AUDIT COMMITTEE

Item 7 Statement of Accounts
and
Item 8 (late item) Draft Audit results

10 March 2022

7.00 pm

Town Hall, Watford

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For information about attending meetings please visit the council's website.

Publication date: 9 March 2022

Committee Membership

Councillor M Hofman (Chair)
Councillor P Kloss (Vice-Chair)
Councillors N Bell, M Devonish and M Turmaine

Agenda

Part A - Open to the Public

7. **Statement of Accounts** (Pages 67 - 212)

8. **Watford Borough Council Draft Audit results report** (Pages 213 - 281)

Part A

Report to: **Audit Committee**

Date of meeting: **Thursday, 10 March 2022**

Report author: **Head of Finance**

Title: **Statement of Accounts**

1.0 Summary

1.1 This report sets out the latest position for the finalisation and audit of the Statement of Accounts for 2019/20 and 2020/21 and the preparation for the production of the Statement of Accounts for 2021/22.

1.2 The report also sets out the process for the setting and adoption of Accounting Policies for 2021/22.

2.0 Risks

2.1

Nature of risk	**Consequence**	**Suggested Control Measures**	**Response** (treat, tolerate, terminate or transfer)	**Risk Rating** (combination of severity and likelihood)
The Council's Statement of Accounts are not approved and audited within the statutory timeframe	Failure to comply with statutory timeline impacts on audit opinion	Proactive liaison with the external audit team	Tolerate	4
Changes to accounting policies are not properly reflected in the Statement of Accounts	Material mis-statement or qualification	Review accounting policies annually. Maintain awareness of future changes	Treat	4
Changes to accounting policies have an impact on the revenue budget or capital programme.	Impact on reserves, especially where not identified at budget setting.	Maintain awareness of future changes	Tolerate	6

3.0 **Recommendations**

In relation to the 2019/20 Statement of Accounts Audit Committee are recommended to:

3.1 Approve the Statement of Accounts for 2019/20 subject to any final adjustments by the Section 151 Officer (Director of Finance)

3.2 Agree that the Section 151 Officer be delegated to finalise the Statement of Accounts for 2019/20 in consultation with the Chair of the Audit Committee

3.3 Agree that the Committee authorise and instruct the Chair to sign the Statement of Accounts for 2019/20 once finalised and signed by the Section 151 Officer to confirm that the Statement of Accounts presents a true and fair view of:
 (a) the financial position of the authority at the end of the financial year to which it relates; and
 (b) that authority's income and expenditure for that financial year

3.4 Approve the Letter of Representation for 2019/20 and agree to delegate to the Section 151 Officer and Chair of the Audit Committee to make any necessary changes resulting from the conclusion of the audit.

In relation to the 2021/22 Statement of Accounts Audit Committee are recommended to:

3.5 Ratify the draft Accounting Policies for 2021/22

Further information:
Hannah Doney
hannah.doney@threerivers.gov.uk

Report approved by: Alison Scott, Shared Director of Finance

4.0 **Detailed proposal**

4.1 **Statement of Accounts 2019/20**

4.1.1 The Statement of Accounts 2019/20 are attached to this report at Appendix 1. Since the last report to the audit committee in November significant progress has been made towards concluding the audit. Delegation is sought from the Committee for any final changes to be made by the Director of Finance and for the Chair of the Committee to sign the accounts. This will enable the accounts to be signed off as soon as the audit is concluded and well in advance of the next Committee meeting in July.

4.1.2 As previously reported to the Committee, the detailed audit focus on the Fixed Asset Register has resulted in reclassifications and revaluation of a number of assets. In order to achieve the correct prior year comparator figures for 2018/19 this has resulted in the calculations being reworked back to 2017/18. The changes meet the definition of a Prior Year Adjustment and the changes are disclosed in Note 4 to the accounts.

4.1.3 The Prior Year Adjustment requires the External Auditors to complete additional due diligence and the revisions are undergoing an internal consultation process. Other outstanding items include the conclusion of the Going Concern assessment which covers the period of 12 months from the date of signing the accounts. It is anticipated that an update can be provided on the progress of these areas at the meeting.

