million in rent support from the Council (£0.192 million and £0.033 million respectively in 2008/09).

Following the transfer of the Council's housing stock, Councillors Burtenshaw, Martins and Laventure were appointed Members on the Board of the Watford Community Housing Trust. Councillor Martins stood down from the Board in September 2009.

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 31, pages 78 to 82.

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.

Due to the Council entering into Finance Lease arrangements, a voluntary revenue provision has been made to ensure that the burden on the Council Tax payer is unchanged. A sum of £73,571.40 has therefore been provided in the Statement of Movement on the General Fund Balances.

17. Partnership Working

Since April 2009, Watford Borough Council and Three Rivers District Council have been participating in Joint Services, provided by the Joint Services Committee. During 2009/10 the services that have been provided jointly are Human Resources, Finance, Revenue and Benefits, and the ICT function. These services are jointly provided with an aim to making efficiencies for both Authorities.

The Net expenditure of the Shared services is apportioned between the Council's based on the Shared Service Agreement. The table below shows the total expenditure and income of the Joint Board of which Watford Borough Council's share is £4.359 million.

Services	Gross Expenditure £000	Gross Income £000	Net Cost £000
Local Tax Collection	1,490	(154)	1,336
Housing Benefits	1,533	0	1,533
Central Support Services	4,373	(35)	4,338
Net Cost of Services / Operating Expenditure	7,396	(189)	7,207
Income from Three Rivers District Council			(2,848)
Income from Watford Borough Council			(4,359)
(Surplus) / Deficit for the year			0

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 2009/10 no capital expenditure was recorded in this category.

19. Tangible Fixed Assets**a) Information on Assets Held**

The tangible fixed assets of the Council comprise of:

	2008/09 No. / area	2009/10 No. / area
Operational Land & Buildings		
Museum	1	1
Community Centres	5	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	2	2
Non Operational Land & Buildings		
Commercial Properties	209	209
Old Woolworths Store	0	1
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
Community Assets (see note below)		
Parks and Open Spaces	915 acres	915 acres
Allotments	9	9
Surplus Assets	2	2

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).

b) Movement of Fixed Assets 2009/10

Operational Assets				
	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Total £000
Cost or valuation				
At 1 April 2009	45,775	8,211	12,958	66,944
Additions	1,089	712	1,125	2,926
Donations	0	0	0	0
Disposals	0	0	0	0
Reclassifications	160	0	0	160
Removed	(26)	(43)	0	(69)
Revaluations	1,579	0	0	1,579
At 31 March 2010	48,577	8,880	14,083	71,540
Depreciation and Impairments				
At 1 April 2009	(5,956)	(4,801)	(4,176)	(14,933)
Charge for 2009/10	(1,171)	(862)	(609)	(2,642)
Disposals	0	0	0	0
Reclassifications	0	0	0	0
Removed	1	0	0	1
Removed - not adding value	(1,089)	0	0	(1,089)
Revaluations	347	0	0	347
At 31 March 2010	(7,868)	(5,663)	(4,785)	(18,316)
Balance Sheet Value at 31 March 2010	40,709	3,217	9,298	53,224
Balance Sheet Value at 1 April 2009	39,819	3,410	8,782	52,011
Nature of asset holding				
Owned	40,709	2,916	9,298	52,923
Finance Lease	0	301	0	301
	40,709	3,217	9,298	53,224

Non Operational Assets				
	Invest- ment Properties £000	Assets Under Construction £000	Surplus Assets £000	Total £000
Cost or valuation				
At 1 April 2009	105,485	0	2,500	107,985
Additions	4,609	0	0	4,609
Donations	0	0	0	0
Disposals	(196)	0	0	(196)
Reclassifications - Century Park	(230)	0	0	(230)
Reclassifications - Bill Everett	(1,645)	0	1,645	0
Revaluations	846	0	0	846
At 31 March 2010	108,869	0	4,145	113,014
Depreciation and Impairments				
At 1 April 2009	(5,125)	0	(330)	(5,455)
Charge for 2009/10	(1,508)	0	(1,580)	(3,088)
Disposals	0	0	0	0
Reclassifications	70	0	0	70
Removed - not adding value	(166)	0	0	(166)
Revaluations	0	0	0	0
At 31 March 2010	(6,729)	0	(1,910)	(8,639)
Balance Sheet Value at 31 March 2010	102,140	0	2,235	104,375
Balance Sheet Value at 1 April 2009	100,360	0	2,170	102,530
Nature of asset holding				
Owned	102,140	0	2,235	104,375
Finance Lease	0	0	0	0
	102,140	0	2,235	104,375

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 on page 22.

Service revenue accounts have been charged with depreciation as follows:

	2008/09 £000	2009/10 £000
Central Services	178	41
Cultural Services	238	1,319
Environmental Services	381	306
Regulatory and Planning Services	677	570
Highways and Transport Services	103	214
Housing Services	68	106
	1,645	2,556

d) Valuation Data

The Balance Sheet includes net fixed assets of £157.599 million at 31 March 2010. 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 on pages 21 to 22.

The following table illustrates the scope of the revaluation work undertaken by the Council as required under FRS15 and demonstrates the Council's rolling revaluation programme. It shows that Vehicles, Plant, Furniture and Equipment are held at historic cost as a proxy for current value, the difference between historic cost and current value being considered immaterial.

