



# **AUDIT COMMITTEE**

## **SUPPLEMENTARY AGENDA (2) ITEM 5 – APPENDICES 1 AND 3**

**Thursday, 29th September, 2011**

**7.30 pm**

**Town Hall, Watford**

**Publication date: 27 September 2011**

### **CONTACT**

If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Legal and Property Services on 01923 278377 or by email to [legalanddemocratic@watford.gov.uk](mailto:legalanddemocratic@watford.gov.uk) (Minicom available on 01923 278499).

# COMMITTEE MEMBERSHIP

Councillor I Brown (Chair)

Councillors A Burtenshaw, A Khan, R Martins and S Rackett

## AGENDA

### PART A - OPEN TO THE PUBLIC

**5. EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE, ISA 260 (Pages 1 - 130)**

This report allows the Committee to ask questions of the external auditor concerning his 'Report to those charged with Governance (ISA260)' and to approve the Statement of Accounts for 2010/11.

Appendices 1 and 3 attached

Report and Appendices 2 and 4 printed separately



## **WATFORD BOROUGH COUNCIL**

### **AUDIT PROGRESS REPORT - SEPTEMBER 2011**

<b>Work</b>	<b>Progress</b>
<b>Annual report to those charged with governance (ISA260)</b>	Please see separate agenda item.
<b>Letter of representation</b>	Please see separate agenda item.

**Grant Thornton UK LLP**

**September 2011**

This page is intentionally left blank

# Watford Borough Council Annual Report to Those Charged With Governance (ISA 260)

---

29 September 2011

Page 3



## Contents

1.Executive summary	2
2.Key audit issues	4
3.Value for money	12
<b>Appendices</b>	
A.The reporting requirements of ISA 260	14
B.Audit adjustments	15
C.Action plan	21

# 1. Executive summary

## Purpose of this report

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and the Audit Committee of Watford Borough Council (the Council). The purpose of this report is to highlight the key issues arising from the Council's financial statements for the year ending 31 March 2011.

5

This report meets the mandatory requirements of International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA 260, and how we have discharged them, are set out in more detail at Appendix A.

The Council is responsible for the preparation of financial statements which record its financial position as at 31 March 2011, and its income and expenditure for the year then ended. We are responsible for undertaking an audit and reporting whether, in our opinion, the Council's financial statements present a true and fair view of the financial position.

Under the Audit Commission's Code of Audit Practice we are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Audit conclusions Financial statements opinion

We were presented with draft core financial statements on 30 June 2011, in order to meet the 30 June 2011 deadline. The draft financial statements with accompanying notes were presented to the auditors on 14 July 2011. A complete set of working papers were not provided at the commencement of the audit and have been produced throughout the course of the audit.

The financial statements have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the Code), based on International Financial Reporting Standards (IFRS).

We did not identify any audit adjustments that impact on the Council's income and expenditure position (comprehensive income and expenditure statement). The adjustments noted on the balance sheet (statement of financial position) were of a presentational nature only and had no overall net effect on the Council's reported assets and liabilities.

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

- the capacity and deliverability of the shared finance function should be assessed going forward to ensure that all deadlines are met; and,
- the Council should return to its 2009/10 approach of producing electronic working papers for future years; and
- a full review of earmarked reserves needs to be performed to assess their validity.

We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 29 September 2011.

Further details of the outcome of the financial statements audit are given in section 2.

#### **Value for Money Conclusion**

In providing the opinion on the financial statements we are required to reach a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion).

We have completed our assessment of the arrangements the Council has in place and we are delighted to submit an unqualified value for money conclusion.

Further details of the outcome of our value for money review are given in section 3.

#### **The way forward**

Matters arising from the financial statements audit have been discussed with the Head of Strategic Finance. We have made a small number of recommendations, which are set out in the action plan at Appendix C. This has been discussed and agreed with the Head of Strategic Finance and the senior finance team. We have also discussed with the Council the benefits of carrying out the Watford and Three Rivers audits simultaneously rather than sequentially to aid availability of key finance staff to deal with queries.

#### **Use of this report**

This report has been prepared solely for use by the Council to discharge our responsibilities under ISA 260, and should not be used for any other purpose. We assume no responsibility to any other person. This report should be read in conjunction with the Statement of Responsibilities and the Council's Letter of Representation.

#### **Acknowledgements**

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**29 September 2011**



## 2. Key audit issues

### Matters identified at the planning stage

We have not altered or changed our planned approach to the audit which was communicated to you in our Audit and Approach Memorandum dated 16 July 2011.

Our response to the matters identified at the planning stage are detailed below.

Issue	Audit areas affected	Work completed	Assurances gained
Accounting under IFRS	All areas of the financial statements	<ul style="list-style-type: none"><li>• A specific review of the Council's preparedness for IFRS has been completed. The results of this review have been communicated to the Finance team in April 2011 in a red/amber/green (RAG) format.</li><li>• We have maintained on-going liaison with the Finance Team regarding emerging IFRS issues and guidance and we have provided support for any proposed changes to accounting treatment being considered under IFRS.</li></ul>	<ul style="list-style-type: none"><li>• The review of the IFRS restatement of opening balances found no significant concerns with the restated balances exercise.</li><li>• The finance team have been proactive in raising questions regarding IFRS treatment in key accounting areas.</li></ul>

Annual Report to Those Charged With Governance (ISA 260)

Issue	Audit areas affected	Work completed	Assurances gained
<p><b>Financial performance pressures</b></p>	<p><b>All areas of the financial statements</b></p>	<ul style="list-style-type: none"> <li>We have monitored the Council's financial position throughout the year through review of Council meeting papers and liaison meetings with the Head of Strategic Finance.</li> <li>The Council has to achieve significant savings in the next financial period. There is a risk to its financial stability, as this could impact on the level of reserves held by the Council</li> </ul>	<ul style="list-style-type: none"> <li>Our substantive testing of income has not revealed any issues and we have concluded that income is not materially misstated.</li> <li>The Council has developed a medium term financial plan which contains detailed savings which members will need to monitor robustly to ensure they are delivered.</li> </ul>
<p><b>Revaluation of fixed assets</b></p>	<p><b>Property, plant and equipment</b></p>	<ul style="list-style-type: none"> <li>Based on discussions with management, work has been undertaken to carry out valuations based on the guidance provided by the Royal Institute of Chartered Surveyors (RICS) and the Code to ensure these are in line with IFRS.</li> </ul>	<ul style="list-style-type: none"> <li>We have confirmed through substantive testing that the valuation of property, plant and equipment is not materially misstated.</li> </ul>
<p><b>Information Technology</b></p>	<p><b>Accounts opinion and value for money opinion</b></p>	<ul style="list-style-type: none"> <li>We have completed our review of the IT control environment, utilising our IT auditors and also incorporating the results of the external IT review performed on the IT service provided.</li> </ul>	<ul style="list-style-type: none"> <li>We have confirmed through the results of our IT review that there are some significant IT infrastructure challenges but nothing that can be considered opinion impacting.</li> </ul>

### Status of the audit

We carried out our audit in accordance with the proposed timetable and deadlines communicated to you in our Audit Approach Memorandum. Our audit is mostly complete although we are finalising our procedures in the following areas (key areas highlighted in blue):

- **provision of finance lease information;**
  - provision of a revised cash flow forecast;
  - audit of the related party transactions note;
  - review of the final version of the financial statements;
  - obtaining and reviewing the Council's letter of representation;
  - review of the final version of the Annual Governance Statement; and
  - updating our post balance sheet events review, to the date of signing the accounts
- We anticipate providing an unqualified opinion on the Council's financial statements, following approval by the Audit Committee on 29 September 2011.

In addition, we felt that improvements could be made to the process of shared service staff dealing with our audit queries and requests for additional information. We have discussed with the Council whether a simultaneous audit with Watford would be more efficient and whether it would be beneficial to align the audit committee dates of the two councils

A small number of issues arose during the course of the audit, which whilst not considered material to the reported financial performance, should be considered by the Audit Committee. These are set out in the following paragraphs. Where appropriate, we have made recommendations for improvement, as set out in the agreed action plan at Appendix C.

### Matters arising from the financial statements audit

Following certification by the Council's Responsible Finance Officer on 30 June 2011, we were presented with the core draft financial statements for audit, the complete statement of accounts with related notes to the accounts were presented for audit on 14 July 2011.

We report that the working papers, that accompany the financial statements, were produced in a manual format as opposed to the electronic format of the prior year. We have raised and addressed with management that we are to receive the working papers in a electronic format next year.

### Finance Team capacity

The Council's arrangements for provision of information to auditors were not as smooth as they could be. The support arrangements, in the absence of the Finance manager, require further strengthening as the provision of information is interrupted, which exerts undue pressure on the achievement of the national deadline.

The finance team are preparing the accounts for both Watford BC, Three Rivers DC and the Three Rivers and Watford Shared services for the first time in 2010/11, the same team produced the accounts for Three Rivers DC and Three Rivers and Watford Shared services only in the prior year.

**Matters arising from the financial statements audit (continued)**

**Segmental Reporting**

Under the requirements of the Code based on IFRS, Councils are required to disclose their business operating segments. An operating segment is a separately identifiable component of the Council, which earns revenues and incurs expenses, and whose operating results are regularly reviewed by the Council's chief operating decision maker ("CODM"), to assess the segment's performance and allocate resources. The Council has correctly prepared the segmental reporting note.

**Earmarked Reserves**

The Council maintained a housing subsidy repayment provision, for the potential clawback of housing benefit from the Department for Work and Pensions, in the prior year totalling £812,000.

The 2009/10 housing and council tax benefit subsidy claim received an unqualified opinion and removed the requirement for any money to be clawed back. The provision has been appropriated to an Earmarked reserve and totals £367,000. As the Council received an unqualified opinion on the 2009/10 return, we believe the housing subsidy reserve should be written back to the comprehensive income and expenditure account. A recommendation has been raised at appendix C

**Wider finance team accessibility**

Whilst we appreciate the current environment that the Council operates in having to make savings, we found this year that we experienced issues/delays in being able to access the wider shared service finance team to support the balances in the accounts. This largely related to the Revenues and Benefits shared service function. Where resourcing and other pressure made it difficult for them to support the audit in an effective manner.

### Other accounts issues arising

In addition to the matters raised above, there were a number of minor presentational changes that arose during the course of our audit that have been made to the financial statements, including:

- A balance of £2,107,668 was reclassified from sundry to local authority debtors;
- there were credit balances totalling £614,015 in NNDR debtors which required transferring to current creditors.

### Misstatements

Misstatements that were identified by the management team during the course of the audit and subsequently adjusted include:

1. The NNDR pool balance was incorrectly recorded in sundry debtors and it should have been recorded as government debtors.

- Brought forward balances of accounts receivable and accounts payable overpayments were not reversed out from 2009/10, resulting in a £217,000 adjustment.

Further misstatements were identified as a result of the audit work performed, the most significant of these are:

All adjusted and unadjusted misstatements are set out at Appendix B.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them.

### Evaluation of key controls

#### Internal Controls

We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of the Council's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.

## Annual Report to Those Charged With Governance (ISA 260)

### Review of IT

We performed a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that although there are some significant weaknesses within the IT arrangements they do not adversely impact on our opinion on the financial statements.

We have, however, identified a high risk control point by the IT auditors that has been deemed high risk regarding the allocation of a unique user ID to all users of the E financials system.

We have discussed these issues with management and made recommendations for improvement which are detailed in appendix C.

The Council engaged the services of an external consultant to perform a review of the provision of information technology and information systems across Watford BC and Three Rivers DC . The report concluded that there was insufficient data storage capacity, failure of back ups of data and the current path of web traffic requires re-routing. Significant change and investment is needed to improve IT arrangements .

### Review of internal audit

We periodically review the Internal Audit function for compliance with requirements of the 2006 CIPFA Internal Audit Standards. Our most recent review in March 2011 concluded that Internal Audit met these requirements. We draw on this work in forming our overall Value for Money (VfM) conclusion in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. This work also supports our review of the Annual Governance Statement (AGS) which in turn informs our VfM conclusion and our audit of the financial statements.

We note the Internal audit manager provided an opinion of satisfactory assurance on the adequacy and effectiveness of the control environment. This opinion provides an element of assurance to the Council about its overall governance arrangements.

### Management of the risk of fraud

We have sought assurances from the Head of Strategic Finance and the Chair of the Audit Committee in respect of processes in place to identify and respond to the risk of fraud at the Council.

From these enquiries we have established that the Council considers there are adequate processes in place to mitigate against the risk of fraud occurring at the Council and that those charged with governance have sufficient oversight over these processes to give them the assurances they require in this area.

### Annual Governance Statement (AGS)

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

We reviewed the draft AGS and were pleased to note that the risk surrounding the shared service arrangements had been included the significant risk surrounding the IT infrastructure.

**Next steps**

The Audit Committee is required to recommend to Council the financial statements for the year ended 31 March 2011. In forming its conclusions the Committee's attention is drawn to the adjustments to the financial statements and the required Letter of Representation.

## 3. Value for money

### Value for money conclusion

In order for us to provide a positive conclusion, the Council needs to demonstrate proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources.

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

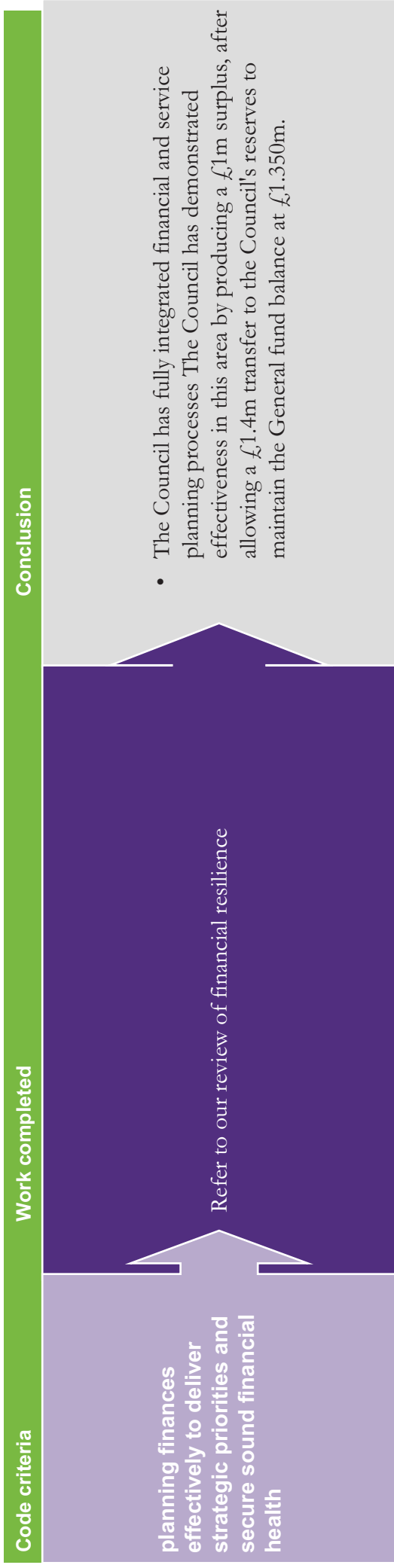
- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

For the year ended 31 March 2011 we are required to give our conclusion based on the following two criteria specified by the Audit Commission:

- the Council has proper arrangements in place for securing financial resilience
- the Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness

### Programme of work - review of proper arrangements

Our work has encompassed a review against proper corporate performance and financial management arrangements as defined by the Code. The findings from our review against these arrangements are detailed below:





Conclusion

Work completed

Code criteria

Reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people

Reviewed as part of financial resilience work and our audit of the financial statements.