4.1.4 Auditing standards require the External Auditors to obtain representations from management on certain matters material to their audit opinion. This is known as the Letter of Representation. The Audit Committee is required to consider and approve the letter of representation before it is signed by the Director of Finance and the Chair of the Committee.

4.1.5 A Draft Letter of Representation is at Appendix 2. The draft letters may change to reflect the outcome of the ongoing audit work. Therefore, the committee is asked to agree that the Director of Finance, in consultation with the Chair of the Committee, can make any further changes to the letters of representation that may arise during completion of the audit.

4.2 **Statement of Accounts 2020/21**

4.2.1 The draft Statement of Accounts for 2020/21 were published by 31 July in line with statutory timetable for public inspection. These accounts will need to be updated to reflect the final balances agreed in the 2019/20 accounts. This will be done as upon completion of the 2019/20 audit and a revised set of accounts will be provided to the External Auditors for consideration.

4.2.2 Audit resource is expected to be available in June which should enable Audit Committee to receive the final accounts and the auditors' report at least in draft form at the meeting in July.

4.2.3 The audit situation across the local government sector in England is fairly bleak. The statutory deadline for the publication of audited accounts was extended from 31

July 2021 to 30 September 2021. Only 9% of local authorities were able to achieve this deadline. The figure had increased to 40% by 31 December.

4.3 **Statement of Accounts 2021/22**

4.3.1 The Department for Levelling Up, Communities and Housing (DLUCH) has recognised that it will take time for audit firms and local authorities to catch up and the statutory deadline for the publication of audited accounts for 2021/22 has already been extended to 30 November 2022.

4.3.2 In light of the challenges faced within the local government sector, the Chartered Institute for Public Finance and Accountancy (CIPFA) has also undertaken a consultation on measures intended to speed up the accounts preparation and audit process. The introduction to the consultation also noted that a significant number of audits remain outstanding from 2019/20. This is understood to relate to around 70 local authority audits.

4.3.3 CIPFA has stated that they are seeking to implement 'short-term pragmatic interventions'. Importantly, the measures must be implementable before year end in order to deliver a benefit to the 2021/22 accounts preparation and audit process.

4.3.4 CIPFA has consulted on two specific measures:

- Pausing the requirements for professional valuation of operational property, plant and equipment assets in the 2021/22 Code and (at least) the 2022/23 Code, with the possibility of mitigating the effect of this through the application of centrally determined indices.
- Deferring the implementation of IFRS 16 Leases, which is currently set to be implemented in the 2022/23 Code, thereby for a period freeing up preparer and auditor time relating to the preparation of opening balances and auditor verification around transition.

4.3.5 Officers are supportive of the measures proposed by CIPFA. The pausing of valuations for operational property, plant and equipment in particular would simplify one of the areas of audit focus where the authority is reliant on external experts. Given the necessary timelines it is anticipated that the outcome of the consultation will be known by 31 March 2022.

4.4 **Significant Accounting Policies 2021/22**

4.4.1 The Council's Statement of Accounts is prepared in accordance the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Council is required to adopt accounting policies which describe how the Council has interpreted and applied the Code.

4.4.2 The Code defines Accounting Policies as 'the specific principles, bases, conventions, rules and practices applied by an authority in preparing and presenting financial statements.'

4.4.3 The significant accounting policies adopted by the Council are disclosed within note 1 to the Core Financial Statements in the Statement of Accounts, 'Accounting Policies – Single Entity and Group Accounts'.

4.4.4 The Code prescribes that 'authorities shall apply the objective, underlying assumption and qualitative characteristics of useful financial information, in the selection and application of accounting policies and estimation techniques.'