	Council Dwellings £000	Operational Land & Buildings £000	Investment Properties £000	Vehicles, Plant, Furniture & Equipment £000	Total £000
Valued at historical cost	-	-	-	3,217	3,217
Valued at current value in:					
2009/10	-	41,129	62,804	-	103,933
2008/09	-	17,570	123,929	-	141,499
2007/08	386,945	7,491	21,745	-	416,181
2006/07	368,729	8,131	26,636	-	403,496
2005/06	349,998	4,663	37,507	-	392,168

e) Gains and Losses on Disposal of Fixed Assets

During 2009/10 assets with a book value of £196,000 were sold for £211,856 resulting in a profit on sale of £15,856. This sum is reflected in the Income & Expenditure Account.

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 2009/10 was £689,111 (£775,813 2008/09) as follows:

	2008/09 £000	2009/10 £000
Operational Land and Buildings	209	187
Vehicles, Plant and Equipment	567	502
	776	689

The Council was committed as at 31 March 2010 to making payments of £279,499 under operating leases, comprising the following elements:

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
Leases expiring within one year	13	119	132
Leases expiring between 2 and 5 years	0	108	108
Leases expiring in 6 years and beyond	40	0	40
Total Liability at 31 March 2010	53	227	280

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 £223,000. The following table shows the values of assets held under finance by the Authority accounted for under Vehicle Plant and Equipment:

	2008/09 £000	2009/10 £000
Vehicles, Plant and Equipment		
- Book value at 1 April 2009	0	131
- Additions	169	223
- Depreciation	(38)	(53)
Book value at 31 March 2010	131	301

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

	2008/09 £000	2009/10 £000
Vehicles, Plant and Equipment		
Obligations payable within one year	48	63
Obligations payable between 2 and 5 years	89	223
Total Obligations Payable	137	286

The aggregate finance charges made under these finance leases during the year amounted to £25,051.70. This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

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 £97.894 million valued at 31 March 2010. All properties are non operational and therefore are not depreciated.

The total rental income received under these lease arrangements and credited to services was £7.270 million (£7.399 million 2008/09).

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 2009/10 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:			
- Mandatory Disabled Facilities	657	(657)	0
- Private Sector Renewal	50	(50)	0
- Energy Grants	11	(11)	0
- Common Parts	26	(26)	0
- LGHA 1989 (1) Act DFG	27	(27)	0
Capital grant to Three Rivers District Council			
- Revenues and Benefits System	369	(369)	0
- Financial Management System	182	(182)	0
Capital Safer, Stronger Communities	30	(30)	0
Total 2009/10	1,352	(1,352)	0
Total 2008/09	795	(795)	0

23. Long Term Debtors

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

	2008/09 £000	2009/10 £000
Watford Irish Association	249	243
Housing Association Loans	14	14
Rent to Mortgage	1,147	1,206
Car Loans	1	0
	1,411	1,463

24. Stocks and Work-in-Progress

The following stocks were held as at 31st March 2010:

	2008/09 £000	2009/10 £000
Community Centres (Food & Drink Stocks)	1	1
Watford Museum (Saleable Items)	4	1
Civic Gifts	1	1
Colosseum (Bar Stock)	4	3
Printing Section (Paper, inks, etc.)	8	13
Fuel Stock	10	18
	28	37

There was no work-in-progress as at 31st March 2010.

25. Debtors and Bad Debt Provisions

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

	2008/09 £000	2009/10 £000
Collection Fund		
WBC Share of Council Tax Arrears	485	562
less: attributable provision for bad debts / impairment	(159)	(183)
	326	379
Housing		
Housing Rent Arrears	92	100
Housing Benefit Overpayments	1,321	1,729
less: provision for bad debts / impairment	(1,294)	(1,829)
	119	0
Other Debtors		
Government Departments	2,365	9,847
Local Authorities	1,523	3,978
Sundry Debtors	4,228	3,594
Payments in Advance	536	293
	8,652	17,712
less: provision for bad debts / impairment	(651)	(694)
Total Other Debtors	8,001	17,018
Total Debtors (due within one year)	8,446	17,397

26. 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	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
Financial Liabilities at Amortised Cost	0	0	70	8
Total Borrowings	0	0	70	8
Loans and Receivables	1,411	1,463	48,978	36,842
Total Investments	1,411	1,463	48,978	36,842

Financial liabilities at amortised cost include operational creditors. Loans and receivables include long term debtors, operational debtors and bank deposits.

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 in relation to financial instruments are made up as follows:

	Financial Liabilities £000	Financial Assets £000	Total £000
Interest payable and similar charges	0	(1)	(1)
Gains on loans and receivables	0	217	217
Interest income	0	761	761
Total (Gain)/Loss for year	0	761	761

The gain recognised within interest payable relates to the interest adjustment on a 125 year loan given by the Council in respect of accommodation at the YMCA.

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 2009		31 March 2010	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	70	70	8	8
Financial Assets - Loans & Receivables				
Current Investments	47,594	47,865	34,827	34,927
Long Term Debtors	1,411	1,411	1,463	1,463
Trade Debtors	1,384	1,384	2,015	2,015
	50,389	50,660	38,305	38,405

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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.