- A 5 year MTFS is in place, reviewed by the Cabinet three times during the year, the objectives of the plan are cascaded down into service plans. The service plans are subject to further scrutiny, once approved are incorporated into the budget, and monitored as part of the monthly budget monitoring process reported to Cabinet.
- The primary financial statements were submitted on time, the accompanying notes submitted 2 weeks later, with no significant adjustments proposed. Recommendations have been made to ensure that the complete financial statements are submitted on a timely basis.

Commissioning and procuring services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money

Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity

- The Council has operated a shared service arrangement in conjunction with Watford BC for the second consecutive year, encompassing the IT, finance, human resources and revenue and benefits functions.
- The shared service is expected to save £500,000 in 2011/12 in delivering the shared service in comparison to this year. Concerns have been expressed over the efficiency and effectiveness of the revenues and benefits functions but not enough to impact our value for money conclusion.

**Annual Report to Those Charged With Governance (ISA 260)**

Code criteria	Work completed	Conclusion
<p>Having a sound understanding of costs and performance and achieving efficiencies in activities</p>	<p>Refer to our review of Financial Resilience</p>	<ul style="list-style-type: none"> <li>The Council have developed a robust approach to the identification of savings and have engaged the workforce to aid in the identification of cost reductions that resulted in the identification of £726,000 savings.</li> <li>The Council has a sound process for understanding its overall cost base and making appropriate decisions on future spending.</li> </ul>
<p>Producing relevant and reliable data and information to support decision making and manage performance priorities</p>	<p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity</p>	<ul style="list-style-type: none"> <li>The Council has a data quality strategy in place and is in the process of embedding data sharing protocols with their strategic partners.</li> <li>We have relied upon the Housing Benefit testing performed as part of our claim certification arrangements in November 2010 and found no errors.</li> </ul>
<p>Promoting and demonstrating the principles and values of good governance</p>	<p>Refer to our review of Financial Resilience, review of the AGS</p>	<ul style="list-style-type: none"> <li>All strategic risks are covered in the Assurance Framework and managed in accordance with the risk management strategy. The Council has a strong commitment to good standards of conduct, supported by a 3 year training programme for members, members and the Chair demonstrate a sound understanding of financial principles and of the required financial reporting and management techniques.</li> <li>There were weaknesses within the IT function that require disclosure within the AGS, however these were classed as non opinion impacting and will not present an adverse affect to the value for money conclusion.</li> </ul>

Code criteria	Work completed	Conclusion
<p>Managing risks and maintaining a sound system of internal control</p>	<p>Refer to our review of Financial Resilience, review of the AGS</p>	<ul style="list-style-type: none"> <li>The Council maintains a satisfactory level of internal control, underpinned by the Acting Internal Audit manager opinion stating satisfactory assurance over the control framework for 2010/11.</li> <li>There were weaknesses within the IT function that require disclosure within the AGS, however these were classed as non opinion impacting and will not present an adverse affect to the value for money conclusion.</li> </ul>
<p>Making effective use of natural resources</p>	<p>We have updated our prior year assessment through discussions with officers and a review of documentation.</p>	<ul style="list-style-type: none"> <li>The Council was assessed as performing well in this criteria in 2009/10 our monitoring of developments throughout the year did not indicate a significant change in performance. We are therefore satisfied that the criteria has been met.</li> </ul>
<p>Managing assets effectively to help deliver strategic priorities and service needs</p>	<p>Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity</p>	<ul style="list-style-type: none"> <li>From the resultant reconfiguration of council services the Council have reviewed their capacity requirements and accommodated the Three Rivers DC revenues and benefits staff within existing accommodation. In addition, the Council have redeveloped the Colloseum theatre as an entertainment venue that has recently re-opened.</li> </ul>

Code criteria

Planning, organising and developing the workforce effectively to support the achievement of strategic priorities

Work completed

Refer to our review of Financial Resilience. Considered as part of our risk assessment of the Council's arrangements to prioritise resources and improve efficiency and productivity.

Conclusion

- The Council include workforce planning requirements as part of their annual service plans, reviewed and approved on an annual basis.
- The current capacity issues for the revenues and benefits shared service has resulted in the recruitment of agency staff to cope with demand, partially as a result of the current recession. This will not result in an adverse impact on the value for money conclusion.

**Matters arising from the review of Value for Money**

Key outcomes from our local programme of work are detailed below. Where we have identified areas of weakness in the Council's arrangements, recommendations to support improvements have been made and are detailed in Appendix C of this report.

**Securing Financial Resilience**

We have completed a review to assess whether the Council has robust systems and processes in place to effectively manage its financial risks and opportunities and secure a stable financial position. We also have considered whether the Council's financial position should enable it to continue to operate for the foreseeable future.

To support our conclusion against this criteria we have undertaken a review which considered the Council's arrangements against three key areas:

- Strategic financial planning
- Financial governance
- Financial control

The main issues are reflected in the previous assessment against the code criteria, the detailed report will be presented to the November audit committee.

**Securing Economy, Efficiency and Effectiveness**

We have reviewed whether the Council has prioritised its resources to take into account budget constraints and whether it has achieved cost reductions and improved productivity and efficiencies.

Our overall conclusion is that arrangements are adequate although further work will be needed to significantly enhance IT arrangements and to fully realise the shared service benefit from the shared services arrangement with Watford BC.

**Follow Up of prior year assessment**

There were no areas that were deemed inadequate last year regarding the Council's arrangements.

**Overall conclusion**

The overall conclusion is that we are able to issue an unqualified conclusion.

# Appendices

## A. The reporting requirements of ISA 260

### Purpose of report

The purpose of this report is to highlight the key issues affecting the results of the Council and the preparation of the Council's financial statements for the year ended [31 March 2011].

The document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

We would like to point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the Council.

This report is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the Council arising under the terms of our audit engagement.

The contents of this report should not be disclosed with third parties without our prior written consent.

### Responsibilities of the directors and auditors

The directors are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the directors confirm that our understanding of all the matters in this report is appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of the roles and responsibilities with respect to internal controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the [Audit Committee] that it has done so.

The [Audit Committee] is required to review the Council's internal financial controls. In addition, the [Audit Committee] is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The [Audit Committee] should receive reports

from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

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

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the [Audit Committee].

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

### Independence and robustness

Ethical standards require us to give you full and fair disclosure of the matters relating to our independence. In this context we ensure that:

- the appointed audit partner and audit manager are subject to rotation every seven years;
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the Council;

Our fees paid by the Council do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner; and

- at all times during the audit, we will maintain a robustly independent position in respect of key judgement areas

### Audit and non-audit services

Services supplied to the Council for the year ended 31 March 2011 are as follows:

£

---

#### Audit services

---

Statutory audit	120,000
-----------------	---------

---

### Audit quality assurance

Grant Thornton's audit practice is currently monitored by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton also conducts internal quality reviews of engagements.

Furthermore, audits of public interest bodies are subject to the Audit Commission's quality review process.

We would be happy to discuss further the firm's approach to quality assurance.



## B. Audit adjustments

### Adjustment type

**Misstatement** - A change in the value of a balance presented in the financial statements

**Classification** - The movement of a balance from one location in the accounts to another

**Disclosure** - A change in the way in which a balance is disclosed or presented in an explanatory note

### Adjustments to the financial statements

Adjustment type	£000	Account balance	Impact on financial statements
Disclosure	614	Short term creditors	A credit balance on the year end debtors listing was found to represent the under-payment of NNDR, a reclassification adjustment is proposed to current creditors.
Disclosure	335	Short term creditors	Negative balances recorded in debtor ledger, which should have been recorded in creditors ledger.
Disclosure	58	Short term debtors	Negative balances found in creditor ledger, which should have been recorded in debtors ledger.
Disclosure		All	A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts which do not affect the reported financial position.
Disclosure	62	Long term debtors	The long term debtor balance was revalued and subsequently found to have been double counted.
Classification	24	Short term creditors	A balance relating to an income tax creditor was recorded in the accounts as a credit balance on the debtors ledger.

Adjustments to the financial statements (continued)

Adjustment type	£000	Account balance	Impact on financial statements
Classification	2,017	Short term debtors	A classification error of £2,017,668 between sundry and local authority debtors was brought to our attention by the finance team
Classification	5,714	Short term debtors	It was brought to our attention during the fieldwork that the NNDR pool balance was incorrectly recorded under sundry debtors and requires transfer to government debtors
Disclosure	217	Short term debtors Short term creditors	The Council did not reverse the brought forward balances from the 2009/10 Accounts receivable and Accounts payable overpayments.

## C. Action plan

**Priority**

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
1	The Council to review all Earmarked reserves to ensure they are required.	Medium	A report was presented to Cabinet in July 2011 regarding the level of earmarked reserves but accept that the level of reserves requires constant review.	Bernard Clarke, Head of Strategic Finance 31 March 2012

## C. Action plan IT recommendations

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
2	<p>The Council should consider implementing an intrusion detection or prevention system.</p> <p>Management should agree reasonable times to follow up on the actions highlighted in the penetration tests, both internal and external, to ensure a secure network.</p>	Medium	<p>ICT are currently analysing penetration test reports and will produce an action plan to address the weaknesses in the councils systems.</p>	End of September 2011.
	<p>We recommend that every user to the eFinancial system is unique to ensure transparency and accountability in every team for the actions performed in the system.</p>	High	<p>The IT analysts were set up with a generic log on to amend or set up passwords for the finance system when it was implemented. We will contact Advanced Business Services (ABS) for advice and give each of that team a personal log on so that the generic one is not used.</p>	End of September 2011.

## C. Action plan IT recommendations (continued)

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
4	<p>We recommend that the password are changed on a periodic basis. In line with good practice, this should be every 30-60 days.</p> <p>The minimum length of the passwords should be amended to be at least eight characters and the complexity settings should be activated to ensure complex passwords are used by to access both the network and the Finance application.</p>	Medium	<p>Network passwords: There already currently a local security policy set to require network passwords to be changed every 30 days. The domain group policy is set to require at least 6 characters in length. Complexity will be enabled, 30 day password age and 8 character requirement will be set.</p> <p>Finance system passwords: We will contact ABS for assistance with amending the password length on the finance system.</p>	End September 2011
5	<p>Management should review user access for each financial application to ensure that access to the application is appropriately applied. In addition, access to the network should be periodically reviewed to ensure that only current employees have access to the network.</p> <p>In addition, the New System User Request form should be updated to ensure that it includes the current systems used within the Council.</p>	Medium	<p>A review of the user access within the FMS was carried out in January 2011 following an internal audit recommendation. This is scheduled for a bi-annual review.</p> <p>The ICT new user forms for Watford have already been updated and published on the intranet.</p>	End October 2011

## C. Action plan IT recommendations (continued)

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
6	<p>Management should consider performing a review of the Oracle databases underlying the financial applications to determine the critical financial data tables that require audit logging. The review should be documented for future reference.</p> <p>Management should then implement a process to monitor any changes made to the critical financial data tables identified to ensure the changes have been appropriately authorised. The monitoring should be done by an appropriate independent individual, i.e. the individual should not have access to the databases and should have adequate knowledge to perform an effective review.</p> <p>Policies and procedures should be established to provide guidelines to staff to monitor and apply the change management processes.</p>	Medium	<p>A review is currently being undertaken by Welldata of all the councils databases and this will be documented by them.</p> <p>The FMS system does log changes to the core system, for example changes to bank details. If log files were required for every transaction this would have a huge impact on performance. We would need to discuss with Advanced Business Services and perhaps Welldata (remote DBA service) as to how best to proceed with this.</p> <p>We do have a spreadsheet that documents changes made to the core financial system within the finance department itself as well as the ICT change management system that is used to log technical changes at server and software level.</p> <p>A procedure document relating to the process will be created.</p>	End September 2011

Annual Report to Those Charged With Governance (ISA 260)

Rec No.	Recommendation	Priority	Management Comments	Implementation date and responsibility
7	<p>Change management policies and procedures should be implemented to ensure that a standardised process is followed for the implementing of changes to the system.</p> <p>All changes should be controlled at a central point to ensure that there is no duplication and that changes are tested as required before it is deployed in the live environment.</p>	High	<p>ICT Changes Change management procedure has been documented and implemented within ICT and all changes requested via ICT are logged within this system.</p> <p>Finance Changes Finance do have change management process in place but will ensure these are formally documented. It has been agreed that all change requests will be channelled via the Senior Accounts Assistant</p>	End September 2011
8	<p>Management should consider obtaining interface programs from the financial package provider to ensure that there is continuous support for the interfaces that are run regularly and to prevent over reliance on one individual in the organisation.</p> <p>A segregation should be established between the program maintenance team and the Financial reporting team.</p>	Medium	<p>Obtaining new interfaces to replace those written in-house will be costly, inefficient and impact on service delivery. It is accepted there is less internal control and greater risk for business continuity when reliance is place on one individual. This matter should be referred to the Shared Services Directors to find a satisfactory solution but recognising that we operate within small teams and financial constraints. The IT skills of the Finance Manager reside with an individual and are not part of the job specification.</p>	



**[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)**

© 2011 Grant Thornton UK LLP. All rights reserved.

"Grant Thornton" means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd (Grant Thornton International). Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently.

This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.





# STATEMENT OF ACCOUNTS

2010/11



# CONTENTS

	<b>PAGES</b>
<b>INTRODUCTION</b>	<b>2</b>
<b>STATEMENT OF RESPONSIBILITIES</b>	<b>3</b>
<b>EXPLANATORY FOREWORD</b>	<b>4</b>
<b>ANNUAL GOVERNANCE STATEMENT</b>	<b>10</b>
<b>CORE FINANCIAL STATEMENTS:</b>	
STATEMENT OF MOVEMENT IN RESERVES	<b>22</b>
COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT	<b>26</b>
BALANCE SHEET	<b>28</b>
CASH FLOW STATEMENT	<b>30</b>
<b>NOTES TO THE CORE FINANCIAL STATEMENTS</b>	
ACCOUNTING POLICIES	<b>31</b>
OTHER NOTES	<b>45</b>
<b>SUPPLEMENTARY FINANCIAL STATEMENTS</b>	
COLLECTION FUND	<b>87</b>
NOTES TO THE COLLECTION FUND	<b>88</b>
<b>GLOSSARY OF TERMS AND ABBREVIATIONS</b>	<b>91</b>
<b>INDEPENDENT AUDITORS REPORT AND CERTIFICATE</b>	<b>95</b>
<b>INDEX OF NOTES TO THE CORE FINANCIAL STATEMENTS</b>	<b>98</b>

# INTRODUCTION

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31<sup>st</sup> March 2011.

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 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.

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 CIPFA/LASAAC *Code of Practice on Local Authority Accounting in The United Kingdom* reflects the requirements of the *Accounts and Audit Regulations 2003 and 2005*. The Authority must provide a Statement of Responsibilities for the Statement of Accounts which sets out the responsibilities of the Authority and the Chief Financial Officer for the Accounts.

## The 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 the Chief Financial 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 Chief Financial Officer'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 Code)

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 presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Signed .....  
Bernard Clarke CPFA  
Head of Strategic Finance

Date: 29 September 2011

Signed .....  
Ian Brown  
Chair - Audit Committee

Date: 29 September 2011

## 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 has been included.

During the compilation of the 2010/11 Accounts a number of presentational adjustments to the 2009/10 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) Accounting Policies

Note 1 to the Core Financial Statements contains accounting policies. The purpose of these 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) Statement of Movement in Reserves

This statement shows the movement in the year on the different reserves held by the Council. The deficit on the Provision of Services line shows the economic cost of providing the Council's services, details of which are shown in the Comprehensive Income and Expenditure Account. These are different from the statutory amounts required to be charged to the General Fund balance for the purpose of council tax setting. The statement shows transfers to and from reserves that result in the General Fund balance carried forward of £1.350 million.