4.4.5 The Code provides a detailed framework within which accounting policies must be set:

- When the Code specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Code. Those policies need not be applied when the effect of applying them is immaterial.
- Where the Code does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
    - a) relevant to the decision-making needs of users, and
    - b) reliable, in that the financial statements:
        - i) represent faithfully the financial position, financial performance and cash flows of the authority
        - ii) reflect the economic substance of transactions, other events and conditions and not merely the legal form
        - iii) are neutral, i.e. free from bias
        - iv) are prudent, and
        - v) are complete in all material respects.
- In making the judgement management shall refer to, and consider the applicability of, the Code requirements dealing with similar and related issues. Management may also consider the most recent pronouncements of standard-setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these do not conflict with the requirements of the Code.
- An authority shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Code specifically requires or permits different treatment.
- An authority shall change an accounting policy only if the change is required by the Code or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.

- Where an authority changes an accounting policy, it shall apply the changes retrospectively unless the Code specifies transitional provisions that shall be followed. A change in accounting policy shall be applied retrospectively by adjusting the opening balance of each affected component of net worth for the earliest period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied, except to the extent that it is impracticable to so do. Approval of Accounting Policies

4.4.6. The code states that the Chief Finance Officer is responsible for selecting 'suitable' accounting policies and ensuring that they are applied consistently in the preparation of the statement of accounts. The Chief Finance Officer (Director of Finance) has approved Note 1. Accounting Policies for 2021/22 as set out in Appendix 3. All significant accounting policies have been selected with reference to the Code.

4.4.7 The Council's auditors will review the adopted accounting policies as part of the audit of the statement of accounts. There is also an expectation that the auditors will be able to evidence that the accounting policies have been approved by the Audit Committee in its capacity as 'Those Charged with Governance'. The Audit Committee is therefore asked to ratify the accounting policies as set out in Appendix 3.

4.4.8 There are no significant changes to the accounting policies adopted in prior years. However, there may be changes required to the valuation methodology of PPE assets if the proposals set out in the CIPFA consultation are adopted.

5.0 **Implications**

5.1 **Financial**

5.1.1 The Shared Director of Finance comments that there are no direct financial implications arising from this report.

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that there are no direct legal implications arising from this report.

5.3 **Equalities, Human Rights and Data Protection**

5.3.1 Under s149 (1) of the Equality Act the council must have due regard, in the exercise of its functions, to the need to –

- eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Act
- advance equality of opportunity between persons who share relevant protected characteristics and persons who do not share them
- foster good relations between persons who share relevant protected characteristics and persons who do not share them.

Having had regard to the council's obligations under s149, it is considered that there are no implications arising from this report.

Having had regard to the council's obligations under the General Data Protection Regulation (GDPR) 2018, it is considered that officers are not required to undertake a Data Processing Impact Assessment (DPIA) for this report.

5.4 **Staffing**

5.4.1 There are no staffing implications arising from this report.

5.5 **Accommodation**

5.5.1 There are no accommodation implications arising from this report.

5.6 **Community Safety/Crime and Disorder**

5.6.1 There are no community safety or crime and disorder implications arising from this report.

5.7 **Sustainability**

5.7.1 There are no sustainability implications arising from this report.

Appendices

Appendix 1 Statement of Accounts 2019/20
Appendix 2 Draft Letter of Representation 2019/20
Appendix 3 Draft Accounting Policies 2021/22

Background papers

No papers were used in the preparation of this report.

DRAFT

STATEMENT OF ACCOUNTS

2019/20

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Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Director of Finance;
- Manage its affairs to ensure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Code of Practice.

The Director of Finance has also:

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

Opinion

The draft Statement of Accounts presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2020 and its income and expenditure for the year ended 31 March 2020.

Signed Date: 10 March 2022

Alison Scott, CPFA
Director of Finance

Signed

Date: 10 March 2022

Mark Hofman
Chairman of Audit Committee

NARRATIVE STATEMENT

1 An introduction to Watford Borough Council's organisational overview and external environment

During 2019 the Council updated its Corporate Plan. The Corporate Plan 2019/20 incorporates the Council's vision and priorities, and reflects a number of considerations:

- The Elected Mayor's manifesto and ambitions,
- The councils' vision, priorities, values and supporting themes,
- The town and council's challenges and opportunities, and
- The council's budget and Medium Term Financial Strategy.