	Amount at 31 March 2010	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	17,000	0.000%	0.000%	0
- AA/AA- rated counterparties	14,600	0.000%	0.000%	0
- Non rated Building Societies	3,000	0.000%	0.000%	0
- Other Counterparties	0	0.000%	0.000%	0
Trade Debtors	2,015	0.000%	0.000%	0
Total	36,615			0

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 £0.654 million of the £2.015 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	2008/09 £000	2009/10 £000
Less than 3 months	132	82
More than 3 months, less than 1 year	122	367
More than 1 year	333	205
	587	654

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

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 2010 is as follows:

	2008/09		2009/10	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Less than 1 year	47,594	47,865	34,827	34,927
Between 1 and 2 years	0	0	0	0
	47,594	47,865	34,827	34,927

The table excludes accrued interest which is due to be paid within 12 months. Trade debtors of £2.015 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

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:

	2008/09 £000	2009/10 £000
Impact on interest receivable on investments - with consequent change in Income and Expenditure Account	537	449
	537	449

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.

27. Creditors

	2008/09 £000	2009/10 £000
Government Departments	808	302
Local Authorities	549	2,610
Council Tax Prepaid	81	70
Sundry Creditors	8,232	8,500
Receipts in Advance	511	346
	10,181	11,828

28. 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.

	2008/09 £000	2009/10 £000
Balance brought forward	1,460	3,065
Transferred to Grants & Contributions Unapplied	(205)	(326)
Grants Received		
- Regional Housing Pot	157	90
- Disabled Facilities Grant	166	210
- Section 106	311	314
- Three Rivers District Council	1,334	73
- EEDA	0	71
- Housing & Planning Delivery Grant	51	109
- Performance Reward Grant	0	217
- Others	74	179
Grants applied to assets not adding value	(166)	(259)
Released to Income and Expenditure Account to match depreciation	(117)	(175)
	3,065	3,568

29. 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.

	2008/09 £000	2009/10 £000
Balance brought forward	1,594	1,857
Received in year		
- Housing & Planning Delivery Grant	51	109
- Council Tax efficiency	5	0
- St Albans Road lighting	148	0
- Others	4	0
- Performance Reward Grant	0	217
	208	326
less HCC schemes not started	0	(250)
	208	76
Interest allocated	69	24
Applied to finance capital expenditure	(14)	(146)
	1,857	1,811

Within the unapplied amount at 31st March 2010 is an amount of £1.235 million in relation to Section 106 developer contributions which are available to be used to finance future capital expenditure.

30. Provisions

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

	Balance at 1 April 2009 £000	Tfrs from Revenue £000	Tfrs to Revenue £000	Balance at 31 March 2010 £000
Housing Benefit Subsidy repayment	700	300	(188)	812
Concessionary Fares	121	0	(121)	0
Total 2009/10	821	300	(309)	812
Total 2008/09	500	321	0	821

The Housing Benefits repayment provision relates to the potential reclaim of Housing Benefit Subsidy, on both the 2008/09 Housing Subsidy Claim and the 2009/10 subsidy claim. The total claim for 2009/10 is in the order of £34 million.

The provision for concessionary fares related to the Council's share of payments to bus operators and is no longer required.

31. 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.

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:

	2008/09 £000	2009/10 £000
Income and Expenditure Account		
<i>Net Cost of Services</i>		
- Current Service Cost	1,427	1,188
- Past Service Costs, Settlements and Curtailments	1,120	228
<i>Net Operating Expenditure</i>		
- Interest Cost	7,247	6,986
- Expected Return on Assets in the Scheme	(5,794)	(3,926)
Net Charge to the Income and Expenditure Account	4,000	4,476
Statement of Movement on the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS17	(4,000)	(4,476)
Actual amount charged against the General Fund Balance for pensions in the year		
- Employers contributions payable to scheme by Watford BC	4,075	3,093
	4,075	3,093

During 2009/10 the contributions of £2.889 million (representing 26.8% 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 2009/10 these amounted to £0.184 million representing 1.7% 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 £39.073 million (2008/09 £14.935 million loss) 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 £41.557 million.

The estimated employer contributions for the year to 31 March 2011 will be approximately £2,870,800 as reported in the Actuarial report

Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of the scheme liabilities:

	2008/09 £000	2009/10 £000
Net Pensions Liability as at 1 April	(23,379)	(38,238)
Contributions paid	4,198	3,093
Current Service Costs	(1,427)	(1,188)
Past Service Costs	(860)	(31)
Gain / (Loss) on Curtailments	(260)	(197)
Expected return on Pension Fund Assets	5,794	3,926
Interest on Pension Fund Liabilities	(7,247)	(6,986)
Actuarial Gains / (Losses)	(15,057)	(39,073)
Net Pensions Liability as at 31 March	(38,238)	(78,694)

Reconciliation of fair value of the scheme assets:

	2008/09 £000	2009/10 £000
Scheme Assets as at 1 April	82,595	64,262
Expected rate of return	5,794	3,926
Actuarial Gains / (Losses)	(23,973)	14,945
Employer Contributions	4,198	3,093
Assets distributed on Settlements	(708)	0
Contributions by scheme participants	717	718
Benefits paid	(4,361)	(4,675)
Scheme Assets as at 31 March	64,262	82,269

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.

The actual return on scheme assets in the year was £14.945 million (2008/09 -£23.973 million).