### c) Comprehensive 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 services for which the authority is responsible and demonstrates how those costs have been financed. The net cost of services for

## EXPLANATORY FOREWORD

2010/11 amounted to £10.908 million. After allowing for financing and gains on pension assets, the account shows a surplus of £37.959 million before the transfers to and from reserves shown in the Statement of Movement in Reserves that results in the General Fund balance.

### **d) Balance Sheet**

This shows all the assets and liabilities of the Council as at 31st March 2011. The balance sheet total is £146.568 million which represents the net worth of the Council at that date.

The Long Term Assets had a net book value of £161.607 million at 31st March 2011, an increase of £9.763 million mainly arising from increased investment and revaluation of Fixed Assets.

### **e) 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 £1.032 million.

### **f) 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 2010/11 amounted to £43.572 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 2010/11 amounted to £60.983 million.

The surplus for the year on the Collection Fund was £0.201 million, and the final balance on the Fund a surplus of £1.082 million. Watford Borough Council's proportion of the surplus is accounted for through the Collection Fund Adjustment Account shown on the Balance Sheet.

### **g) 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 14 to the Core Financial Statements. A separate set of accounts is prepared for the Joint Shared Services Committee.

## **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 £43.983 million shortfall as calculated at 31st March 2011. While the figure is substantial, it should be remembered that:

## EXPLANATORY FOREWORD

- The deficit was reduced by £34.711 million during 2010/11
- 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 in Note 27 to the Core Financial Statements.

### 4. CAPITAL

Total capital expenditure during 2010/11 amounted to £10.311 million. Of this £3.191m related to the refurbishment of the Colosseum. The Council also spent £1.495 million on refuse freighters, £0.932 million on refurbishing the former Woolworths building in Watford High Street, £0.553 million on disabled facility grants and £0.526 million on the Cardiff Road Health Campus. This was funded by the use of £9.007 million of capital receipts and £1.564 million from government grants and other contributions such as those arising from Section 106 agreements.

### 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 2011/12.

### 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 main areas of spend namely, the General Fund Revenue Account and Capital Expenditure. Further details are shown later in the document.

#### General Fund

The Statement of Movement in Reserves shows a General Fund balance at 31 March 2011 of £1.350m. The table below summarises the variances from the original budget that result in this balance. There are a number of accounting entries (e.g. internal recharges, capital financing and pension adjustments) which would distort the variance shown at the service level. The effect of these entries has been removed in the accounting adjustments column of the table and have no overall effect on the General Fund.



## EXPLANATORY FOREWORD

	Net Expenditure			
	Original £'000	Actual £'000	Acc Adj £'000	Variance £'000
<b>SPENDING DEPARTMENT</b>				
Corporate Services	635	858	(278)	(55)
Community Services	8,868	8,333	(101)	(636)
Environmental Services	6,025	6,613	(579)	9
Planning	3,188	4,286	(1,004)	94
Corporate Management	1,371	1,506	(168)	(33)
Legal & Property Services	(3,394)	(3,215)	(381)	(202)
Shared Services Implementation	459	580	0	121
Strategic Finance	4,132	(21,048)	25,274	94
Capital & IAS19 Adjustments	(4,472)	18,530	(22,878)	124
Net General Fund	16,812	16,443	(115)	(484)
<b>FUNDING</b>				
Council Tax + NNDR Surplus	(8,115)	(8,115)	0	0
Revenue Support Grant	(1,023)	(1,023)	0	0
Area Based grant	0	(285)	0	(285)
Non-specific grant to fund capital	0	(947)	947	0
Collection Fund Surplus	0	(31)	31	0
NNDR	(7,048)	(7,048)	0	0
	(16,186)	(17,449)	978	(285)
(Surplus)/Deficit for year	626	(1,006)	863	(769)
Balance B/F	(1,696)	(1,696)	0	0
Transfer to / (from) Reserves	(280)	1,352	(863)	769
Balance C/F	(1,350)	(1,350)	0	0

Notable variances (favourable)/adverse were as follows:-

- VAT refund (£1.150m) Following a VAT tribunal case (Fleming), the Council submitted claims in respect of overpaid VAT on sporting, cemeteries, and bulky waste (some dating back to 1973) where the VAT liability had changed.
- Building maintenance (£0.343m). Lower routine building maintenance costs across the Council's operational sites.
- Housing benefit - rent allowances/council tax benefit £0.454m Total benefits paid were higher than anticipated due to the increased number of new claimants.
- Administration of housing benefits £0.391m An overspend on temporary agency staff due to backlogs and increased number of new claimants.
- Investment interest £0.281m under performance due to an unprecedented period of low interest rates.
- Commercial rents £0.282m A fall in commercial rent and market income due to rent free periods and vacancy levels.

## EXPLANATORY FOREWORD

- Leisure venue contingency / management fee (£0.134m) Contingency not required in 2010/11 and increased management fee following negotiation.
- Consultancy corporate projects (£0.070m) Project management training started later than anticipated so budget has been carried forward into 2011/12.
- Cemeteries (£0.100m) Increased income from fee income plus a refund of utility costs.
- Sports and Arts (£0.065m) Reduction to play scheme expenditure.
- Concessionary fares scheme £0.168m. Increased payments to bus operators as a part of the national scheme. This function will be carried out by the County from 1st April 2011.
- Planning vacancies (£0.110m) Vacancies not filled particularly in the Development and Transport & Infrastructure sections.

### Capital

The Council originally budgeted for capital expenditure of £13.700 million in 2010/11. It actually spent £10.311 million, mainly due to the rephasing of schemes as follows:-

- Cardiff Road Health Campus (£1.274m)
- Colosseum Refurbishment (£0.723m)
- Asset Management Schemes (£0.805m)

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

The Financial Statements have been prepared, for the first time, under International Financial Reporting Standards (IFRS), a new statutory accounting framework which has replaced the United Kingdom Generally Accepted Accounting Principles (UK GAAP). This has brought about a change in the layout of the accounts and requires the restatement of comparative figures for the previous year. The Chartered Institute of Public Finance and Accountancy produces a Code of Practice on Local Authority Accounting which reflects the statutory requirements and has been followed in preparing the financial statements.

The major accounting adjustments brought about by the introduction of IFRS are:-

- a new definition of investment assets;
- the classification of property leases as either finance or operational leases;
- accounting for employee benefits that have been earned but not taken (e.g. leave);
- component accounting where an asset has elements with different economic lives, and,
- a change in the treatment of deferred grants.

### 9. CONCLUSION

The Council's General Fund Working Balance was £1.350 million. In addition, the Council has earmarked reserves totalling £11.655 million, the majority of which is available to cushion itself against future eventualities arising from further economic downturn or future changes in Government policy.

On capital, the Council under spent its original budget by £3.389 million, with significant scheme slippages on the Cardiff Road Health Campus and Colosseum Refurbishment. Capital receipts at £19.413 million are sufficient to fund future years' capital programmes.

Bernard Clarke CPFA  
Head of Strategic Finance

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

## 2.0 The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Watford Borough Council for the year ended 31 March 2011 and up to the date of approval of the Statement of Accounts for the 2010/2011 financial year.

## 3.0 Strategic Aims and Objectives

- 3.1 The Governance Framework enables the Council's key objectives to be met and these can be summarised as follows:

### **VISION:**

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

## OUR OBJECTIVES:

- Improve the health of the town and enhance its heritage
- Enhance the town's 'clean and green' environment
- Enhance the town's sustainability
- Enhance the town's economic prosperity and potential
- Supporting individuals and the community
- Securing an efficient, effective, value for money council
- Influence and partnership delivery

- 3.2 Underpinning these over arching priorities are a series of measurable objectives so that every member of staff and our community can feel fully engaged in the process.
- 3.3 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 and West Herts Chamber of Commerce, the Council for Voluntary Service, Hertfordshire NHS, Watford Community Safety Partnership, The District Children's Trust, John Lewis plc, Watford Football Club, Wenta, Watford Community Housing Trust and WatCom. 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 6 June 2011 and by full council on 20 July 2011; it covers the period 2011/2015.
- 3.4 The Corporate Plan is the key document for translating the aims and ambitions for Watford into a concise, readable document with SMART targets.

## 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 of responsibility.
- 4.2 The major check upon executive decisions taken by the Mayor and Cabinet is the Full Council and 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. There is also an Executive Group comprising the Managing Director and two Executive Directors which meets regularly to review the strategic aims and ambitions 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](http://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. The scrutiny function within a local authority provides a necessary check upon the role of the Executive and is a key component of corporate governance. The scrutiny function has been reviewed by Full Council and is to change for the 2011/2012 Municipal Year. This review of governance arrangements is necessarily backward looking and refers to the arrangements applying during 2010/2011.

Policy Development Scrutiny Committee considered selected topics and advised Cabinet on its findings. Call-in and Performance Scrutiny would 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, including Freedom of Information requests, as well as Annual Accounts and Treasury Management policies.

# ANNUAL GOVERNANCE STATEMENT

- 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, procedures, laws and regulations is achieved through a combination of: training events, written policy and procedural documentation, authorisation procedures, managerial supervision, review by internal and external audit and use of the disciplinary procedure where appropriate.
- 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 to which they belong.
- 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 Medium Term Financial Strategy 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. The principles underpinning this Strategy were applied in developing a detailed Service Prioritisation budgeting process during 2010/2011 which identified £3m of efficiencies whilst avoiding salami slicing across all budgets. This work is being further developed with the production of a 'Roadmap' to identify what the Council will look like in the future. It is all about anticipating and managing change and is being implemented through a Corporate Process Improvement Programme and Service Reviews that will be used to identify a further £2m of efficiencies through value for money and that is structured to assess further areas for improvement. The outcomes of this improvement programme 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 Strategy for 2011/2015.

# ANNUAL GOVERNANCE STATEMENT

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 all improvement projects and major investment programmes.
- undertaking Best Value/Value for Money and managerial reviews
- implementing the recommendations of Internal Audit
- implementing the recommendations of external auditors and inspectors
- the adoption of best practice where cost-effective
- increasing use of technology to deliver services that customers want
- market testing of services where appropriate
- 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. These reports also include performance data which is also considered monthly by Leadership under a 'managing the business' agenda.

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. The Intranet (under learning and Development) include E Learning modules for Anti Fraud, Money Laundering, and Fraud Awareness. 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 up dated 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 disseminated through the service delivery plans, 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, report 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. These reviews include consideration of complaints and progress against the Council's equalities agenda. For those services within shared services, this quarterly monitoring is achieved through reports to a fortnightly meeting of a Shared Services Officer Management Board, regular meetings of lead officers and shared services portfolio holders and more formally through 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 have been reported 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.

## **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 (KPIs) 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 was updated and reviewed and approved by Leadership Team on 22 February 2011 and by the Audit Committee on 16 March 2011. This Strategy underpins the Strategic Risk register which was updated in April 2011 again following approval by Leadership Team. This process is overseen by the

# ANNUAL GOVERNANCE STATEMENT

Risk Management and Business Continuity Steering Group which meets six times a year and ensures a consistent approach to risk management across the Council.

- 8.5 Business Continuity is another key aspect within the corporate governance framework and this again falls within the remit of the Risk Management Corporate group. A 'disaster' exercise (Operation Acetylene) was held on 16 December 2010 which tested the council's service readiness in the event of a series of explosions around the Town Hall complex. The report and recommendations of that exercise appear on the council's intranet along with the Risk Management Strategy; Risk Registers and minutes of each Steering Group Meeting.
- 8.6 Training has been provided in the past for the Audit Committee and key staff in which risk management and the Whistle blowing Policy were presented. A guidance note on risk management was sent out to every single member of staff with their payslips. Business continuity is the main focus for training opportunities at present with lunch and learn sessions having been organised.
- 8.7 The risk management section within the Partnership Framework has been revised and all committee reports contain a 'risk implications' section as an aid to decision taking.

## **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 has been formed 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 the constituent bodies have 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 has an open invitation to attend all meetings of the Shared Services Joint Committee as an independent client and challenge agent.
- 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, as an example, 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 was commenced in March 2011.

9.5 During 2010/11 Internal Audit carried out 221 days of planned audits into the activities of Shared Services. The Internal Audit Plan for 2011/2012 also includes 203 audit days (43%) 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 engagement.

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

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 has been published six times a year (subject to review for 2011) 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 Plan, which runs for four 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 Equality 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 annual budget seminars 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.

- 10.8 Other community engagement activities undertaken in 2010/2011 include working with the Police and Watford Community Housing Trust to progress Neighbourhood Agreements; the Environmental Services Service Improvement Group; the Friends of Parks Groups; various Pub Watch and Off (license) Watch Groups and the Night Time Economy Working Group.

## **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 2010/11) 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 value for money, certification of grant claims and through periodic inspection of services. The annual audit 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 reviews the operation of Treasury Management. It also received the annual letter from the Ombudsman and considers regular reports upon Freedom of Information requests.
- 11.5 The 2010/11 Statement of Accounts is due to be formally approved by the Audit Committee on 29th September 2011 (which is a later statutory requirement than in past years).

## **12.0 Review of effectiveness**

- 12.1 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.

## ANNUAL GOVERNANCE STATEMENT

12.2 The Corporate and Service Plan Outcomes during 2010/11 were reviewed by Leadership Team in November 2010 and were referred to the Call In and Performance Scrutiny Committee on 9th December 2010.

12.3 In addition to this evaluation of the effectiveness of how the governance and risk management framework delivered strategic objectives, it is also pertinent to refer to the highly developed scrutiny process within the council. This culminates in the Annual Report of Overview and Scrutiny in Watford Borough Council for 2010/2011. This Annual report was presented to Council on 25 May 2011 and included a synopsis of governance work carried out by:

- Policy Development Scrutiny Committee
- Call-In & Performance Scrutiny Committee
- The Budget Panel
- Overview and Scrutiny Committee

12.4 The Standards Committee has a key role in upholding governance principles and has:

- Approved revised Code of Corporate Governance
- Considered the Annual Report for 2010/2011 of complaints/ referrals under the standards protocols.
- Through its sub committees considered complaints received regarding breaches to the code of conduct for councillors

12.5 Internal Audit

The Audit Manager reported to the Audit Committee on 30th March 2011, an Interim Annual Report where he had reservations regarding the internal controls applying to recently introduced shared services ICT systems. The Acting Audit Manager's final report will be considered by the Audit Committee on 29th September and he now concludes: "Having reviewed the work undertaken by Internal Audit I am able to give a satisfactory assurance of the adequacy and effectiveness of the internal control environment".

12.6 Other External Review mechanisms

- The Legal service has successfully retained its Lexcel status
- Green Flag accreditation for three Watford parks
- 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.
- Clean Britain Awards – retained 4 Star status
- WBC Carbon Management Strategy approved by the Carbon Trust
- Workforce Development Award from East of England for the Waste & Recycling Service
- Shortlisted for Local Authority Team of the Year in the National Recycling Awards (announcement on 14.07.11)

# ANNUAL GOVERNANCE STATEMENT

## 13.0 Significant Governance Issues

13.1 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 within Academy and between Academy and the Cedar Finance Management System urgently need to be addressed both for 2010/2011 and going forward.	Staff resource needs to be dedicated to carrying out these reconciliations if the Council is to close its accounts on time and using actual outturn figures. BY: Immediate	Head of Revenues and Benefits Shared Services.	Issues that were identified at an early date were not progressed until too late in the financial year. This is a major concern both reputationally and financially. External help has been engaged and this is now up to date.
2	Revenues and Benefits received a detailed Health Check report in Summer 2010. A number of the recommendations have still to be achieved.	Staff resource (or external agency help) needs to be dedicated to achieving the majority of recommendations (it is accepted that some recommendations are of a longer duration). BY: Immediate	Head of Revenue and Benefits Shared Services	Progress is slow and results in an 'average' service at too high a cost.
3	The procedures for changing supplier bank account details need to be urgently reviewed to minimise the risk of external fraud.	The recording of all supplier details for public scrutiny (as required by the Secretary of State for local government) has significantly increased the chances of external fraud... BY: 31/5/11	Head of Finance Shared Services	This has been achieved but may have the consequence of slowing down the payment of invoices as supplier details are double checked.
4	The ICT Operating platforms need to be more robust.	The infrastructure is unreliable and has caused considerable downtime. BY: Immediate	Head of ICT Shared Services	An external review/report has been received and an Action Plan is being developed.