The Corporate Plan 2019/20 can be found at the following link:
https://www.watford.gov.uk/downloads/download/394/corporate_plan

This sets out the strategic direction for the Council, including how it will meet the challenges and opportunities of the Watford 2020 transformation programme and deliver its corporate priorities for the town and the Council.

2 Overview of the financial underpinning of service delivery

During the year, the Council progressed its vision in the delivery of a bold and progressive future for Watford. The financial underpinning of this was through the approval of the revenue budget in January 2019 for the following activities:

Service Area	Approved budget 2019/20 £000
Community and Environmental	8,925
Corporate Strategy and Communications	1,029
Democracy and Governance	3,468
HR Shared Service	656
Place Shaping & Performance	(5,825)
Service Transformation	2,538
Strategic Finance	1,905
Total Net Expenditure	**12,696**

The Council also approved a Capital Programme for 2019-22 of £198.3 million. The five largest schemes in these three years were:

	£m
Riverwell (Watford Health Campus Partnership)	56.6
Hart Homes	50.6
Watford Business Park redevelopment	16.1
Town Hall redeployment	9.1
Woodside Sports Village	9.1

In 2018, the Council was approached to see if it would be interested in an investment relating to Croxley Park. The existing owners were seeking to lower the risk profile relating to their investments, as they had an increasing number of mature pension schemes. There was therefore an opportunity for the Council to be both proactive and prudent in the management of a substantial, prestige development on the borough's boundary that is and has the potential to remain a key provider of well-paid employment from a diverse range of companies for residents in the borough.

This would occur through the acquisition of a 40 year head lease in Croxley Business Park, with an option to obtain the freehold of the Park at the end of the term.
Careful and thorough due diligence and negotiation occurred over many months. This led to reports to Members, culminating in unanimous approval by Council of the final deal in January 2019, in the week before the budget was set for 2019/20.

The Council completed its acquisition of Croxley Park in July 2019. As a result the Council is committed to paying the head lease rental of £9.2m per annum, increasing by RPI annually capped at 5%. The Council will receive rent from tenants which is modelled to provide over the 40 year term an additional £1.5 million per annum income within the revenue budget. As part of the deal the Council received £24 million in respect of rental top ups and £68 million towards the planned maintenance programme.

3 Evolution of the Corporate Plan

The current Mayor was elected to office in May 2018. Over the last year real progress has been made in delivering many of the commitments set out in the corporate plan. There was greater focus on making the town more environmentally friendly and to tackle the climate change agenda.
The emphasis on sustainable transport initiative is a fundamental part of our sustainability plans and a number of initiatives have been achieved;

- Travel/Watford transport app
- Bike Share Scheme
- Demand Responsive bus
- Electric vehicle charging points
- A new home for cycling in Watford

The 2020-24 plan can be found here.
https://www.watford.gov.uk/info/20016/the_council/108/council_plan_2020-24_and_delivery_plan_2020-22

4 Risks and Opportunities

The embedding of risk management continued in 2019/20. The Group Head of Legal and Democracy presents an annual risk report to the Audit Committee in December to cover the elements of risk management including the appetite and treatment of risk and the corporate risk register to ensure risks are being managed appropriately. Financial risks are reported to and monitored by the Audit Committee.
Appendix 1 Corporate Risk Register
https://watford.moderngov.co.uk/documents/s24013/Appendix%201%20for%20Annual%20Risk%20Report.pdf
and Appendix 2 Risk Management Strategy
https://watford.moderngov.co.uk/documents/s24012/Appendix%202%20for%20Annual%20Risk%20Report.pdf
Risks relating to the Watford 2020 programme were included as discrete elements in the regular update reports provided for consideration to the Overview and Scrutiny Committee (OSC). For example, in July 2019 the following report went to OSC:
https://watford.moderngov.co.uk/documents/s22374/Appendix%201%20-%20Watford%202020%20Update.pdf