Scheme History

	2005/06 *see note £000	2006/07 As restated £000	2007/08 As restated £000	2008/09 £000	2009/10 £000
Present value of liabilities	(132,502)	(131,288)	(105,974)	(102,500)	(160,963)
Fair value of assets	87,767	94,485	82,595	64,262	82,269
Surplus/(Deficit) in the Scheme	(44,735)	(36,803)	(23,379)	(38,238)	(78,694)

*The Council has elected not to restate the fair value of scheme assets for 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 £160.963 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 £78.694 million net liability represents the difference between the value of the Council's pension fund assets at 31 March 2010 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 2010 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:

	2008/09	2009/10
Rate of inflation	3.1%	3.8%
Rate of increase in salaries	4.6%	5.3%
Rate of increase in pensions	3.1%	7.0%
Rate for discounting scheme liabilities	6.9%	5.5%
Take-up of option to convert annual pension into retirement grant	50.0%	50.0%
<u>Mortality Assumptions</u>		
Longevity at 65 for current pensioners		
- Men	21.4	22.7
- Women	24.3	26.1
Longevity at 65 for future pensioners		
- Men	22.5	24.8
- Women	25.4	28.3
<u>Long-term expected rate of return on assets</u>		
Investments	7.0%	7.8%
Bonds	5.4%	5.0%
Property	4.9%	5.8%
Other Assets	4.0%	4.8%

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

	31 March 2009 %	31 March 2010 %
Investments	67.0	71.0
Bonds	19.0	19.0
Property	4.0	3.0
Other Assets	10.0	7.0
	100.0	100.0

History of experience Gains and Losses

The actuarial loss identified as movements on the Pension Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

	2005/06 %	2006/07 As restated %	2007/08 As restated %	2008/09 %	2009/10 %
Difference between the expected and actual returns on assets	16.0	0.2	(16.7)	(39.7)	20.0
Experience gains and losses on liabilities	0.5	5.9	10.8	(16.2)	(23.3)

32. Net Assets Employed

	2008/09 £000	2009/10 £000
General Fund	155,783	110,982
Housing Revenue Account	1,233	1,251
Trading Operations	461	253
Total Net Assets	157,477	112,486

33. 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 31st March 2010 the maximum repayment stood at £347,349. No further information regarding the maximum repayment is available at this time.

MMI's accounts for the year ended 30 June 2009 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.

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 31st March 2009, during which time VAT registered organisations were able to make claims for VAT overpaid from 1st 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 £837,000, 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.

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, £1.347 million has been received during 2009-10 (£1.050 million 2008-09) leaving a contingent asset of approximately £7.153 million which will be received in the future.

34. 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 2009 £000	Net Movement in Year £000	Balance at 31 March 2010 £000	Purpose of Reserve	Further Detail Note
Capital Adjustment Account	124,828	1,307	126,135	Store of capital resources set aside to meet past expenditure	Note 34b
Financial Instruments Adjustment Account	(79)	1	(78)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	Note 34c
Collection Fund Adjustment Account	154	(7)	147	To balance statutory requirements and proper accounting practice in relation to Council Tax payers	Collection Fund Page 103
Revaluation Reserve	23,440	1,101	24,541	Store of gains on revaluation of fixed assets not yet realised through sales	Note 34d
Deferred Capital Receipts	1,524	23	1,547	Sum of future capital receipts deferred until capital benefit can be realised	Note 34e
Useable Capital Receipts	32,635	(5,989)	26,646	Proceeds of fixed asset sales available to meet future capital investment	Note 34f
Pensions Reserve	(38,238)	(40,456)	(78,694)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 31
Earmarked Reserves	10,284	(989)	9,295	See Note for Detail	Note 34g
General Fund Balance	1,696	0	1,696	Resources available to meet future running costs	Page 34h
Housing Revenue Account Balance	1,233	18	1,251	See Note for Detail	HRA Page 102
TOTAL NET WORTH	157,477	(44,991)	112,486		

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	2009/10 £000
Balance brought forward at 1 April 2009		124,828
<u>Historical cost of acquiring, creating or enhancing fixed assets</u>		
- Depreciation and impairment losses	(5,330)	
- Book value of assets on disposal	(196)	(5,526)
<u>Resources set aside to finance capital expenditure</u>		
- Capital Receipts	7,721	
- Direct Revenue Financing	5	
- Voluntary revenue contribution for capital financing	74	
- Government Grants and Contributions Deferred	385	8,185
<u>Revenue Expenditure Funded from Capital under Statute</u>		(1,352)
Balance carried forward at 31 March 2010		126,135

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.

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.

	2009/10 £000
Balance brought forward at 1 April 2009	(79)
Financing costs written out	1
Balance carried forward at 31 March 2010	(78)

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.

	2009/10 £000
Balance brought forward at 1 April 2009	23,440
Gains / (Losses) on revaluation of fixed assets	2,425
Historical Cost depreciation adjustment	(1,316)
Write-out of balances on assets disposed	(8)
Balance carried forward at 31 March 2010	24,541

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 mortgage advances to Housing Associations, and other community groups including the Watford and District Irish Association, 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 £1.547 million.