# ANNUAL GOVERNANCE STATEMENT

- 13.2 We propose over the coming year to liaise with Three Rivers District Council in order to take steps to address the above matters. Subject to the necessary approvals from TRDC, we are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

.....  
**Mayor**

**Date: 29 September 2011**

.....  
**Managing Director**

**Date: 29 September 2011**

# STATEMENT OF MOVEMENT IN RESERVES

	General Fund Balance £000	Housing Revenue Account Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2009</b>	<b>(1,696)</b>	<b>(1,232)</b>	<b>(10,284)</b>	<b>(32,635)</b>	<b>(45,847)</b>	<b>(107,506)</b>	<b>(153,353)</b>
<b>Movement in Reserves during 2009/10</b>							
(Surplus) or deficit on provision of services	6,047	0	0	0	6,047	0	6,047
Other Comprehensive Expenditure and Income	38,275	0	0	0	38,275	0	38,275
<b>Total Comprehensive Expenditure and Income</b>	<b>44,322</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>44,322</b>	<b>0</b>	<b>44,322</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>							
Charges for depreciation of non current assets	(4,752)	0	0	0	(4,752)	4,752	0
Revaluation Losses on Property, Plant & Equipment	2,181	0	0	0	2,181	(1,759)	422
Amortisation of intangible fixed assets	0	0	0	0	0	0	0
Capital grants & contributions applied to capital financing	914	0	0	0	914	(914)	0
Revenue Expenditure Funded from Capital under Statute	(1,352)	0	0	0	(1,352)	1,352	0
Net loss written off on sale or disposal of non current assets	16	0	0	0	16	(16)	0
Council's share of Movement in Collection Fund Surplus/(Deficit)	(7)	0	0	0	(7)	7	0
Contribution from Capital Receipts Reserve to finance payments to the Government Capital Receipts Pool	(5)	0	0	5	0	0	0
Unattached capital receipts	1,489	0	0	(1,738)	(249)	249	0
Lease mitigation	(1)	0	0	1	0	0	0
Accrued Employee benefits	(17)	0	0	0	(17)	17	0
Leaseholder contributions to fund capital expenditure	16	0	0	0	16	(16)	0
Reversal of unapplied grants & contributions credited to the comprehensive I&E	0	0	0	0	0	0	0
Employer's contributions payable to the HCC Pension Fund and retirement benefits payable direct to pensioners	3,093	0	0	0	3,093	(3,093)	0
Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities	(40,456)	0	0	0	(40,456)	40,456	0
Net charges made for retirement benefits in accordance with FRS 17	(4,476)	0	0	0	(4,476)	4,476	0
Capital expenditure charged in-year to the General Fund Balance	5	0	0	0	5	(5)	0
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	0	1	(1)	0
(Surplus)/Deficit Arising on Housing Revenue Account	18	(18)	0	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	<b>989</b>	<b>(18)</b>	<b>0</b>	<b>(1,732)</b>	<b>(761)</b>	<b>45,505</b>	<b>44,744</b>



# STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Housing Revenue Account Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Transfers to/from earmarked reserves</b>							
Performance Reward Grant	152	0	(152)	0	0	0	0
Charter Place Tenants Reserve	(533)	0	533	0	0	0	0
Multi-Storey Car Park Repair Reserve	19	0	(19)	0	0	0	0
Car Parking Zones Reserve	106	0	(106)	0	0	0	0
Leisure Structured Maintenance Reserve	(500)	0	500	0	0	0	0
Herts Young People's Project Reserve	40	0	(40)	0	0	0	0
LA Business Growth Incentive Reserve	(61)	0	61	0	0	0	0
Spend to Save Reserve	(791)	0	791	0	0	0	0
Local Development Framework Reserve	5	0	(5)	0	0	0	0
Climate Change Reserve	(39)	0	39	0	0	0	0
Concessionary Fares Reserve	(45)	0	45	0	0	0	0
Housing Planning Delivery Grant	332	0	(332)	0	0	0	0
Recycling Reserve	(16)	0	16	0	0	0	0
Budget Carry Forward Reserve	155	0	(155)	0	0	0	0
Area Based Grant Reserve	187	0	(187)	0	0	0	0
Capital Fund Reserve	0	0	0	7,721	7,721	(7,721)	0
<b>Transfers to/from earmarked reserves</b>	<b>(989)</b>	<b>0</b>	<b>989</b>	<b>7,721</b>	<b>7,721</b>	<b>(7,721)</b>	<b>0</b>
<b>Increase / Decrease in 2009/10</b>	<b>0</b>	<b>(18)</b>	<b>989</b>	<b>5,989</b>	<b>6,960</b>	<b>37,784</b>	<b>44,744</b>
<b>Balance as at 31 March 2010 carried forward</b>	<b>(1,696)</b>	<b>(1,250)</b>	<b>(9,295)</b>	<b>(26,646)</b>	<b>(38,887)</b>	<b>(69,722)</b>	<b>(108,609)</b>

# STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Housing Revenue Surplus Reserve £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 1 April 2010</b>	<b>(1,696)</b>	<b>(1,250)</b>	<b>(9,295)</b>	<b>(26,646)</b>	<b>(38,887)</b>	<b>(69,722)</b>	<b>(108,609)</b>
<b>Movement in Reserves during 2010/11</b>							
(Surplus) or deficit on provision of services	(19,527)	0	0	0	(19,527)	0	(19,527)
Other Comprehensive Expenditure and Income	(18,432)	0	0	0	(18,432)	0	(18,432)
<b>Total Comprehensive Expenditure and Income</b>	<b>(37,959)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(37,959)</b>	<b>0</b>	<b>(37,959)</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>							
Charges for depreciation of non current assets	(2,440)	0	0	0	(2,440)	2,440	0
Revaluation Losses on Property, Plant & Equipment	(887)	0	0	0	(887)	887	0
Movement in market value of Investment Properties	6,824	0	0	0	6,824	(6,824)	0
Amortisation of intangible fixed assets	0	0	0	0	0	0	0
Capital grants & contributions applied to capital financing	1,323	0	0	0	1,323	(1,323)	0
Revenue Expenditure Funded from Capital under Statute	(1,932)	0	0	0	(1,932)	1,932	0
Net profit / (loss) on sale or disposal of non current assets	0	0	0	0	0	0	0
Council's share of Movement in Collection Fund Surplus/(Deficit)	31	0	0	0	31	(31)	0
Contribution from Capital Receipts Reserve to finance payments to the Government Capital Receipts Pool	0	0	0	0	0	0	0
Unattached capital receipts	1,432	0	0	(1,514)	(82)	82	0
Lease mitigation	214	0	0	0	214	(214)	0
Accrued Employee benefits	(26)	0	0	0	(26)	26	0
Other Income	0	0	0	0	0	0	0
Reversal of unapplied grants & contributions credited to the comprehensive I&E	0	0	0	0	0	0	0
Employer's contributions payable to the HCC Pension Fund and retirement benefits payable direct to pensioners	3,209	0	0	0	3,209	(3,209)	0
Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities	20,730	0	0	0	20,730	(20,730)	0
(Surplus) / Deficit on revaluation of Property, Plant and Equipment	(2,298)	0	0	0	(2,298)	2,298	0
Net charges made for retirement benefits in accordance with FRS 17	10,772	0	0	0	10,772	(10,772)	0
Capital expenditure charged in-year to the General Fund Balance	0	0	0	0	0	0	0
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	0	1	(1)	0
(Surplus)/Deficit Arising on Housing Revenue Account	0	0	0	0	0	0	0
<b>Net increase / decrease before transfers to earmarked reserves</b>	<b>(1,006)</b>	<b>0</b>	<b>0</b>	<b>(1,514)</b>	<b>(2,520)</b>	<b>(35,439)</b>	<b>(37,959)</b>

# STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Housing Revenue Account Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Transfers to/from earmarked reserves</b>							
Performance Reward Grant	(58)	0	104	0	46	(46)	0
Charter Place Tenants Reserve	(219)	0	219	0	0	0	0
Multi-Storey Car Park Repair Reserve	26	0	(26)	0	0	0	0
Car Parking Zones Reserve	(361)	0	557	0	196	(196)	0
Leisure Structured Maintenance Reserve	183	0	(183)	0	0	0	0
Invest to Save Reserve	41	0	(41)	0	0	0	0
Economic Impact Reserve	750	0	(750)	0	0	0	0
Pension Funding Reserve	300	0	(300)	0	0	0	0
Concessionary Fares Reserve	(100)	0	100	0	0	0	0
Housing Planning Delivery Grant	(31)	0	31	0	0	0	0
Recycling Reserve	(50)	0	50	0	0	0	0
Housing Benefit Subsidy Reserve	367	0	(367)	0	0	0	0
Area Based Grant Reserve	(256)	0	256	0	0	0	0
Insurance Fund Reserve	100	0	(100)	0	0	0	0
Vehicle Replacement Reserve	150	0	(150)	0	0	0	0
Development Sites Decontamination Reserve	60	1,251	(1,311)	0	0	0	0
Climate Change Reserve	(39)	0	39	0	0	0	0
LA Business Growth Incentive	(56)	0	56	0	0	0	0
Budget Carry Forward Reserve	194	0	(194)	0	0	0	0
Usable Capital Receipts	0	0	0	8,747	8,747	(8,747)	0
Capital Fund Reserve	350	0	(350)	0	0	0	0
<b>Transfers to/from earmarked reserves</b>	<b>1,352</b>	<b>1,251</b>	<b>(2,360)</b>	<b>8,747</b>	<b>8,989</b>	<b>(8,989)</b>	<b>0</b>
<b>Increase / Decrease in 2010/11</b>	<b>346</b>	<b>1,251</b>	<b>(2,360)</b>	<b>7,233</b>	<b>6,469</b>	<b>(44,428)</b>	<b>(37,959)</b>
<b>Balance as at 31 March 2011 carried forward</b>	<b>(1,350)</b>	<b>0</b>	<b>(11,655)</b>	<b>(19,413)</b>	<b>(32,418)</b>	<b>(114,150)</b>	<b>(146,568)</b>

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'useable reserves' (i.e. these that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for council tax setting. The net increase / (decrease) before transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

# COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

Restated 2009/10					2010/11		
GROSS EXPENDITURE £000	GROSS INCOME £000	NET EXPENDITURE £000		Note	GROSS EXPENDITURE £000	GROSS INCOME £000	NET EXPENDITURE £000
			Central services to the public:				
1,226	(455)	771	Local Taxation Collection		1,557	(726)	831
926	(430)	496	Other Central Services		1,120	(427)	693
			Cultural, Environmental, Regulatory & Planning Services:				
6,380	(912)	5,468	Leisure Services		5,503	(571)	4,932
513	(176)	337	Cemeteries and Crematoria		467	(178)	289
1,799	(384)	1,415	Environmental Health		1,905	(396)	1,509
5,828	(1,357)	4,471	Waste Collection and Disposal		6,248	(1,459)	4,789
3,132	(719)	2,413	Planning and Development		4,303	(702)	3,601
2,160	(58)	2,102	Other Services		2,065	(169)	1,896
5,075	(5,427)	(352)	Highways and Transport Services		4,818	(4,358)	460
39,576	(36,334)	3,242	Other Housing Services		43,745	(40,553)	3,192
4,444	(331)	4,113	Corporate and Democratic Services		4,821	(330)	4,491
254	0	254	Non-distributed Costs		0	(15,775)	(15,775)
<b>71,313</b>	<b>(46,583)</b>	<b>24,730</b>	<b>Cost of Services</b>		<b>76,552</b>	<b>(65,644)</b>	<b>10,908</b>
			<b>Other Operating Expenditure / (Income)</b>				
		5	Payments to the Government Housing Capital Receipts Pool				0
		(16)	(Gain) or loss on disposal of non current assets				0
		(1,488)	Unattached capital receipts				(1,432)
		(1,959)	(Surplus) or deficit on trading undertakings not included in Net Cost of Services	8			(4,779)
			<b>Financing &amp; Investment Income &amp; Expenditure</b>				
		102	Interest payable and similar charges				118
		3,060	Pension interest costs and expected return on assets				0
		(753)	Interest and Investment Income				2,422
		(18)	Housing Revenue Account				(7,868)
		0	Other Income				0
			<b>Taxation &amp; Non-Specific Grant Income</b>				
		(8,222)	Council Tax Income				(8,146)
		(6,526)	Non-domestic Rates redistribution	7			(7,048)
		(2,189)	Non-ringfenced Government Grants	7			(1,308)
		(679)	Capital Grants and Contributions	7			(946)
		<b>6,047</b>	<b>(Surplus) / Deficit on Provision of Services</b>	<b>6</b>			<b>(19,527)</b>
		(2,181)	(Surplus) / Deficit on revaluation of Property, Plant and Equipment				2,298
		40,456	Actuarial (gains) / losses on pension assets / liabilities				(20,730)
		<b>38,275</b>	<b>Other Comprehensive Income and Expenditure</b>				<b>(18,432)</b>
		<b>44,322</b>	<b>Total Comprehensive Income and Expenditure</b>				<b>(37,959)</b>

## COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting policies, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

There are no prior period adjustments included in the statements other than those made to reflect the introduction of international financial reporting standards

# BALANCE SHEET AS AT 31 MARCH 2011

<i>Restated</i> 31-Mar-09 £000	<i>Restated</i> 31-Mar-10 £000		<i>Note</i>	<b>31-Mar-11</b> £000      £000	
		<b>Property, Plant and Equipment</b>			
39,819	40,709	Land and Buildings	16	41,020	
4,112	3,332	Vehicles, Plant and Equipment	16	4,897	
0	0	Community Assets		0	
896	1,971	Infrastructure Assets	16	2,112	
<b>44,827</b>	<b>46,012</b>				<b>48,029</b>
		<b>Other Long Term Assets</b>			
100,736	101,998	Investment Properties	18	109,873	
2,170	2,235	Surplus Assets	18	2,045	
1,548	1,599	Long Term Debtors	22	1,660	
<b>104,454</b>	<b>105,832</b>				<b>113,578</b>
<b>149,281</b>	<b>151,844</b>	<b>LONG TERM ASSETS</b>			<b>161,607</b>
		<b>CURRENT ASSETS</b>			
28	37	Inventories	20	40	
8,446	17,397	Short Term Debtors	21	12,302	
47,594	34,827	Short Term Investments	34	31,874	
752	396	Cash and Cash Equivalents	24	483	
56,820	52,657				44,699
<b>206,101</b>	<b>204,501</b>	<b>TOTAL ASSETS</b>			<b>206,306</b>
		<b>CURRENT LIABILITIES</b>			
(10,670)	(12,025)	Short Term Creditors	25	(10,654)	
(995)	(2,234)	Short Term Borrowing	24	(1,288)	
(11,665)	(14,259)				(11,942)
<b>194,436</b>	<b>190,242</b>	<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<b>194,364</b>
		<b>LONG TERM LIABILITIES</b>			
(1,857)	(1,811)	Government Grants & Other Contributions Unapplied	26	(3,386)	
(137)	(286)	Deferred Liabilities	26	(427)	
(821)	(812)	Provisions	27	0	
(29)	(29)	Long Term Creditors	26	0	
(38,238)	(78,694)	Liability related to Defined Benefit Pension Scheme	28	(43,983)	
(41,082)	(81,632)				(47,796)
<b>153,354</b>	<b>108,610</b>	<b>NET ASSETS</b>			<b>146,568</b>