5 Strategic Resource Allocation and Performance Monitoring

The Council monitors its budget during the year and any changes made are reflected in a revised budget. This was agreed in January 2020, as usual, as part of the MTFS (Medium Term Financial Strategy) for 2020/21. This is supported by regular budget monitoring during the year, monthly to officers and quarterly to Members. The MTFS approved for 2020/21, including a revised budget for 2019/20 and as amended for the decision of Council on 28 January 2020, is on the following page.
The 2019/20 revised budget shown includes approved carry forwards of £1.302 million from 2018/19, which were approved by Cabinet in June 2019 and subsequently Council in July 2019.
The gap shown in the MTFS can be funded from reserves and reflects the fact that long-term ongoing savings do not come through in a full year until the end of the MTFS period. The Council Tax base figures in the MTFS for future years include projected growth in the base but doesn't include any allowance for an increase in council tax level for inflation.

WATFORD BOROUGH COUNCIL BE BOLD	2019/20 Original £000s	2019/20 Revised £000s At Period 8	2020/21 Draft £000s	2021/22 Draft £000s	2022/23 Draft £000s
Corporate Strategy & Communications	1,029	1,087	1,042	1,057	1,057
Place Shaping & Performance	(5,825)	(6,228)	(6,397)	(6,522)	(6,522)
Strategic Finance	2,193	2,276	2,292	2,255	2,255
Service Transformation	2,538	4,776	2,773	2,820	2,820
Community & Environmental	8,925	9,411	8,970	9,060	9,060
Democracy & Governance	3,468	1,970	1,992	2,011	2,011
HR Shared Service	656	627	661	666	666
Net cost of services	**12,984**	**13,919**	**11,333**	**11,346**	**11,346**
Corporate Budgets					
Dividends & Interest earned	(3,254)	(2,254)	(1,304)	(2,251)	(3,251)
Vacancy provision	(95)	(95)	(95)	(95)	(95)
Apprentice Levy	30	30	30	30	30
Internal support to capital programme	(677)	(677)	(677)	(677)	(677)
Contingency	216	816	214	210	210
Interest payable & borrowing costs	1,042	292	1,730	2,230	2,230
Pension Fund deficit payments	2,449	2,449	2,449	2,449	2,449
Sub-Total	**(288)**	**562**	**2,348**	**1,897**	**897**
Financial Planning					
Salary Changes (Including Employers Lump Sum)	0	0	479	727	1,085
Changes from Shared Services	0	0	(134)	(59)	15
Growth	0	0	672	729	510
Income & Efficiencies	0	0	(37)	(63)	(92)
Changes to Business Rates on Council Property	0	0	42	38	48
W2020	0	721	(168)	(234)	(339)
Garden Waste charging	0	0	(295)	(445)	(445)
Environmental Health Contract		0	(154)	(164)	(164)
Demand Responsive Transport	0	(741)	741	0	0
Croxley Park	0	500	0	0	0
PIB income target reduction	0	0	400	0	(400)
Net effect of Fees & Charges	0	0	25	25	25
Impact of Capital Programme	0	0	0	2	2
Leisure Contract Management fee	0	0	0	0	(60)
Additional Borrowing costs	0	0	500	120	710
Sub-Total	**0**	**480**	**2,072**	**676**	**896**
Total Net Expenditure	**12,696**	**14,961**	**15,753**	**13,919**	**13,139**
Planned Use of Reserves					
Contributions to reserves	2,782	1,782	157	157	1,000
Contributions from reserves- Incl W2020 & Carry forward Reserve	(530)	(1,277)	(1,517)	(334)	(641)
Sub-Total	**2,252**	**505**	**(1,360)**	**(177)**	**359**
Funding					
Council Tax	(8,809)	(8,809)	(9,160)	(9,437)	(9,722)
Business Rates	(3,552)	(3,552)	(3,152)	(3,002)	(3,002)
New Homes Bonus	(753)	(753)	(772)	(577)	(577)
(Surplus)/Deficit on collection fund	(250)	(250)	(250)	(250)	(250)
Additional Government Funding	(400)	(400)	(400)	0	0
Sub-Total	**(13,764)**	**(13,764)**	**(13,734)**	**(13,265)**	**(13,550)**
Total Funding & Use of Reserves	(11,512)	(13,259)	(15,094)	(13,442)	(13,191)
Gap	**1,184**	**1,702**	**658**	**477**	**(53)**
Reserves - *opening balances*	(12,683)	(18,501)	(19,006)	(17,646)	(17,469)
Planned use of reserves	(2,252)	(505)	1,360	177	(359)
Gap funded from reserves	1,184	1,702	658	477	(53)
Reserves - *closing balances*	(13,751)	(17,304)	(16,988)	(16,992)	(17,881)
Council Tax Rate Calculation					
Council tax base	*32,840.6*	*32,840.6*	*33,480.0*	*33,814.8*	*34,152.9*
Council tax charge for band D	£ 268.23	£ 268.23	£ 273.59	£ 279.07	£ 284.65
£	8808.97	8808.97	9159.95	9436.58	9721.56