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	2009/10 £000
Balance brought forward at 1 April 2009		32,635
<u>Received in year</u>		
- Loan repayments	37	
- Proceeds from sale of fixed assets	212	
- Repayment of receipts applied as forward funding of capital spend in prior years	17	
- Receipts not related to asset sales	1,464	
- Repaid discounts	7	1,737
<u>Applied in year</u>		
- Transferred to Capital Adjustment Account to finance new capital expenditure	(7,721)	
- Commutation	0	
- Transferred to Capital Reserves to finance previous capital spend	0	
- Pooling of Housing Capital Receipts	(5)	(7,726)
Balance carried forward at 31 March 2010		26,646

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

APPENDIX B

	Balance at 1 April 2009 £000	Appropriations to Reserve £000	Appropriations from Reserve £000	Balance at 31 March 2010 £000
Performance Reward Grant	0	152	0	152
Charter Place Tenants Reserve	1,425	39	(572)	892
Repairs Fund - Le Marie Reserve	13	0	0	13
Multi-Storey Car Park Repair Reserve	138	19	0	157
Car Parking Zones Reserve	857	144	(38)	963
Special Project Reserve	1,546	0	0	1,546
Leisure Redevelopment Reserve	500	0	(500)	0
Herts Young People's Project Reserve	73	40	0	113
Private Sector Bond Reserve	100	0	0	100
LABGI Reserve	813	52	(113)	752
Spend to Save Reserve	2,243	158	(949)	1,452
Local Development Framework Reserve	308	5	0	313
Leisure Services Corporate Reserve	238	0	0	238
Energy Fund Reserve	146	0	(39)	107
Economic Impact Reserve	500	0	0	500
Pension Funding Reserve	1,000	0	0	1,000
Concessionary Fares Reserve	145	255	(300)	100
Housing Planning Delivery Grant	0	332	0	332
Recycling Reserve	85	0	(16)	69
Carry Forward Reserve	0	155	0	155
Housing Benefit Subsidy Reserve	0	300	(300)	0
Area Based Grant Reserve	154	285	(98)	341
Total 2009/10	10,284	1,936	(2,925)	9,295
Total 2008/09	9,999	1,550	(1,265)	10,284

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

Reserve	Purpose
Performance Reward Grant	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets set within the Local Area Agreement
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

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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 future maintenance needs at the end of the existing Leisure services contract
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 compared to budget this reserve is used to 'smooth out' potential increased expenditure in future years in an area which is prone to fluctuations
Housing Planning Delivery Grant	This grant replaces Planning Delivery Grant (PDG) and was introduced to reward authorities for improved delivery of housing and other planning outcomes
Recycling Reserve	This reserve will help to 'smooth out' fluctuations in recycling income in future years
Carry Forward Reserve	This reserve has been created to 'carry forward' unspent revenue budgets for use in the preceding financial year. For this year it includes items such as £75k for use on spend to save initiatives and £45k for audit fees in expectation of increased fees in 2010/11
Housing Benefit Subsidy Reserve	This reserve was created to negate the impact for making a provision against historic subsidy claims that may not have been fully met
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 £341k 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:

	2008/09 £000	2009/10 £000
General Fund	1,696	1,696
Housing Revenue Account	1,233	1,251
	2,929	2,947

35. Prior Period AdjustmentsCollection Fund - Council Tax and National Non-Domestic Rates

Regulation states that from 1 April 2009 for billing authorities, such as Watford Borough Council, the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year. This contrasts with previous accounting requirements where the Council Tax income included in the Income and Expenditure Account represented the amounts required under regulation to be transferred from the Collection Fund to the General Fund of the billing authority.

The total Council Tax income (Demand on the Collection Fund) for 2008/09 has been restated at the increased sum of £8.004m, an increase of £51,860.30. A corresponding reversing adjustment has been made in the Statement of Movement on the General Fund Balance to eliminate impact on the General Fund Balance.

In addition, Council Tax payers arrears and associated impairments (bad debt provisions) and overpayments are restricted in the Balance Sheet to Watford Borough Council's share of the respective debtor or creditor amounts.

The associated cash flows have been adjusted such that only Watford Borough Council's share of net cash received in the year is included in revenue activities, with the difference shown as a net increase / decrease in other liquid resources.

A further prior period adjustment has been required in respect of National Non-Domestic Rates (NNDR). With effect from 1 April 2009, billing authorities are deemed to collection NNDR under what is in substance an agency arrangement with Central Government and therefore NNDR income does not belong to the billing authority and should not be included in the Income and Expenditure Account. It also follows that NNDR payers arrears, impairments or overpayments are not assets and liabilities of the billing authority and are therefore excluded from the Balance Sheet. The total net value of assets and liabilities in respect of NNDR, is show as a Central Government debtor or creditor

The associated cash flows are collected on behalf of the Government and therefore not to be treated as revenue activity of the billing authority, with the exception of cash retained in respect of the cost of collection allowance. Similarly payments to the NNDR national pool are excluded. The difference between cash collected from NNDR payers and the amount paid to the national pool are included as a net increase / decrease in liquid resources.

36. Events After the Balance Sheet Date

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event.

It is estimated that this change will reduce the value of the employer's FRS17 liabilities by around 6.2% and the FRS17 balance sheet deficit by around 12.8%. In monetary terms the liabilities and deficit have fallen by around £10.0m. This information has been provided by the actuaries and no other assumptions have been taken into account to allow an accurate figure to be calculated.

37. Authority to Issue

The Statement of Accounts were authorised for issue by Bernard Clarke, Head of Strategic Finance on 25 June 2010. Only events which have taken place prior to this date will have been recognised in the Statement of Accounts 2009/10.