# BALANCE SHEET AS AT 31 MARCH 2011

-continued

Restated 31-Mar-09 £000	Restated 31-Mar-10 £000		Note	31-Mar-11 £000      £000	
		<b>FINANCED BY:</b>			
		<b>USABLE RESERVES</b>			
1,696	1,696	General Fund Balance	30	1,350	
32,635	26,646	Capital Receipts Reserve	30	19,413	
10,284	9,295	Earmarked Reserves	30	11,655	
1,233	1,251	Housing Revenue Surplus Reserve	30	0	
45,848	38,888				32,418
		<b>UNUSABLE RESERVES</b>			
120,749	122,320	Capital Adjustment Account	31	149,139	
1,661	1,683	Deferred Capital Receipts	31	1,738	
(98)	(97)	Deferred Capital Payments	31	(187)	
(79)	(78)	Financial Instruments Adjustment Account	31	(77)	
154	147	Collection Fund Adjustment Account	31	178	
23,440	24,541	Revaluation Reserve	31	7,468	
(83)	(100)	Accumulated Absences Reserve	31	(126)	
(38,238)	(78,694)	Pensions Reserve	31	(43,983)	
107,506	69,722				114,150
<b>153,354</b>	<b>108,610</b>	<b>TOTAL RESERVES</b>			<b>146,568</b>

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

.....  
**Ian Brown**  
 Chairman of Audit Committee  
 Date: 29 September 2011

.....  
**Bernard Clarke**  
 Head of Strategic Finance  
 Date: 29 September 2011

# CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2011

Restated 2008/09 £000	Restated 2009/10 £000		Note	2010/11 £000
5,198	6,716	<b>Net (surplus) or deficit on the provision of services</b>		<b>(19,527)</b>
0	(32)	Adjustments to net surplus or deficit on the provision of services for non cash movements	23	18,964
0	0	Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities		0
		<b>Net cash flows from Operating Activities</b>		
2	0	Interest paid		0
7	25	Interest element of finance lease rental payments		41
(3,115)	(1,233)	Interest received		(1,020)
<b>(3,106)</b>	<b>(1,240)</b>			<b>17,985</b>
		<b>Investing Activities</b>		
8,453	6,974	Purchase of non current assets		10,311
0	0	Purchase of short term and long term investments		0
71	0	Other payments for investing activities		0
(828)	(212)	Proceeds from the sale of fixed assets		(79)
(1,821)	(675)	Capital grants received		(501)
(3,165)	(1,547)	Other receipts from investing activities		(1,432)
<b>2,710</b>	<b>4,540</b>			<b>8,299</b>
		<b>Financing Activities</b>		
(1,100)	(12,400)	Net increase / (decrease) in short-term deposits		(2,953)
(3,106)	3,906	Other (receipts) / payments from financing activities		(2,972)
32	74	Other payments for the capital element of finance leases		201
<b>(4,174)</b>	<b>(8,420)</b>			<b>(5,724)</b>
<b>628</b>	<b>1,596</b>	<b>Net (increase) / decrease in cash and cash equivalents</b>		<b>1,033</b>
<b>386</b>	<b>(242)</b>	<b>Cash and Cash equivalents at the beginning of the reporting period</b>		<b>(1,838)</b>
<b>(242)</b>	<b>(1,838)</b>	<b>Cash and Cash equivalents at the end of the reporting period</b>		<b>(805)</b>

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



## 1 Accounting Policies

### 1.01 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) [and statutory guidance issued under section 12 of the 2003 Act]. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### 1.02 Accruals of Income and Expenditure

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

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

### 1.03 Cash and Cash Equivalents

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

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

## 1.04 Exceptional Items

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

## 1.05 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

## 1.06 Charges to Revenue for Non-Current Assets

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

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

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

## 1.07 Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the

# NOTES TO THE CORE FINANCIAL STATEMENTS

employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## Termination Benefits

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

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

## Post Employment Benefits

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

## The Local Government Pension Scheme

- The Local Government Scheme is accounted for as a defined benefits scheme.
- The liabilities of Hertfordshire County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality corporate bonds).
- The assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Authority are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS)19. The assets are:
  - Equities
  - Bonds
  - Property
  - Cash

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

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

- current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

### **Discretionary Benefits**

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

### **1.08 Events After the Balance Sheet Date**

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

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

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

## 1.09 Financial Instruments

### Financial Liabilities

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

### Financial Assets

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 — assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

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

However, the Authority 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 Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year — the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and

# NOTES TO THE CORE FINANCIAL STATEMENTS

Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

## **Available-for-Sale Assets**

The Council does not hold any available-for-sale financial assets.

## **1.10 Government Grants and Contributions**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

## **Area Based Grant**

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

## **1.11 Intangible Assets**

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

## 1.12 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the average weighted costing formula.

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

## 1.13 Investment Property

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

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

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal

# NOTES TO THE CORE FINANCIAL STATEMENTS

gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

## 1.14 Leases

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

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

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

### *The Authority as Lessee*

#### **Finance Leases**

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

Lease payments are apportioned between:

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

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

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



# NOTES TO THE CORE FINANCIAL STATEMENTS

## **Operating Leases**

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

## ***The Authority as Lessor***

## **Finance Leases**

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

Lease rentals receivable are apportioned between:

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

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

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

## **Operating Leases**

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a

# NOTES TO THE CORE FINANCIAL STATEMENTS

premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## 1.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

## 1.16 Property, Plant and Equipment

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

### Recognition

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

### Measurement

Assets are initially measured at cost, comprising:

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

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

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

- infrastructure, community assets and assets under construction — depreciated historical cost
- dwellings — fair value, determined using the basis of existing use value for social housing (EU V-S H)
- all other assets — fair value, determined as the amount that would be paid for the asset in its existing use (existing use value — EUV).

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

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

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

Where decreases in value are identified, they are accounted for by:

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

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

### **Impairment**

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

Where impairment losses are identified, they are accounted for by:

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

### **Depreciation**

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

Depreciation is calculated on the following bases:

- dwellings and other buildings — straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment — 25% on a reducing balance basis
- infrastructure — straight-line allocation over 25 years.
- Finance leases as appropriate to each leased asset

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

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

### **Disposals and Non-current Assets Held for Sale**

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

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment [or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

## 1.17 Provisions, Contingent Liabilities and Contingent Assets

### Provisions

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

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

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

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **Contingent Liabilities**

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

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

## **Contingent Assets**

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

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

## **1.18 Reserves**

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

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

## **1.19 Revenue Expenditure Funded from Capital under Statute**

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

## **1.20 VAT**

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 2 Accounting Standards that have been Issued but have not yet been adopted

Accounting Standard FRS 30 Heritage Assets has been issued but not yet adopted. This Standard will be adopted in 2011/12 and details will be included within the 2011/12 Code of Practice.

## 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Authority has to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement in the Statements of Accounts is that there is a high level of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

## 4 Assumptions Made About The Future and Other Major Sources of Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing in to doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in the retirement ages, mortality rates and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects of these individual assumptions can have a major impact on the pension liability calculation resulting in major increases or decreases in the Authorities pension obligation.

# NOTES TO THE CORE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Arrears	At 31 March 2011, the Authority had a sundry debtor balance of £4,788 million. A review of significant balances suggested a provision of £2,717 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, a doubling of the amounts of impairment of doubtful debts would require an additional amount to be set aside as an allowance.

## 5 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Head of Strategic Finance on 30 June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statement and notes have been adjusted in all material respects to reflect the impact of this information.

## 6 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statement. In particular:

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



# NOTES TO THE CORE FINANCIAL STATEMENTS

## BUDGET MONITOR REPORT - ACTUALS

	<b>2010/11 £000</b>
<b>SERVICE AREA</b>	
Corporate Services	858
Community Services	8,333
Environmental Services	6,613
Planning	4,286
Corporate Management	1,506
Legal and Property Services	(3,215)
Shared Services Implementation	580
Strategic Finance	(21,048)
Capital, FRS17 and Other Adjustments	18,530
<b>Net General Fund</b>	<b>16,443</b>
<b>FUNDING</b>	
Council Tax and NNDR Surplus	(8,115)
Revenue Support Grant	(1,024)
Area Based Grant	(284)
Non-Specific Grant To Fund Capital	(947)
Collection Fund surplus	(31)
NNDR	(7,048)
<b>Total Funding</b>	<b>(17,449)</b>
Net budget Less Funding	(1,006)
Transfers To/(From) Reserves	1,352
<b>Change To General Fund Balance</b>	<b>346</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

Subjective Analysis	Bud. Monitor £000	Not Inc. In I&E £000	Adj. To I&E £000
Fees, Charges and Other Service Income	(75,746)	0	(75,746)
Surplus or deficit on Associates and Joint Ventures	0	0	0
Interest and Investment Income	(975)	0	(975)
Income From Council Tax	(8,115)	0	(8,115)
Government grants and Contributions	(9,334)	0	(9,334)
<b>Total Income</b>	<b>(94,170)</b>	<b>0</b>	<b>(94,170)</b>
Employee Expenses	16,250	0	16,250
IAS19 Adjustments	(16,402)	0	(16,402)
Other Service Expenses	69,943	(16)	69,927
Support Service Recharges (From Capital)	(400)	0	(400)
Depreciation, Amortisation and Impairment	5,260	0	5,260
Interest Payments	8	0	8
Precepts and Levies	0	0	0
Payments To Housing Capital Receipts Pool	0	0	0
Gain or Loss on Disposal of Fixed Assets	1,432	(1,432)	0
Other Items in Budget Monitoring	18,425	(18,425)	0
<b>Total Expenditure</b>	<b>94,516</b>	<b>(19,873)</b>	<b>74,643</b>
<b>Surplus on Provision of Services</b>	<b>346</b>	<b>(19,873)</b>	<b>(19,527)</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 7 Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11

2009/10 £000		2010/11 £000
	<b>Credited To Taxation and Non-Specific Grant Income</b>	
1,506	Revenue Support Grant	1,024
6,526	Non-domestic Rates redistribution	7,048
285	Area Based Grant	284
0	Section 106	724
0	Events Market	13
0	Recycling	99
52	Local Authority Business Growth Incentive	46
0	Other Local Authorities	64
<b>8,369</b>		<b>9,302</b>
	<b>Credited To Services</b>	
0	Sports Development	27
0	Community Sports Network	11
201	Housing - Homelessness	189
10	Social Housing Fraud	0
0	Elections	117
32,267	DWP Housing Benefit Grant	37,632
712	Council Tax Benefit Administration Grant	694
194	Housing and Planning Delivery Grant	52
84	Building Safer Communities	98
0	Cemeteries	22
217	Performance Reward Grant	0
0	Parks Development	88
0	NNDR Cost of Collection Grant	170
0	Street Cleansing	37
443	Concessionary Travel	148
0	Waste Management	295
0	Procurement	13
0	Performance and Engagement	65
49	Big Lottery	76
44	Challenge and Innovation fund	21
0	Taxi Marshall Scheme	25
5	Arts Milestones Project	0
13	Business Rates Referral Scheme	0
28	Mortgage Rescue Programme	0
0	CCTV	34
4	In and Out of work	0
0	Housing Private Sector	296
0	Other	33
<b>34,271</b>		<b>40,143</b>
<b>42,640</b>	<b>Total</b>	<b>49,445</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. The balances at the year end are as follows:

2009/10 £000		2010/11 £000
576	Other Government Grants	719
5,147	Section 106	5,898
<b>5,723</b>	<b>Total</b>	<b>6,617</b>

### 8 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.

2009/10				2010/11		
£000	£000	£000		£000	£000	£000
Expenditure	Income	Net		Expenditure	Income	Net
4,794	(6,927)	(2,133)	Property	1,989	(6,889)	(4,900)
755	(581)	174	Market	550	(429)	121
<b>5,549</b>	<b>(7,508)</b>	<b>(1,959)</b>		<b>2,539</b>	<b>(7,318)</b>	<b>(4,779)</b>

### 9 External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections.

2009/10 £000		2010/11 £000
120	Fees payable to the audit commission with regard to external audit services carried out by the appointed auditor for the year, Grant Thornton.	120
9	Fees payable to the Audit Commission in respect of statutory inspection	0
18	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	18
<b>147</b>	<b>Total</b>	<b>138</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 10 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 £0.435 million (£0.460 million in 2009/10).

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

## 11 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:

2009/10 Employees	Remuneration Band	2010/11 Employees
6	£50,000 - £54,999	4
3	£55,000 - £59,999	2
5	£60,000 - £64,999	1
3	£65,000 - £69,999	5
1	£70,000 - £74,999	1
1	£75,000 - £79,999	1
2	£80,000 - £84,999	0
0	£85,000 - £89,999	0
0	£90,000 - £94,999	0
2	£95,000 - £99,999	2
0	£100,000 - £104,999	0
0	£105,000 - £109,999	0
0	£110,000 - £114,999	0
1	£115,000 - £119,999	0
0	£120,000 - £124,999	0
0	£125,000 - £129,999	0
0	£130,000 - £134,999	0
0	£135,000 - £139,999	1
<b>24</b>		<b>17</b>

The number of officers whose total remuneration exceeded £50,000 has decreased from 24 in 2009/10 to 17 in 2010/11. The 2009/10 figure included 6 officers who were due payments of compensation for loss of office under the Council's restructuring exercise.

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

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

2009/10 Post	Salary (including fees & allowances) £	Bonuses £	Expenses allowances £	Compens- ation for loss of office £	Total Remuner- ation excluding pension contrib'n £	Pension Contrib'n £	Total Remuner- ation £
Managing Director A <sup>1</sup>	84,431	3,110	-	-	87,541	23,148	110,689
Managing Director B <sup>2</sup>	78,311	-	-	-	78,311	20,970	99,281
Director of Finance <sup>3</sup>	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 <sup>4</sup>	2,202	-	10	43,911	46,123	30,809	76,932
Head of ICT B <sup>5</sup>	61,430	-	150	-	61,580	1,464	63,044
HR Operations Manager <sup>6</sup>	44,249	-	-	10,219	54,468	11,436	65,904
Head of Human Resources <sup>7</sup>	54,270	-	150	-	54,420	14,544	68,964
	<b>922,648</b>	<b>3,110</b>	<b>2,728</b>	<b>168,857</b>	<b>1,097,343</b>	<b>382,162</b>	<b>1,479,505</b>

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

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

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

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

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

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

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 2010/11 Senior Officer Remuneration where the salary for the establishment post falls between £50,000 and £150,000

2010/11 Post	Salary (including fees & allowances) £	Bonuses £	Expenses allowances £	Compens- ation for loss of office £	Total Remuner- ation excluding pension contrib'n £	Pension Contrib'n £	Total Remuner- ation £
Managing Director	135,105	0	0	0	135,105	36,208	171,313
Executive Director - Services	98,915	0	0	0	98,915	26,509	125,424
Executive Director - Resources	98,914	0	0	0	98,914	26,509	125,423
Head of Strategic Finance	78,953	0	0	0	78,953	0	78,953
Head of Legal & Property Services	72,262	0	0	0	72,262	19,366	91,628
Head of Corporate Services	66,862	0	0	0	66,862	17,919	84,781
Head of Environmental Services	66,857	0	0	0	66,857	17,918	84,775
Head of Human Resources	65,546	0	0	0	65,546	17,562	83,108
Head of Planning & Transportation	65,510	0	0	0	65,510	17,557	83,067
Head of Community Services	65,509	0	0	0	65,509	17,556	83,065
Head of Information, Communication & Technology	64,307	0	0	0	64,307	0	64,307
	<b>878,740</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>878,740</b>	<b>197,104</b>	<b>1,075,844</b>

## 12 Termination Benefits

The authority terminated the contracts of a number of employees in 2010/11, incurring liabilities of £86,249. Of this total, £60,694 was payable in the form of compensation for loss office and £25,555 in enhanced pension benefits to staff in Environmental Services, Community Services and Corporate Services.