6 Performance, including outturn for 2019/20

Revenue Outturn 2019/20

The financial performance is presented to Members in the same format as below during the financial year. It reflects the expenditure to be met by district taxpayers and the balance held for working capital. These management account figures differ from the Net Cost of Services in the financial accounts, the Comprehensive Income and Expenditure Statement (CIES), because the CIES also includes costs relating to depreciation, revenue spend funded from capital under statute and certain pension adjustments.

Service Area	Revised Budget £000	Outturn £000	Variance £000
Service Transformation	5,497	4,946	(551)
Community & Environmental	9,420	9,255	(165)
Democracy & Governance	1,970	1,800	(170)
Place Shaping & Performance	(6,478)	(5,303)	1,175
Corporate Strategy & Communications	1,087	1,194	107
Human Resources	627	551	(76)
Strategic Finance (this includes pension liability costs of £2.3m)	2,838	1,601	(1,237)
Net Direct Cost of Service	**14,961**	**14,044**	**(917)**
	Carry Forwards		725
	Total Variance		**(192)**

The General Fund Working Balance of £2.0m (2018/19 £2.0m) reflected the revised target created with the 2019/20 MTFS budget.
The major service variances at outturn were:

- Underspend of £341k on service transformation projects, these will now be completed in 2020/21 and therefore £282k to be carried forward to 2020/21.
- Routine maintenance costs on buildings were lower by £200k.
- Sports centre budget development work of £185k is to be carried forward to be completed in 2020/21.
- Staffing costs were higher by £134k on Community Protection Team due to agency cover required for vacant posts and additional work load.
- Income from investment assets outsourced was lower by £662k.
- Interest received from Croxley Park was £413k
- Borrowing costs were £144k lower, due to timing differences in capital projects starting and funding requirements.

Capital Outturn 2019/20

Capital expenditure is incurred on assets that benefit the community over a number of years.
Key capital projects included:

- the continuing developments at the Riverwell site, with the LABV (Local Asset Backed Vehicle) Watford Health Campus Partnership with Kier;
- Substantial improvements to the Public Realm including the High Street and Clarendon Road;
- Evolving development of the Watford Business Park;
- Investment in Oxhey Park including leisure and recreational facilities;
- Replacement of ageing vehicles notably street cleansing and refuse vehicles.

Capital expenditure for 2019/20 is shown below:-

Service Area	Latest Budget £000	Outturn £000	Variance £000
Service Transformation	2,419	1,425	(994)
Community & Environmental	10,760	8,318	(2,442)
Place Shaping & Performance	27,887	11,672	(16,215)
Strategic Finance	979	666	(313)
Total	**42,045**	**22,081**	**(19,964)**

The Council completed and funded £22.081m of capital works in 2019/20 (£16.852m in 2018/19). Key variations in the Capital Programme include:

- £7.8M rephasing relating to Hart Homes due to delays in progressing schemes.
- £4.0M of rephasing for temporary housing accommodation due to increased activity in 2020/21.
- £2.1M rephasing relating to the ongoing investment at Watford Business Park.
- £1.2M rephasing towards the acceleration of suitable housing provision.
- £1.0M rephasing for completion of Oxhey Park.