38. 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

2008/09 £000		2009/10 £000
7,028	(Suplus) / Deficit on Income and Expenditure Account	6,716
	Adjustments for non-cash transactions	
(9,562)	Amortisation, depreciation and impairment of fixed assets	(4,991)
0	Amortisation of Deferred Government Grants	410
241	Net gain/(loss) on disposal of fixed assets	16
75	Net charges made for retirement benefits in accordance with FRS17	(1,383)
2,101	Other non-cash transactions (e.g. provisions)	1,494
(7,145)		(4,454)
	Items on an accruals basis	
(24)	Increase / (Decrease) in Stocks and Work-in-Progress	9
133	Increase / (Decrease) in Debtors and Payments in Advance	8,950
(131)	(Increase) / Decrease in Creditors and Receipts in Advance	(1,422)
2	Other Accruals	54
(20)		7,591
	Items identified elsewhere on the Cash Flow Statement	
(6)	Interest payable and similar charges	(24)
2,493	Interest receivable	761
2,848	Collection Fund activity	(3,906)
5,335		(3,169)
5,198	NET CASH (INFLOW)/OUTFLOW FOR REVENUE ACTIVITIES	6,684

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

	2009/10 £000
Increase / (Decrease) in cash for the period	(1,596)
Cash (inflow)/outflow from increase in Current Asset Investments	(12,400)
Changes in net debt resulting from cash flows	(13,996)
Non-cash changes in net debt	(367)
Movement in net debt in the period	(14,363)
Net Debt at 1 April 2009	47,351
Balance carried forward at 31 March 2010	32,988

c) Analysis of Changes in Net Debt

	As at 1 April 2009 £000	Cash Movement £000	Non-cash Movement £000	As at 31 March 2010 £000
Bank and Cash in Hand	752	(357)	0	395
Bank Overdraft	(995)	(1,239)	0	(2,234)
	(243)	(1,596)	0	(1,839)
Current Asset Investments	47,594	(12,400)	(367)	34,827
Total Net Debt	47,351	(13,996)	(367)	32,988
Total 2008/09	48,485	(1,728)	594	47,351

d) Management of Liquid Resources

Liquid resources are defined as current asset investments that are readily convertible into cash.

Included within Liquid Resources are short term investments / bank deposits and the share of Collection Fund receipts and payments attributable to Precepting Authorities in respect of Council Tax and Central Government in respect of National Non-Domestic Rates as detailed below:

2008/09 £000		2009/10	
		£000	£000
	Short Term Investments / Bank Deposits		
865,444	New investments raised	782,420	
(866,544)	Investments repaid	(794,820)	
(1,100)			(12,400)
	Collection Fund Activity		
(34,568)	Precepting Authorities share of net Council Tax receipts	(35,439)	
38,574	Payments to Precepting Authorities	40,930	
4,006		5,491	
(60,138)	Net cash received from NNDR payers	57,678	
53,284	Payments to NNDR Pool	(59,270)	
(6,854)		(1,592)	
(258)	Collection Fund (Surplus) / Deficit Adjustment	7	
(3,106)			3,906
(4,206)	Total net movement in liquid resources		(8,494)
	<u>Reconciliation of net movement in Short Term Investments / Bank Deposits to movement on Balance Sheet</u>		
48,100	Balance as at 1 April		47,594
(1,100)	Net movement as above		(12,400)
594	Accrued Interest		(367)
47,594	Balance as at 31 March		34,827

e) Analysis of Government Grants

Total 2008/09 £000		2009/10		
		Total £000	Revenue £000	Capital £000
977	Revenue Support Grant	1,506	1,506	0
7,015	Non-domestic Rates redistribution	6,526	6,526	0
27,418	DWP - Housing Benefits	32,267	32,267	0
185	Homelessness Grant	186	186	0
681	Council Tax Benefit Administration Grant	712	712	0
205	Housing & Planning Delivery Grant	287	194	93
83	Local Authority Business Growth Incentive	52	52	0
224	Area Based Grant	285	285	0
0	Performance Reward Grant	434	217	217
112	Safer & Stronger Communities	108	84	24
433	Concessionary Fares	443	443	0
12	Places of Change	0	0	0
30	Economic Downturn	0	0	0
19	Play Rangers (BIG Lottery Funding)	49	49	0
45	Arts Milestones Project	5	5	0
0	Challenge & Innovation Fund	44	44	0
0	Business Rates Deferral Scheme	13	13	0
0	Homelessness - Rough Sleeping Add-on	15	15	0
0	Mortgage Rescue Programme	28	28	0
0	Social Housing Fraud	10	10	0
0	In & Out of Work	4	4	0
166	Disabled Facilities Grants	210	0	210
157	Regional Housing Pot	90	0	90
37,762		43,274	42,640	634

39. Capital Expenditure and Financing

a) Summary of Capital Expenditure

2008/09		2009/10		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
	IT Systems			
137	PC and printer replacement	91	46	(45)
108	Customer Relationship Management	125	0	(125)
119	IT Systems Development	0	0	0
0	COA Financial Management system	214	182	(32)
0	HR and Payroll systems	84	80	(4)
0	Revenues and Benefits systems	287	369	82
0	Shared services connectivity	24	82	58
0	Electoral Services	18	0	(18)
22	Environmental Health IT System	0	3	3
386		843	762	(81)
	Environmental Services			
142	Green Spaces Strategy	406	337	(69)
40	Depot Ramp and enhancements	0	5	5
25	Noise monitoring equipment	0	0	0
101	Charter Place Toilet refurbishment	61	10	(51)
201	Public Toilet refurbishment	5	4	(1)
43	Building safer Communities	0	30	30
30	Recycling Containers	133	45	(88)
62	Streetcare Depot Improvements	0	0	0
644		605	431	(174)
	Community Services			
16	Citizens Advice	0	0	0
17	Holywell Community Centre	106	44	(62)
0	Orbital Community Centre	49	2	(47)
0	Demolition Callowlands	50	50	0
33		205	96	(109)
	Leisure Services			
4,538	Redevelopment of Leisure Facilities	314	197	(117)
3	Westfield Pitch	0	0	0
213	Woodside stadium	116	192	76
8	Museums and galleries	0	0	0
4,762		430	389	(41)
5,825	carried forward	2,083	1,678	(405)