## 13 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 & Other Local Bodies

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

Details of grant funding transactions with Government Departments and Agencies are set out in Note 7 to the Core Financial Statements.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### **b) Members and Chief Officers**

The Council is one of five Districts (the others being Dacorum, Hertsmere, St Albans and Three Rivers) that oversee the operation of the West Hertfordshire Crematorium. Watford provides the Honorary Clerk to the Joint Committee (the Managing Director, Manny Lewis, undertakes this role). Councillor Ian Brown is the Council's Member representative on the Joint Committee. In 2010/11, as in 2009/10, 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 2011 were £5.17 million (31 March 2010 £4.82 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 Derek Scudder and Kareen Hastrick are members of the Citizens Advice Management Board. The Board was paid an amount of £174,192 in grant and £36,576 in rent support during 2010/11 (£130,644 and £60,617 for grant and rent respectively in 2009/10).

Councillor George Derbyshire is a Director of the Palace Theatre Trust. The Trust received £0.257 million in grant aid and £0.033 million in rent support from the Council in 2010/11 (£0.227 million and £0.033 million respectively in 2009/10).

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 Derek Scudder is on the management board of Watford Sheltered Workshop who lease a premises from Watford rent free.

Council Ian Brown is on the Management Board of the West Watford Community Association which is grant aided by the Council. In addition, Councillors Ian Brown and Jan Brown are Directors of the Watford Charity Centre Limited (The Le Marie Centre) that lease a property from the Council. Councillor Sue Greenslade and Councillor Derek Scudder are appointed to the Herts Environment Forum by the Council.

Mayor Dorothy Thornhill is a member of the East of England LGA, The Council's representative on the national LGA, on the LGA Environment Board, on the Inter Authorities Health Partnership Board, Herts Anti Poverty Partnership, Chair of ISP One Watford and Vice President of Watford Football Club.

Councillor Mark Watkin and Councillor Jagtar Singh Dhindsa are on the Board of the Watford Multi Cultural Community Centre

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



# NOTES TO THE CORE FINANCIAL STATEMENTS

## c) Hertfordshire Pension Fund

The details of the transactions with the Council's pension fund are provided in Note 28 to the Core Financial Statements.

## 14 Partnership Working

Since April 2009, Watford Borough Council and Three Rivers District Council have been participating in Joint Services, provided by the Joint Shared Services Committee. During 2010/11 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 councils based on the Shared Service Agreement. The table below shows the total expenditure and income of the Joint Committee of which Watford Borough Council's share is £4,278 million.

2009/10 Net Cost £000	Services	2010/11		
		Gross Expendi ture £000	Gross Income £000	Net Cost £000
1,336	Local Tax Collection	1,381	(46)	1,335
1,533	Housing Benefits	1,826	0	1,826
4,338	Central Support Services	3,870	(12)	3,858
<b>7,207</b>	<b>Net Cost of Services / Operating Expenditure</b>	<b>7,077</b>	<b>(58)</b>	<b>7,019</b>
(2,848)	Income from Three Rivers District Council			(2,741)
(4,359)	Income from Watford Borough Council			(4,278)
<b>0</b>	<b>(Surplus) / Deficit for the year</b>			<b>0</b>

## 15 Intangible 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 2010/11 no capital expenditure was recorded in this category.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 16 Property, Plant and Equipment

### a) Information on Assets Held

The Property of the Council comprises of:

31-Mar-09 No. / area	31-Mar-10 No. / area		31-Mar-11 No. / area
		<b>Property, Plant and Equipment</b>	
1	1	Museum	1
5	5	Community Centres	5
1	1	Assembly Hall	1
2	2	Play Facilities	2
2	2	Theatres	2
3	3	Council Offices	3
2	2	Depot	2
4	4	Car Parks	4
2	2	Cemeteries	2
2	2	Leisure Pools	2
		<b>Community Assets (see note below)</b>	
915 acres	915 acres	Parks and Open Spaces	915 acres
9	9	Allotments	9

Community Assets are held for the community in perpetuity. They are often assets that have been in the community for a long period, and little if any record exists of their original cost. The assets are not expected to be sold and have a nominal value in the accounts of £1 per asset, giving a total value of £93 (for the 93 held by the Council).

# NOTES TO THE CORE FINANCIAL STATEMENTS

## b) Movement of Property, Plant and Equipment

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure Assets £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2009	45,775	8,913	1,283	55,971
Additions	1,089	1,630	1,125	3,844
Disposals/Alienation	(4,436)	0	0	(4,436)
Reclassifications	160	0	0	160
Removed	(26)	(43)	0	(69)
Revaluations	1,579	0	0	1,579
<b>At 31 March 2010 - Restated</b>	<b>44,141</b>	<b>10,500</b>	<b>2,408</b>	<b>57,049</b>
<b>Depreciation and Impairments</b>				
At 1 April 2009	(5,956)	(4,801)	(387)	(11,144)
Charge for 2009/10	(1,171)	(2,367)	(609)	(4,147)
Disposals/Alienation	4,436	0	559	4,995
Reclassifications	0	0	0	0
Removed	(1,088)	0	0	(1,088)
Revaluations	347	0	0	347
<b>At 31 March 2010 - Restated</b>	<b>(3,432)</b>	<b>(7,168)</b>	<b>(437)</b>	<b>(11,037)</b>
<b>Balance Sheet Value at 31 March 2010 - Restated</b>	<b>40,709</b>	<b>3,332</b>	<b>1,971</b>	<b>46,012</b>
<b>Balance Sheet Value at 1 April 2009</b>	<b>39,819</b>	<b>4,112</b>	<b>896</b>	<b>44,827</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra- structure Assets £000	Total £000
<b>Cost or valuation</b>				
At 1 April 2010 - Restated	44,141	10,500	2,408	57,049
Additions	4,407	2,415	453	7,275
Additions - Finance Leases	0	260	0	260
Revaluation increases / (decreases) recognised in the Revaluation Reserve	645	0	0	645
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	(557)	0	(206)	(763)
Derecognition - Disposals	0	0	0	0
Derecognition - Other	(3,193)	0	0	(3,193)
Assets reclassified (to) / from Held for Sale	0	0	0	0
Other movements in cost or valuation	(16)	0	0	(16)
<b>At 31 March 2011</b>	<b>45,427</b>	<b>13,175</b>	<b>2,655</b>	<b>61,257</b>
<b>Accumulated Depreciation &amp; Impairment</b>				
At 1 April 2010 - Restated	(3,432)	(7,168)	(437)	(11,037)
Depreciation Charge	(1,224)	(1,110)	(106)	(2,440)
Depreciation written out to the Revaluation Reserve	32	0	0	32
Depreciation written out to the surplus / deficit on the provision of services	0	0	0	0
Impairment losses / (reversals) recognised in the Revaluation Reserve	0	0	0	0
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	0	0	0	0
Derecognition - Disposals	0	0	0	0
Derecognition - Other	0	0	0	0
Other movements in depreciation and impairment	217	0	0	217
<b>At 31 March 2011</b>	<b>(4,407)</b>	<b>(8,278)</b>	<b>(543)</b>	<b>(13,228)</b>
<b>Balance Sheet Value at 31 March 2011</b>	<b>41,020</b>	<b>4,897</b>	<b>2,112</b>	<b>48,029</b>
<b>Balance Sheet Value at 1 April 2010 - restated</b>	<b>40,709</b>	<b>3,332</b>	<b>1,971</b>	<b>46,012</b>

## c) Revaluations

The Authority carried out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out internally and the basis of valuations is in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. All assets have been valued individually, with the final statements of account reconciled to the valuation certificates. The basis of valuing individual classes of assets owned by the Council is detailed in Note 1 to the Core Financial Statements.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme.

	Operational Land & Buildings £000	Investment Properties £000	Surplus Assets £000	Vehicles, Plant, & Equipment £000	Infrastructure £000	Total £000
<b>Carried at historical cost</b>	0	0	0	13,175	2,656	15,831
<b>Valued at current value as at:</b>						
Thu 31 March 2011	31,882	38,991	2,045	0	0	72,918
Wed 31 March 2010	11,129	62,804	0	0	0	73,933
Tue 31 March 2009	931	7,491	0	0	0	8,422
Mon 31 March 2008	1,019	425	0	0	0	1,444
Sat 31 March 2007	466	162	0	0	0	628
<b>Total Cost or Valuation</b>	<b>45,427</b>	<b>109,873</b>	<b>2,045</b>	<b>13,175</b>	<b>2,656</b>	<b>173,176</b>

### 17 Commitments Under Capital Contracts

At 31 March 2011 the Council had contractual commitments totalling £1,955 million. (31 March 2010: £0.827 million) relating to the following capital schemes for which the Council has in place the necessary funding.

Commitments 31-Mar-11 £000		Period over which investment will take place	Commitments 31-Mar-11 £000
0	Colosseum Refurbishment	2011-12	1,664
37	Other Capital Projects	2011-12	291
450	Hollywell Community Centre	n/a	0
340	Redevelopment of Leisure Centres	n/a	0
<b>827</b>	<b>Total</b>		<b>1,955</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 18 Investment Properties and Surplus Assets

### a) Information on Assets Held

The Investment Properties and Surplus Assets of the Council comprise of:

31-Mar-09 No. / area	31-Mar-10 No. / area		31-Mar-11 No. / area
209	209	Commercial Properties	209
0	1	Old Woolworths Store	1
1	1	Business Park	1
250,000 sq.ft	250,000 sq.ft	Charter Place Shopping Area	250,000 sq.ft
1	1	Market	1
7% of net profit	7% of net profit	Share in Harlequin Shopping Centre	7% of net profit
1	1	Cardiff Road Industrial Estate	1
2	2	Surplus Assets	2

### b) Movement of Investment Properties and Surplus Assets

	Invest -ment Properties £000	Surplus Assets £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2009 - Restated	100,736	2,170	102,906
Additions	4,742	0	4,742
Disposals/Alienation	(847)	0	(847)
Reclassifications	(1,875)	1,645	(230)
Removed	0	0	0
Revaluations	(758)	(1,580)	(2,338)
<b>At 31 March 2010 - Restated</b>	<b>101,998</b>	<b>2,235</b>	<b>104,233</b>
<b>Depreciation and Impairments</b>			
At 1 April 2009 - Restated	0	0	0
Revaluations	0	0	0
<b>At 31 March 2010 - Restated</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance Sheet Value at 31 March 2010 - Restated</b>	<b>101,998</b>	<b>2,235</b>	<b>104,233</b>
<b>Balance Sheet Value at 1 April 2009</b>	<b>100,736</b>	<b>2,170</b>	<b>102,906</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

	Invest -ment Properties £000	Surplus Assets £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2010 - Restated	101,998	2,235	104,233
Additions	1,104	0	1,104
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	0	0
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	6,842	(190)	6,652
Derecognition - Disposals	(75)	0	(75)
Derecognition - Other	0	0	0
Assets reclassified (to) / from Held for Sale	0	0	0
Other movements in cost or valuation	4	0	4
<b>At 31 March 2011</b>	<b>109,873</b>	<b>2,045</b>	<b>111,918</b>
<b>Accumulated Depreciation &amp; Impairment</b>			
At 1 April 2010 - Restated	0	0	0
Other movements in depreciation and impairment	0	0	0
<b>At 31 March 2011</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance Sheet Value at 31 March 2011</b>	<b>109,873</b>	<b>2,045</b>	<b>111,918</b>
<b>Balance Sheet Value at 1 April 2010 - restated</b>	<b>101,998</b>	<b>2,235</b>	<b>104,233</b>

### c) Accounted for in Comprehensive Income and Expenditure Statement

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

2009/10 £000		2010/11 £000
7,508	Rental income from Investment Property	7,318
(5,549)	Direct operating expenses arising from Investment property	(2,539)
<b>1,959</b>	<b>Net gain / (loss)</b>	<b>4,779</b>

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 19 Leases

### a) Authority as Lessee

#### i) Operating Lease

The Council entered into a number of operating leases with three significant lease arrangements relating to operational land and buildings, vehicles and plant and equipment. The total amount paid under these arrangements in 2010/11 was £130,280 (2009/10: £689,111) as follows:

2009/10 £000		2010/11 £000
187	Operational Land and Buildings	63
502	Vehicles, Plant and Equipment	67
<b>689</b>	<b>Total</b>	<b>130</b>

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

2009/10 Total £000		2010/11		
		Land & Buildings £000	Vehicles, Plant & Equipment £000	Total £000
132	Not later than one year	0	17	17
108	Later than one year and not later than five years	0	36	36
40	Later than five years	30	0	30
<b>280</b>	<b>Total Liability</b>	<b>30</b>	<b>53</b>	<b>83</b>

#### ii) 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 £260,000 (2009/10 £223,000). The following table shows the values of assets held under finance by the Authority accounted for under Vehicle Plant and Equipment:

2009/10 £000		2010/11 £000
	<b>Vehicles, Plant and Equipment</b>	
833	Book value at 1 April	637
223	Additions	260
(419)	Depreciation	(315)
<b>637</b>	<b>Book value at 31 March</b>	<b>582</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority is committed to making minimum payments under the leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2009/10 £000		2010/11 £000
114	Finance lease liabilities (net present value of minimum lease payments): • Annual Payments	231
286	Finance costs payable in future years	519
<b>400</b>	<b>Minimum lease payments</b>	<b>750</b>

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

2009/10 £000		2010/11 £000
	<b>Vehicles, Plant and Equipment</b>	
63	Not later than one year	215
223	Later than one year and not later than five years	304
<b>286</b>	<b>Total</b>	<b>519</b>

The aggregate finance charges made under these finance leases during the year amounted to £41,260.25. This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

### b) Authority as Lessor

#### i) Operating Leases

The Authority leases out various investment property under operating leases. The gross value of assets which were held under operating leases was £108.633 million valued at 31 March 2011 (31 March 2010: 97.894 million). The total rental received under these lease agreements and credited to services was £7.532 million (2009/10: £7.508 million).

#### ii) Finance Leases

The Authority has leased out property on finance leases. The Authority has a gross investment in the lease made up of minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments compromise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Authority in future years whilst the debtor remains outstanding.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 20 Inventories

The following inventories were held as at 31st March 2011:

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
1	1	Community Centres (Food & Drink Stocks)	0
4	1	Watford Museum (Saleable Items)	1
1	1	Civic Gifts	1
4	3	Colosseum (Bar Stock)	0
8	13	Printing Section (Paper, inks, etc.)	11
10	18	Fuel Stock	27
<b>28</b>	<b>37</b>	<b>Total</b>	<b>40</b>

There was no work-in-progress as at 31st March 2011.