Funding came from £5.81m from capital receipts, £4.42m from grants & contributions, £0.808m from reserves, £0.322m from Section 106 receipts and £10.72m from borrowing.

The Council is involved in two long term major schemes at Watford Riverwell and Watford Business Park where spend during the year was £2.5m and £2.9m respectively. Other notable projects during the year relate specifically to Public Realm schemes totaling £3.4m as well as Community & Environmental projects regarding Oxhey Park and vehicle replacement totaling £2.5m and £2.45m respectively.

Borrowing Facilities and Capital Borrowing

The Council borrowed from external sources in 2019/20 and the expectation is for this to continue in order to fund future capital investment requirements.

Pensions

The Council has disclosed its full liabilities to the Hertfordshire Pension Fund. The CIES includes the charges made for retirement benefits in accordance with ISA 19 (International Accounting Standard).

The MIRS (Movement in Reserves Statement) shows how this is adjusted for in the General Fund for the actual amount paid to the Fund in the year (i.e. the amount met from Council Tax). The Balance Sheet shows a net Liability to the Fund at 31 March 2020 of £48.680m. This has decreased from £63.053m at 31 March 2019 and reflects actuarial changes.

There are statutory arrangements for funding the deficit that protect the Council's financial position. Note 33 to the Core Statement of Accounts provides further information.

Following the results of the triennial valuation of the pension fund, on the advice of the pension fund actuaries the Council made a contribution of £3.692m in 2019/20 (£3.592m in 2018/19), of which £2.449m (£2.349m in 2018/19) was to reduce the deficit on the Pension Fund.

Performance Monitoring

The Council has a thorough performance monitoring system for Members fully in the public domain and on the Council's website. There are regular quarterly reports to the Overview and Scrutiny Committee for key performance indicators (KPI's). This is supported by the work of the Outsourced Services Scrutiny Panel, which received quarterly reports and regular presentations with questions and answer sessions on services within its scope. There is also a regular Finance Digest to the Budget Panel for financial performance monitoring.

7 Outlook

The Council has been successfully undertaking a transformational approach to its service and financial challenges, and is well placed to continue with this in the short and medium term.

The deal for Croxley Business Park provides a prudent and effective improvement to the Council's financial position, and protects a key asset for the residents' economic resilience and vibrancy going forward.

Working effectively in partnership continues to bring both significant economic and community benefits. The joint venture at Riverwell, which will take over a decade to realise, has already brought gains through improved infrastructure and is scheduled to deliver significant housing for all ages and of all types. The Town Centre upgrade and expansion of the Intu site enables the borough to be well placed to retain retail usage and offers the wider package to encourage full town centre use in the day and evening. Having anticipated the change in use of town centres, and coupled with a diverse investment property portfolio, the council is as well placed as is possible given the uncertain wider picture nationally.

There may be a need to borrow in the medium term (2020/23) for future developments or investments as these are identified. Where this is necessary it will always be preceded by appropriate, careful due diligence and business planning, and fully within the Prudential Borrowing regime.

8 Future challenges including COVID-19

General

The future for local government funding remains very uncertain, with no information available on funding from April 2020 onwards. In setting out its medium term financial strategy (MTFS) the Council has assumed reductions in government funding.

The budget strategy is intended to ensure that the Council has a balanced and sustainable budget that provides the financial resources needed to implement its key priorities. The items set out below are considered the main issues that will have an impact on the Council's budget strategy and financial planning in the medium term.

COVID-19

The World Health Organisation declared a global pandemic of the COVID-19 virus on 11 March 2020. Subsequently a lockdown was instigated on 23 March for the whole country. Since then the country has been in recession and this has had and is still having a serious impact on individuals and businesses nationwide. The Council responded at pace by taking emergency action to ensure that the most vulnerable people were protected and to stem the spread of the virus. The Council has been working closely with central government, related agencies, the voluntary sector, town and parish councils and the health service to support businesses and residents.