2008/09		2009/10		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
5,825	<i>brought forward</i>	2,083	1,678	(405)
	Property Services			
132	Bushey Arches Improvements	0	2	2
24	Civic Quarter	221	188	(33)
86	Demolition Cardiff road units	8	6	(2)
118	Charter Place Development	0	166	166
0	York House Fire alarms	14	10	(4)
0	Emergency lighting community centres	50	0	(50)
100	Charter Place market refurbishment	0	0	0
0	Feasibility Studies	100	0	(100)
0	High Street Refurbishment	0	20	20
0	Colosseum refurbishment	1,000	232	(768)
0	Refurbishment works	104	8	(96)
91	Cardiff Road Health Campus	1,265	282	(983)
0	Cabling Works to annex	0	40	40
0	Asset Management property system	0	28	28
0	Purchase of properties	4,225	4,226	1
83	Staff Amenity Area	0	7	7
634		6,987	5,215	(1,772)
	Planning & Transportation Services			
103	Surface car parks	64	57	(7)
	Corporate Services (Community Safety)			
0	Town Centre CCTV System Upgrade	56	4	(52)
301	Refurbishment - Town Hall & Colosseum	217	217	0
0	Charter Place Shopping centre CCTV	105	134	29
301		378	355	(23)
	Housing Services			
15	CPO of Private Sector Dwellings	240	197	(43)
0	Affordable Housing	450	0	(450)
22	Choice Based Letting	0	0	0
0	Stock Condition Survey	75	76	1
436	Housing Transfer Costs	0	0	0
32	Tibbles Close Hostel	1	1	0
505		766	274	(492)
7,368	<i>carried forward</i>	10,278	7,579	(2,699)

2008/09		2009/10		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
7,368	<i>brought forward</i>	10,278	7,579	(2,699)
	Capital Grants			
12	Watford New Hope Trust	0	0	0
80	Private Sector Housing Renewal	277	50	(227)
644	Disabled Facilities Grants	663	657	(6)
17	Home Repair Assistance Grants	0	0	0
14	Common Parts Renovation Grants	0	26	26
5	LGHA 1989 Act DFGs	0	27	27
0	Energy Grants	0	11	11
772		940	771	(169)
	Works under Section 106			
35	Town Scheme Enhancements	53	21	(32)
3	Cassiobury Park Green Flag Status	73	143	70
0	Oxhey Park Bridge	164	39	(125)
0	Rickmansworth Road Toucan Crossing	1	33	32
0	Woodside Playing Field Green Flag	203	12	(191)
0	Changing Facilities Knutsford Playing Fields	143	9	(134)
0	Multi Use Games Meridan	93	3	(90)
123	Other schemes	204	54	(150)
161		934	314	(620)
22	Commutation Adjustment Charge	0	0	0
8,323	Total General Fund Capital Expenditure	12,152	8,664	(3,488)

2008/09		2009/10		
Actual £000		Latest Estimate £000	Actual Spend £000	Variance £000
8,323	Total General Fund Expenditure	12,152	8,664	(3,488)
8,323	Total Capital Expenditure	12,152	8,664	(3,488)
	Total capital expenditure comprises:			
5,787	Expenditure adding value	8,655	6,057	(2,598)
1,741	Non-enhancing expenditure	2,057	1,255	(802)
795	Revenue Expenditure Funded from Capital Under Statute	1,440	1,352	(88)
8,323		12,152	8,664	(3,488)

b) Commitments under Capital Contracts

At 31 March 2010 the Council had contractual commitments totalling £0.827 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
Holywell Community Centre	2010-11	450
Redevelopment of Leisure Centres	Retention	340
Property Asset System	2010-11	37
Total commitments under Capital Contracts		827

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.

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 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 subject to new statutory guidance which provides two options for self financed capital spending. Watford have adopted the asset life method, but with the minimum requirement to ensure that revenue would be charged with the equivalent cost of an operational lease. The Council remains debt free and does not need to make a MRP due to the taking up of Finance leases.

2008/09 £000		2009/10 £000
2,666	Opening Capital Financing Requirement	2,801
	Capital Investment in Year	
7,529	Tangible Fixed Assets	7,312
0	Intangible Assets	0
169	Finance Leases	223
795	Revenue Expenditure Funded from Capital Under Statute	1,352
8,493		8,887
	Direct Funding of Capital Investment in Year	
(1,888)	Government Grants and Other Contributions	(938)
(6,395)	Capital Receipts	(7,721)
(22)	Commutation	0
(18)	Direct Revenue Financing	(5)
0	Major Repairs Reserve	0
(8,323)		(8,664)
(35)	Voluntary Revenue Provision	(74)
135	Net increase in Capital Financing Requirement	149
2,801	Closing Capital Financing Requirement	2,950



SUPPLEMENTARY FINANCIAL STATEMENTS

HOUSING REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2010

The Housing Revenue Account has been prepared for 2009/10 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 2009/10 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.