## 21 Debtors - Short Term

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

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
2,365	9,847	Government Departments	5,360
1,523	3,978	Local Authorities	4,676
6,126	5,985	Sundry Debtors	4,788
536	293	Payments in Advance	195
10,550	20,103		15,019
(2,104)	(2,706)	less: provision for bad debts / impairment	(2,717)
<b>8,446</b>	<b>17,397</b>	<b>Total</b>	<b>12,302</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 22 Debtors - Long Term

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

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
249	243	Watford Irish Association	243
14	14	Loan to YMCA	13
1,147	1,206	Rent to Mortgage	1,269
1	0	Car Loans	0
137	136	Finance Leases as Lessor	135
<b>1,548</b>	<b>1,599</b>	<b>Total</b>	<b>1,660</b>

## 23 Adjustments to net surplus or deficit on the provision of services for non cash movements

Non cash movements to the net surplus or deficit on the provision of services are shown below:

2009/10 £000		2010/11 £000	£000
	<b>Adjustments for non-cash transactions</b>		
(4,991)	Amortisation, depreciation and impairment of fixed assets	(2,440)	
410	Amortisation of Deferred Government Grants	1,322	
16	Net gain/(loss) on disposal of fixed assets	5,937	
(1,383)	Net charges made for retirement benefits in accordance with FRS17	13,980	
1,494	Other non-cash transactions (e.g. provisions)	1,737	
<b>(4,454)</b>			<b>20,536</b>
	<b>Items on an accruals basis</b>		
9	Increase / (Decrease) in Stocks and Work-in-Progress	3	
8,950	Increase / (Decrease) in Debtors and Payments in Advance	(5,095)	
(1,422)	(Increase) / Decrease in Creditors and Receipts in Advance	1,371	
54	Other Accruals	147	
<b>7,591</b>			<b>(3,574)</b>
	<b>Items identified elsewhere on the Cash Flow Statement</b>		
(24)	Interest payable and similar charges	50	
761	Interest receivable	(1,020)	
(3,906)	Collection Fund activity	2,972	
<b>(3,169)</b>			<b>2,002</b>
<b>(32)</b>	<b>Total</b>		<b>18,964</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 24 Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
		<b>Current Assets</b>	
9	9	Cash held by the Authority	10
743	387	Bank current accounts	473
752	396		483
		<b>Current Liabilities</b>	
(995)	(2,234)	Bank overdrafts	(1,288)
<b>(243)</b>	<b>(1,838)</b>	<b>Total</b>	<b>(805)</b>

## 25 Creditors - Short Term

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

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
808	302	Government Departments	456
549	2,610	Local Authorities	1,936
5,437	4,855	Sundry Creditors	4,707
511	346	Receipts in Advance	324
3,365	3,912	Government Grants and Other Contributions Unapplied	3,231
<b>10,670</b>	<b>12,025</b>	<b>Total</b>	<b>10,654</b>

## 26 Creditors - Long Term

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

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
137	286	Deferred Liabilities (obligations under finance leases)	427
1,857	1,811	Government Grants and Other Contributions Unapplied	3,386
29	29	Other Long Term Creditors	0
<b>2,023</b>	<b>2,126</b>	<b>Total</b>	<b>3,813</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 27 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. The balance on the Housing Benefit Subsidy provision was transferred to the Housing Benefit Subsidy reserve in 2010/11.

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
700	812	Housing Benefit Subsidy repayment	0
121	0	Concessionary Fares	0
<b>821</b>	<b>812</b>	<b>Total</b>	<b>0</b>

## 28 Defined Benefit Pension Schemes

### Participation in Pension Schemes

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

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

### Transactions relating to Retirement Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment / retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Account and the General Fund Balance via the Movement in Reserves Statement during the year:

# NOTES TO THE CORE FINANCIAL STATEMENTS

2009/10 £000		2010/11 £000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<i>Cost of Services:</i>	
1,188	• current service cost	2,324
31	• past service costs	(15,525)
197	• settlements and curtailments	7
	<i>Financing and Investment Income and Expenditure</i>	
6,986	• interest cost	8,135
(3,926)	• expected return on assets in the scheme	(5,713)
<b>4,476</b>	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>(10,772)</b>
	<b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure</b>	
40,456	• actuarial gains and losses	(20,730)
<b>44,932</b>	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>	<b>(31,502)</b>
	<b>Movement in Reserves Statement</b>	
(44,932)	• reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	31,502
3,093	• employers' contributions payable to the scheme	3,209
<b>3,093</b>	<b>Actual amount charged against the General Fund Balance for pensions in the year</b>	<b>3,209</b>

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £30.61million.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Assets and Liabilities in relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2009/10 £000		2010/11 £000
102,500	Opening balance at 1 April	160,963
1,188	Current service costs	2,324
6,986	Interest cost	8,135
718	Contributions by scheme participants	748
54,018	Actuarial gains and losses	(22,558)
(4,675)	Benefits paid	(5,163)
31	Past service costs	(15,525)
197	Curtailments	7
<b>160,963</b>	<b>Closing Balance at 31 March</b>	<b>128,931</b>

Reconciliation of fair value of the scheme assets:

2009/10 £000		2010/11 £000
62,746	Opening balance at 1 April	82,268
3,926	Expected rate of return	5,713
16,460	Actuarial gains and losses	(1,828)
3,093	Employer Contributions	3,209
718	Contributions by scheme participants	748
(4,675)	Benefits paid	(5,163)
<b>82,268</b>	<b>Closing Balance at 31 March</b>	<b>84,947</b>

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

The actual return on scheme assets in the year was £7.232 million (2009/10: £14.945 million).

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Scheme History

31-Mar-07 £000	31-Mar-08 £000	31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
(131,288)	(105,974)	(102,500)	(160,963)	Present value of liabilities in the Local Government Pension Scheme	(128,930)
94,485	82,595	64,262	82,269	Fair value of assets in the Local Government Pension Scheme	84,947
<b>(36,803)</b>	<b>(23,379)</b>	<b>(38,238)</b>	<b>(78,694)</b>	<b>Surplus / (deficit) in the scheme</b>	<b>(43,983)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £43.983 million has a substantial impact on the net worth of the Authority 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 local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payment fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £2,899,800.

## 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 Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary were:

31-Mar-10		31-Mar-11
2.8%	Rate of inflation	2.7%
5.3%	Rate of increase in salaries	5.1%
3.8%	Rate of increase in pensions	2.8%
5.5%	Rate for discounting scheme liabilities	5.5%
50%	Take-up of option to convert annual pension into retirement lump sum	50%
	<b>Mortality Assumptions</b>	
	Longevity at 65 for current pensioners	
23.0	• Men	21.0
26.0	• Women	23.8
	Longevity at 65 for future pensioners	
25.0	• Men	22.9
28.0	• Women	25.7



# NOTES TO THE CORE FINANCIAL STATEMENTS

31-Mar-10 %		31-Mar-11 %
	<b>Long-term expected rate of return on assets</b>	
7.8%	Equity investments	7.5%
5.0%	Bonds	4.9%
5.8%	Property	5.5%
4.8%	Cash	4.6%

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

31-Mar-10 %		31-Mar-11 %
71.0	Investments	73.0
19.0	Bonds	19.0
3.0	Property	4.0
7.0	Other Assets	4.0
<b>100.0</b>		<b>100.0</b>

## History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

31-Mar-07 %	31-Mar-08 %	31-Mar-09 %	31-Mar-10 %		31-Mar-11 %
0.2	(16.7)	(39.7)	13.4	Difference between the expected and actual returns on assets	1.8
5.9	10.8	(16.2)	(33.6)	Experience gains and losses on liabilities	17.5

## 29 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 31<sup>st</sup> March 2011 the maximum repayment stood at £347,349. No further information regarding the maximum repayment is available at this time.

## NOTES TO THE CORE FINANCIAL STATEMENTS

MMI's accounts for the year ended 30 June 2010 include the statement that "your Directors are of the view that if a positive outcome can be achieved in the current litigation, a solvent run-off with full payment of agreed claims can be achieved." However the minutes of the creditors committee meeting dated 17 November 2010 show a different view (page 6: "the run-off projection did not show a break even point") This appears to indicate an increased level of risk to the Council.

On this basis, although no provision for repayment has been made, a reserve has been established in the accounts. The situation will continue to be reviewed and if the outlook worsens, a provision for losses will be considered.

### **b) Contingent Assets**

#### **VAT Claim**

Following a VAT Tribunal case (Fleming t/a Bodycraft) that challenged the restriction that prevents the correction of VAT errors more than three years old, HM Revenue and Customs announced a 'transitional period' of twelve months, ending 31<sup>st</sup> March 2009, during which time VAT registered organisations were able to make claims for VAT overpaid from 1<sup>st</sup> April 1973 to December 1996. The Council worked with its VAT advisors to identify opportunities to submit claims in respect of activities where the VAT liability had changed (either through HMRC review or litigation) which previously the Council had been prevented from making due to the three year rule. As a result of this exercise, part of the Council's original claim totalling £169,000, plus interest, which relates to the tuition element of its sporting services submission remains outstanding at year end. The Council is working closely with its VAT advisors on this issue who in turn are actively pursuing HM Revenue and Customs in order to satisfactorily resolve the matter.

### **c) Watford Community Housing Trust - 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 was paid to Watford Borough Council along with 50% of the remaining £16.9 million. The rate at which this sum is received will depend on the WCHT work programme. However, £0.848 million was received during 2010-11 (£1.347 million 2009-10) leaving a contingent asset of approximately £6.280 million which will be received in the future.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 30 Usable Reserves

### a) Movement in Reserves

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

Reserve	Balance at 1 April 09 £000	Net Movement in Year £000	Balance at 31 Mar 10 Restated £000	Purpose of Reserve	Further Detail Note
Usable Capital Receipts	32,635	(5,989)	26,646	Proceeds of fixed asset sales available to meet future capital investment	30b
Earmarked Reserves	10,284	(989)	9,295	See Note for Detail	30c
General Fund Balance	1,696	0	1,696	Resources available to meet future running costs	30d
Housing Revenue Account Balance	1,233	18	1,251	See Note for Detail	30d
<b>TOTAL NET WORTH</b>	<b>45,848</b>	<b>(6,960)</b>	<b>38,888</b>		

Reserve	Balance at 1 April 10 Restated £000	Net Movement in Year £000	Balance at 31 Mar 11 £000	Purpose of Reserve	Further Detail Note
Usable Capital Receipts	26,646	(7,233)	19,413	Proceeds of fixed asset sales available to meet future capital investment	30b
Earmarked Reserves	9,295	2,360	11,655	See Note for Detail	30c
General Fund Balance	1,696	(346)	1,350	Resources available to meet future running costs	30d
Housing Revenue Account Balance	1,251	(1,251)	0	See Note for Detail	30d
<b>TOTAL NET WORTH</b>	<b>38,888</b>	<b>(6,470)</b>	<b>32,418</b>		

# NOTES TO THE CORE FINANCIAL STATEMENTS

## b) Usable Capital Receipts

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

31-Mar-10 £000		31-Mar-11 £000	£000
32,635	Balance brought forward at 1 April		26,646
	Received in year		
37	Loan repayments	7	
212	Proceeds from sale of fixed assets	75	
	Repayment of receipts applied as forward funding of capital spend in prior years	0	
1,464	Receipts not related to asset sales	1,428	
7	Repaid discounts	4	
1,737	Applied in year		1,514
(7,721)	Transferred to Capital Adjustment Account to finance new capital expenditure	(8,747)	
(5)	Pooling of Housing Capital Receipts	0	
(7,726)			(8,747)
<b>26,646</b>	<b>Balance carried forward at 31 March</b>		<b>19,413</b>

## c) Earmarked Reserves

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

For each Reserve established the Council identifies:

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

	Balance at 1 April 2010	Appropri- -ations to Reserve	Appropri- -ations from Reserve	Balance at 31 March 2011
	£000	£000	£000	£000
Car Parking Zones Reserve	963		(557)	406
Charter Place Tenants Reserve	892	10	(230)	672
Repairs Fund - Le Marie Reserve	13	0	0	13
Multi-Storey Car Park Repair Reserve	157	26	0	183
Private Sector Bond Reserve	100	0	0	100
Herts Young People's Project Reserve	113	0	0	113
Housing Benefit Subsidy Reserve	0	747	(380)	367
Performance Reward Grant	152	46	(150)	48
Budget Carry Forward Reserve	155	349	(155)	349
Climate Change Reserve	107	0	(39)	68
Recycling Reserve	69	0	(50)	19
Leisure Structured Maintenance Reserve	238	374	(189)	423
Local Development Framework Reserve	313	0	0	313
Pension Funding Reserve	1,000	300	0	1,300
Insurance Fund Reserve	0	100	0	100
Vehicle Replacement Reserve	0	150	0	150
Development Sites Decontamination Reserve	0	1,310	0	1,310
Invest to Save Reserve	1,452	200	(159)	1,493
Capital Fund Reserve	1,546	350	0	1,896
LABGI Reserve	752	0	(56)	696
Area Based Grant Reserve	341	3	(259)	85
Housing Planning Delivery Grant	332		(31)	301
Economic Impact Reserve	500	846	(96)	1,250
Concessionary Fares Reserve	100	0	(100)	0
<b>Total 2010/11</b>	<b>9,295</b>	<b>4,811</b>	<b>(2,451)</b>	<b>11,655</b>
<b>Total 2009/10</b>	<b>10,284</b>	<b>1,936</b>	<b>(2,925)</b>	<b>9,295</b>
<b>Total 2008/09</b>	<b>9,999</b>	<b>1,550</b>	<b>(1,265)</b>	<b>10,284</b>

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

Reserve	Purpose
Car Parking Zone Reserve	This is a statutory ring-fenced reserve, for future controlled parking related costs.
Charter Place Tenants Reserve	Tenants' contributions to meet major works.
Le Marie Centre Repairs Reserve	To help meet the Council's obligation as landlord.
Multi Storey Car Park Repair Reserve	To provide funds towards major structural works.
Private Sector Bond Reserve	To assist in the provision of homelessness accommodation.
Hertfordshire Young People's Project Reserve	To assist with homelessness among young people.

## NOTES TO THE CORE FINANCIAL STATEMENTS

Reserve	Purpose
Housing Benefit Subsidy Reserve	This reserve has been created to meet any subsidy clawback by DWP.
Performance Reward Grant	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets.
Budget Carry Forward Reserve	This reserve has been created to 'carry forward' unspent revenue budgets for use in the proceeding financial year.
Climate Change Reserve	To fund energy saving initiatives to reduce energy consumption.
Recycling Reserve	This reserve will help to 'smooth out' fluctuations in recycling income in future years.
Leisure Structural Maintenance Reserve	To fund future structural maintenance needs not covered within the existing Leisure services contract.
Local Development Framework Reserve	To help fund the costs of the production of the Local Development Plan.
Pension Funding Reserve	To meet one off pension costs and redundancy programme.
Insurance Fund Reserve	To provide for unforeseen uninsured losses.
Vehicle Replacement Reserve	To provide for the replacement of the Council's refuse freighters.
Development Sites Decontamination Reserve	To provide for the costs of any decontamination of development sites for which the Council may have liability.
Invest to Save Reserve	To support schemes where initial expenditure will produce longer term savings.
Capital Fund Reserve	To provide for funding of key capital projects.
LABGI Reserve	Government grant received in respect of business rate growth.
Area Based Grant Reserve	This grant was received to encourage initiatives relating to Preventing Violent Extremism and Anti Social Behaviour.
Housing Planning Delivery Grant	This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes.
Economic Impact Reserve	To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget.

### d) General Fund and HRA

The DCLG has given the Council permission to close the HRA and the balance has been transferred to other reserves.