2008/09 £000		Note	2009/10	
			£000	£000
	Income			
(38)	Dwelling Rents		0	
0	Non-dwelling Rents		0	
(3)	Charges for Services and Facilities		0	
0	Contributions toward Expenditure		0	
0	Other Income		21	
(41)	Total Income		21	
	Expenditure			
0	Repairs and Maintenance		0	
0	Supervision and Management		0	
0	Rents, Rates, Taxes and Other Charges		7	
0	HRA Subsidy Payable		0	
0	Depreciation and Impairment of Fixed Assets		0	
18	Increased /(decreased) provision for Bad Debts		11	
18	Total Expenditure			18
59	Net Cost of HRA Services			(3)
0	(Gain) / Loss on Disposal of Fixed Assets			0
30	Interest payable and similar charges			0
(67)	Interest and investment income			(15)
22	(SURPLUS) / DEFICIT FOR YEAR			(18)

STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE

2008/09 £000		2009/10 £000
22	(Surplus)/Deficit for the year on the HRA	(18)
0	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the HRA Balance for the year	0
22	(Increase) / Decrease in General Fund Balance for the year	(18)
(1,255)	Housing Revenue Account Balance brought forward	(1,233)
(1,233)	Housing Revenue Account Balance carried forward	(1,251)

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.

2008/09 £000		Note	2009/10	
			£000	£000
	Income			
42,034	Council Tax Payers	CF1	43,309	
5,467	Transfers from the General Fund - Council Tax Benefit		6,215	
61,950	Business Rate Payers	CF2	61,120	
109,451	Total Income			110,644
	Expenditure			
46,285	Precepts and Demands Business Rates	CF3	48,243	
60,715	- Payments to National Pool	CF2	59,435	
182	- Cost of Collection		176	
	Write-offs			
278	- Council Tax		235	
710	- Non-domestic Rates		928	
	Increase/(decrease) in provision for Bad and Doubtful Debts			
387	- Council Tax		145	
343	- Non-domestic Rates		581	
241	Distribution of previous years' Fund surplus		915	
109,141	Total Expenditure			110,658
(310)	(Increase) / Decrease in Collection Fund			14
(585)	Balance of Fund at 1 April 2009			(895)
(895)	Balance of Fund at 31 March 2010	CF5		(881)

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 2009/10.

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	284	(48.75)	235.25	6/9	156.8
B	3,721	(610.50)	3,110.50	7/9	2,419.3
C	12,739	(1,551.75)	11,187.25	8/9	9,944.2
D	11,610	(1,116.50)	10,493.50	1	10,493.5
E	3,376	(245.25)	3,130.75	11/9	3,826.5
F	2,049	(143.50)	1,905.50	13/9	2,752.4
G	1,772	(107.75)	1,664.25	15/9	2,773.8
H	73	(10.75)	62.25	2	124.5
	35,624	(3,834.75)	31,789.25		32,491.0

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.

NOTES TO THE COLLECTION FUND

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

	2008/09	2009/10
Total Non-domestic Rateable Value at 31 March	£145,637,915	£144,265,440
National Non-domestic Rate Multiplier - Standard	46.2p	48.5p
National Non-domestic Rate Multiplier - Small Business	45.8p	48.1p

CF3. Precepts and Demands on the Fund

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

2008/09		2009/10		
		Precept / Demand £'000	Share of 08/09 Surplus £'000	Total £'000
34,245	Hertfordshire County Council	35,624	673	36,297
4,329	Hertfordshire Police Authority	4,547	85	4,632
7,952	Watford Borough Council	8,072	157	8,229
46,526		48,243	915	49,158

NOTES TO THE COLLECTION FUND

CF4. Tax Payers' Arrears

a) Arrears and Prepayments

	2008/09 £000	2009/10 £000
Council Tax Arrears	2,899	3,359
Business Rate Arrears	2,184	3,778
Gross Tax Payers' Arrears at 31 March	5,083	7,137
Council Tax Prepayments	(486)	(312)
Business Rate Prepayments	(895)	(1,292)
Total Payers' Prepayments at 31 March	(1,381)	(1,604)
Total Net Tax Payers' Arrears at 31 March	3,702	5,533

b) Provision for Tax Payers' Bad and Doubtful Debts

	2008/09 £000	2009/10	
		£000	% of arrears
Council Tax	954	1,098	33%
Business Rates	621	1,202	28%
Total Net Tax Payers' Bad Debt Provison	1,575	2,300	

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 2010 amounted to £0.881.million and will be distributed in 2010/11. The amount attributable to each of the precepting authorities is shown below:

	Balance at 1 April 2009 £000	Movement in Year £000	Balance at 31 March 2010 £000
Hertfordshire County Council	658	(7)	651
Hertfordshire Policy Authority	83	0	83
Watford Borough Council	154	(7)	147
	895	(14)	881



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.

Collection Fund Adjustment Account

A reserve account that reconciles differences between statutory requirements as a Billing Authority and proper accounting practice.

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.

GLOSSARY OF TERMS AND ABBREVIATIONS

Deferred Credits

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

Deferred Grants

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

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

GLOSSARY OF TERMS AND ABBREVIATIONS

Infrastructure Assets

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

Long Term Debtors

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

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.

GLOSSARY OF TERMS AND ABBREVIATIONS

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.

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

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