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

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
1,696	1,696	General Fund	1,350
1,233	1,251	Housing Revenue Account	0
<b>2,929</b>	<b>2,947</b>	<b>Total</b>	<b>1,350</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 31 Unusable Reserves

### a) Movement in Reserves

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

Reserve	Balance at 1 April 09 £000	Net Movement in Year £000	Balance at 31 Mar 10 Restated £000	Purpose of Reserve	Further Detail Note
Capital Adjustment Account	120,749	1,571	122,320	Store of capital resources set aside to meet past expenditure	31b
Financial Instruments Adjustment Account	(79)	1	(78)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	31c
Collection Fund Adjustment Account	154	(7)	147	To balance statutory requirements and proper accounting practice in relation to Council Tax payers	See Notes to Collection Fund
Revaluation Reserve	23,440	1,101	24,541	Store of gains on revaluation of fixed assets not yet realised through sales	31d
Deferred Capital Receipts	1,661	22	1,683	Sum of future capital receipts deferred until capital benefit can be realised	31e
Deferred Capital Payments	(98)	1	(97)	Sum of future capital payments relating to finance leases	
Accumulated Absences Reserve	(83)	(17)	(100)	To balance statutory requirements and proper accounting practice in relation to Employee's untaken leave at the year	
Pensions Reserve	(38,238)	(40,456)	(78,694)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See Note 28
<b>TOTAL NET WORTH</b>	<b>107,506</b>	<b>(37,784)</b>	<b>69,722</b>		

# NOTES TO THE CORE FINANCIAL STATEMENTS

Reserve	Balance at 1 April 10 Restated £000	Net Movement in Year £000	Balance at 31 Mar 11 £000	Purpose of Reserve	Further Detail Note
Capital Adjustment Account	122,320	26,819	149,139	Store of capital resources set aside to meet past expenditure	31b
Financial Instruments Adjustment Account	(78)	1	(77)	Balancing account to allow for differences in statutory requirements and proper accounting practices for borrowings and investments	31c
Collection Fund Adjustment Account	147	31	178	To balance statutory requirements and proper accounting practice in relation to Council Tax payers	See Notes to Collection Fund
Revaluation Reserve	24,541	(17,073)	7,468	Store of gains on revaluation of fixed assets not yet realised through sales	31d
Deferred Capital Receipts	1,683	55	1,738	Sum of future capital receipts deferred until capital benefit can be realised	31e
Deferred Capital Payments	(97)	(90)	(187)	Sum of future capital payments relating to finance leases	
Accumulated Absences Reserve	(100)	(26)	(126)	To balance statutory requirements and proper accounting practice in relation to Employee's untaken leave at the year end	
Pensions Reserve	(78,694)	34,711	(43,983)	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	See Note 28
<b>TOTAL NET WORTH</b>	<b>69,722</b>	<b>44,428</b>	<b>114,150</b>		



# NOTES TO THE CORE FINANCIAL STATEMENTS

## b) Capital Adjustment Account

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

31-Mar-10 Restated £000		31-Mar-11	
		£000	£000
120,749	Balance brought forward at 1 April		122,320
	Transfer from the Revaluation reserve		17,414
	Historical cost of acquiring, creating or enhancing fixed assets		
(5,330)	Depreciation and impairment losses	(2,136)	
126	Revaluation Adjustments	2,902	
(5,204)			766
	Resources set aside to finance capital expenditure		
7,721	Capital Receipts	9,007	
5	Direct Revenue Financing	0	
16	Voluntary revenue contribution for capital financing	0	
385	Government Grants and Contributions Deferred	1,564	
8,127			10,571
(1,352)	Revenue Expenditure Funded from Capital under Statute		(1,932)
<b>122,320</b>	<b>Balance carried forward at 31 March</b>		<b><u>149,139</u></b>

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

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

## 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

31-Mar-10 Restated £000		31-Mar-11 £000
(79)	Balance brought forward at 1 April	(78)
1	Financing costs written out	1
<b>(78)</b>	<b>Balance carried forward at 31 March</b>	<b>(77)</b>

### d) Revaluation Reserve

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

31-Mar-10 Restated £000		31-Mar-11 £000
23,440	Balance brought forward at 1 April	24,541
2,425	Gains / (Losses) on revaluation of fixed assets	645
0	Transfer to Capital Adjustments Account	(17,414)
(1,316)	Historical Cost depreciation adjustment	(304)
(8)	Write-out of balances on assets disposed	0
<b>24,541</b>	<b>Balance carried forward at 31 March</b>	<b>7,468</b>

### e) Deferred Capital Receipts

Deferred Capital Receipts are amounts representing capital receipts from the sale of assets that will be repaid to the Council by instalments over an agreed number of years. They have arisen from mortgage advances 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 £1.722 million. See note 22 for detail.

## 32 Prior Period Adjustments

There are no prior period adjustments included in the statements other than those made to reflect the introduction of international financial reporting standards.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 33 Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

31-Mar-10 £000		31-Mar-11 £000
2,801	<b>Opening Capital Financing Requirement</b>	2,950
	<b>Capital Investment</b>	
7,535	Property, Plant and Equipment	8,379
0	Investment Properties	0
1,352	Revenue Expenditure Funded from Capital Under Statute	1,932
8,887		10,311
	<b>Sources of Finance</b>	
(7,721)	Capital receipts	(9,007)
(938)	Government grants and other contributions	(1,564)
(5)	Direct revenue contributions	0
(74)	Minimum Revenue Provision	(214)
<b>2,950</b>	<b>Closing Capital Financing Requirement</b>	<b>2,476</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 34 Disclosure of nature and extent of risk arising from Financial Instruments

### Financial Instruments - Balances

The Balance Sheet includes the following financial instruments:-

31-Mar-10 £000		31-Mar-11 £000
	<b>Long Term Liabilities</b>	
(1,811)	Government Grants & Other Contributions Unapplied	(3,386)
(286)	Deferred Liabilities	(427)
	<b>Current Liabilities</b>	
(12,025)	Short Term Creditors	(10,654)
	<b>Long Term Assets</b>	
1,599	Long Term Debtors	1,660
	<b>Current Assets</b>	
17,397	Short Term Debtors	12,302
34,827	Short Term Investments	31,874
<b>39,701</b>	<b>Total</b>	<b>31,369</b>

### Fair Value

Long term debtors comprise mortgages and finance leases. Short term creditors and debtors arise from charges to and from the Council for goods and services, and short term investments are those made in cash for less than twelve months. These instruments are carried on the balance sheet at cash value, which represents their fair value. The Council is debt free and has no long term borrowings.

The Council has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £820 is recorded as a gain in the Comprehensive Income and Expenditure Account and reflected as a reduction in the Financial Instruments Adjustment Account.

### Key Risks

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

- **Credit risk**                    the possibility that other parties might fail to pay amounts due to the Council;
- **Liquidity risk**                the possibility that the Council might not have funds available to meet its commitments to make payments;
- **Re-financing risk**            the possibility that the Council might be requiring to renew a financial instrument at disadvantageous interest rates or terms;

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

### Overall procedures for managing risk

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

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance.

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Audit Committee on 13 January 2010 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2010/11 was set at £10m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £7m. This is the expected level of debt and other long term liabilities during the year.

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **Credit risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Investment Strategy for 2010/11, which was approved by the Audit Committee on 13 January 2010, can be found on the Council's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2011 that this was likely to crystallise.

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

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

## **Liquidity risk**

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need. It currently has no longer term borrowing requirements. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The Council does not generally allow credit for its trade debtors, such that £1.070 million of the £1.758 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

# NOTES TO THE CORE FINANCIAL STATEMENTS

31-Mar-09 £000	31-Mar-10 £000		31-Mar-11 £000
132	82	Less than 3 months	173
122	367	More than 3 months, less than 1 year	664
333	205	More than 1 year	233
<b>587</b>	<b>654</b>	<b>Total</b>	<b>1,070</b>

## Refinancing and Maturity risk

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

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

The maturity analysis of the Council's investments at 31 March 2011 is as follows:-

31-Mar-10 £000		31-Mar-11 £000
34,827	Less than 1 year	31,874
<b>34,827</b>	<b>Total</b>	<b>31,874</b>

## Market Risk

### *Interest Rate Risk*

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

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

	£000
Increase in interest receivable on investments with consequential change in Income and Expenditure Account	383

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

### ***Price Risk***

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

### ***Foreign Exchange Risk***

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



## COLLECTION FUND

This account reflects the statutory requirement for the Council, as the billing authority, to maintain a separate Collection Fund. It shows transactions in relation to Non-Domestic Rates and Council Tax and illustrates the way in which these have been distributed to the Government and local authorities.

2009/10 £000		Note	2010/11 £000      £000	
	<b>Income</b>			
43,309	Council Tax Payers	CF1	43,572	
6,215	Transfers from the General Fund - Council Tax Benefit	CF1	6,581	
61,120	Business Rate Payers	CF2	60,983	
<b>110,644</b>	<b>Total Income</b>			<b>111,136</b>
	<b>Expenditure</b>			
48,243	Precepts and Demands	CF3	48,589	
	Business Rates			
60,944	- Payments to National Pool	CF2	60,813	
176	- Cost of Collection		170	
	Bad and Doubtful Debts	CF4		
235	- Write-offs		5	
145	- Increase in Provision		702	
915	Distribution of Previous Year's Surplus		656	
<b>110,658</b>	<b>Total Expenditure</b>			<b>110,935</b>
<b>14</b>	<b>(Increase) / Decrease in Collection Fund Balance</b>			<b>(201)</b>
(895)	Fund Balance - Surplus (-) / Deficit at 1 April			(881)
<b>(881)</b>	<b>Fund Balance - Surplus (-) / Deficit at 31 March</b>	CF4		<b>(1,082)</b>

# NOTES TO THE COLLECTION FUND

## CF1 Council Tax Payers

The charge for council tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts, exemptions or disabled relief applies and is converted into an "equivalent number of Band D dwellings" where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection. The table below sets out the calculation of the Council Tax Base for 2010/11.

Valuation Band	Total Number of Dwellings in Band	Discounts, Exemptions & Disabled Relief	Total Chargeable Dwellings	Conversion Fraction (Proportion)	Equivalent Number of Band D Dwellings
A	285	(65)	221	6/9	147
B	3,796	(620)	3,176	7/9	2,470
C	12,880	(1,535)	11,345	8/9	10,084
D	11,675	(1,108)	10,568	9/9	10,568
E	3,433	(249)	3,184	11/9	3,892
F	2,054	(128)	1,926	13/9	2,782
G	1,800	(122)	1,678	15/9	2,797
H	76	(15)	62	18/9	123
	<b>35,999</b>	<b>(3,841)</b>	<b>32,159</b>		<b>32,863</b>
Less: Allowance for losses on collection					(822)
Tax Base for Calculation of Council Tax					32,041
Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons' relief and empty properties					1,028
Council Tax Base for the Year					<b>33,069</b>

Each year, the Council needs to collect enough money from local residents to cover the cost of the services it provides which is not funded by government grants and charges for services. It also collects charges for Hertfordshire County Council and the Hertfordshire Police Authority. The total is divided by the tax base for the purposes of calculating the council tax to arrive at an average Band D tax per dwelling. The Council set an average council tax charge for Band D dwellings of £1,516.49 for 2010/11.

Specific reductions in charges - council tax benefits - are made in accordance with government regulations for persons on lower incomes. This reduces the gross amount of council tax due from council tax payers (derived from multiplying the council tax base for the year by the average Band D charge) as follows:

2009/10 £000		2010/11 £000
49,524	Gross Council Tax Charge	50,153
(6,215)	Less: Council Tax Benefits	(6,581)
<b>43,309</b>	<b>Income from Council Tax Payers</b>	<b>43,572</b>

# NOTES TO THE COLLECTION FUND

## CF2 Business Rate Payers

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

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

The relevant rateable value and multiplier data is shown below:

2009/10		2010/11
£144,265,440	Total Non-domestic Rateable Value at 31 March	£164,284,500
48.5p	National Non-domestic Rate Multiplier - Standard	41.4p
48.1p	National Non-domestic Rate Multiplier - Small Business	40.7p

Small Business Rate Relief came into effect on 1 April 2005. It is generally available to ratepayers who have only one business property with a rateable value of less than £15,000.

## CF3 Precepts and Demands

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

2009/10 £000		2010/11 £000
35,624	Precepts:	35,848
4,547	Hertfordshire County Council	4,736
	Hertfordshire Police Authority	
8,072	Demand:	8,005
	Watford Borough Council	
<b>48,243</b>	<b>Total</b>	<b>48,589</b>

## CF4 Distribution of Balances

Based on the precepts and demands made in 2010/11, balances relating to the collection fund have been apportioned between the local authorities and are reflected on their balance sheets as follows:

## NOTES TO THE COLLECTION FUND

Total £000		Herts County Council £000	Herts Police Authority £000	Watford Borough Council £000	Total £000
3,358	Gross Arrears	3,110	411	695	4,216
(312)	Less: Prepayments	(520)	(69)	(117)	(706)
3,046	Net Arrears	2,590	342	578	3,510
1,098	Provision for Doubtful Debts	1,328	175	297	1,800
<b>881</b>	<b>Collection Fund Balance (Surplus)</b>	<b>798</b>	<b>106</b>	<b>178</b>	<b>1,082</b>

The surplus on the Collection Fund is distributed in the subsequent year as an adjustment to the council tax charge.

# 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.

## **IFRS**

International Financial Reporting Standards

# GLOSSARY OF TERMS AND ABBREVIATIONS

## **Investments**

Deposits for less than one year with approved institutions

## **Infrastructure Assets**

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

## **Long Term Debtors**

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

## **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 rate. 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

## GLOSSARY OF TERMS AND ABBREVIATIONS

### **Provisions**

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

### **Revenue Expenditure Funded from Capital under Statute**

Capital expenditure which is allowable by statute to be funded from capital resources but which does not fall within the Code of Practice'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.



# INDEPENDENT AUDITORS REPORT AND CERTIFICATE

## Independent auditor's report to the Members of Watford Borough Council

### Opinion on the Council statement of accounts

We have audited the Council statement of accounts of Watford Borough Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Council statement of accounts comprise the Council Movement in Reserves Statement, the Council Comprehensive Income and Expenditure Statement, the Council Balance Sheet, the Council Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

This report is made solely to the members of Watford Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's Members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Head of Strategic Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Strategic Finance is responsible for the preparation of the Council 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. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the statement of accounts

An audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the statement of accounts. We read all of the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited statement of accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on statement of accounts

In our opinion the statement of accounts:

- give a true and fair view of the state of Watford Borough Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

# INDEPENDENT AUDITORS REPORT AND CERTIFICATE

## **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

## **Matters on which we report by exception**

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received; or
- the accounting statements are not in agreement with the accounting records and returns; or
- the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we have not received all the information and explanations we require for our audit.

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

### ***Council's Responsibilities***

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

### **Auditor's Responsibilities**

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

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

### **Basis of conclusion**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

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

# INDEPENDENT AUDITORS REPORT AND CERTIFICATE

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

## **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

## **Certificate**

We certify that we have completed the audit of the accounts in accordance with the requirement of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

.....  
Paul Dossett  
Senior Statutory Auditor  
For and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Grant Thornton House  
Melton Street  
London  
NW1 2EP

29 September 2011

## INDEX OF NOTES TO THE CORE FINANCIAL STATEMENT

	Note	Page
Accounting Policies	1	31
Accounting Standards that have been Issued but have not yet been adopted	2	45
Adjustments to net surplus or deficit on the provision of services for non cash movements	23	65
Amounts Reported for Resource Allocation Decisions	6	46
Assumptions Made About The Future and Other Major Sources of Uncertainty	4	45
Capital Expenditure and Capital Financing	33	81
Cash and Cash Equivalents	24	66
Commitments Under Capital Contracts	17	59
Contingent Assets and Liabilities	29	71
Creditors - Long Term	26	66
Creditors - Short Term	25	66
Critical Judgements in Applying Accounting Policies	3	45
Debtors - Long Term	22	65
Debtors - Short Term	21	64
Defined Benefit Pension Schemes	28	67
Disclosure of nature and extent of risk arising from Financial Instruments	34	82
Events after the Balance Sheet Date	5	46
External Audit Costs	9	50
Grant Income	7	49
Intangible Assets	15	55
Inventories	20	64
Investment Properties and Surplus Assets	18	60
Leases	19	62
Members Allowances	10	51
Officers Remuneration	11	51
Partnership Working	14	55
Prior Period Adjustments	32	80
Property, Plant and Equipment	16	56
Provisions	27	67
Related Parties Transactions	13	53
Termination Benefits	12	53
Trading Operations	8	50
Unusable Reserves	31	77
Usable Reserves	30	73