There was little financial impact on the 2019/20 financial position as the pandemic was declared mid-March, but there will be significant challenges in the year ahead, and potentially future years as Council deals with the ongoing crisis. Given the uncertainty around the full extent of the economic impact at this stage, it is difficult to estimate with any confidence the likely impact on the Council's financial position. The Government has allocated emergency COVID-19 funding to local authorities but the extent to which it will fully cover the additional expenditure and loss of income is not known at the moment.

The Council was, fortunately, well setup to be able to work from home before and so the move to home-working has had a relatively minor impact overall. The workload for some services has increased significantly due to the emergency action that it has had to take e.g. the Community Partnerships team have been working many external partners and the voluntary sector to provide extra services to residents; the Revenues and Benefits and Payments teams have seen their workload increase significantly with applying business rates relief and paying grants to businesses and in giving additional council tax relief to recipients of council tax support.

The Council has reviewed its budget for 2020/21 and the Council approved a revised budget on 14 July 2020. The report estimated that the shortfall for the year could be £1.03 million. It is anticipated that this will be met from the Councils economic impact reserve. The Council will receive an update on the Council's financial position in the autumn. The Medium Term Financial Strategy (MTFS) will continue to be revised as the position evolves.

9 Basis of Preparation and Presentation

The Accounts are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. References to material and materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

There have been a number of **prior period adjustments** following the conclusion of the audit. These adjustments will ensure that the figures presented are as up to date as possible. The majority of the changes have been made to the valuations and classifications of our assets. We use a rolling programme of valuations and where an asset has not been valued for some years we have used indexation factors to show what the asset would have been valued at, had it been due for revaluation. The audit has highlighted a number of issues with our Fixed Asset Register and we have worked hard to ensure that our updated figures give a “true and far view” and that assets are correctly classified. The details of all the prior period adjustments can be found in Note 4.

ANNUAL GOVERNANCE STATEMENT

SCOPE OF RESPONSIBILITY

1. Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

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'. It is also in accordance with the requirements of the Accounts and Audit (England & Wales) Regulations 2015.

4. This Governance Statement explains how the Council has maintained sound governance during the financial year 2019/20 and also how the Council meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

5. The governance framework has been in place at the Council for the year ended 31 March 2020 and up to the date of approval of the annual report and statement of accounts. It comprises the systems and processes as well as the culture and values, by which the Council is directed and controlled and through which accounts to, engages with and leads the community.

6. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

7. The system of internal control is a significant part of this framework and is designed to manage risk to a reasonable level. However, it cannot eliminate all risk of failure to achieve policies, aims and objectives and, therefore, can only provide reasonable and not absolute assurance of effectiveness.

8. 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 to manage them efficiently, effectively and economically.

THE GOVERNANCE FRAMEWORK

9. The key elements of the systems and processes that comprise the Council's governance arrangements, as per the CIPFA 'Delivering good governance in local government: Framework – Addendum' include the following:

General

10. Watford Borough Council operates an elected Mayor and Cabinet model of governance under the Local Government Act 2000 and this places total responsibility for those functions designated as Executive Functions into the hands of the directly elected Mayor. However full Council is responsible for setting the Council's budget and agreeing the key policy framework. The Council

also has established an Overview and Scrutiny Committee, Financial Scrutiny Committee and task groups to scrutinise the actions of the Mayor and Cabinet and assist with policy development. In addition the Council has six further committees that cover non-executive functions, these are; Licensing, Development Management, Audit, Functions, Standards and Appointments. It also has a number of advisory member groups such as Major Projects Board, Planning Advisory Group, Housing Advisory Group, the Health and Wellbeing Forum, the Sustainability Forum, the Constitution Working Party and the Member Development Group.

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

12. The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to the local community. Some of these procedures are required by law, whilst others are adopted by the Council. The Constitution is reviewed annually and is available on the Council's website and intranet.

13. The Council has an approved Local Code of Governance, which sets out and describes its commitment to good governance and identifies the arrangements that have been and will continue to be made to ensure its ongoing effective implementation and application in all aspects of the Council's work. The Local Code of Governance is available on the Council's website and intranet.

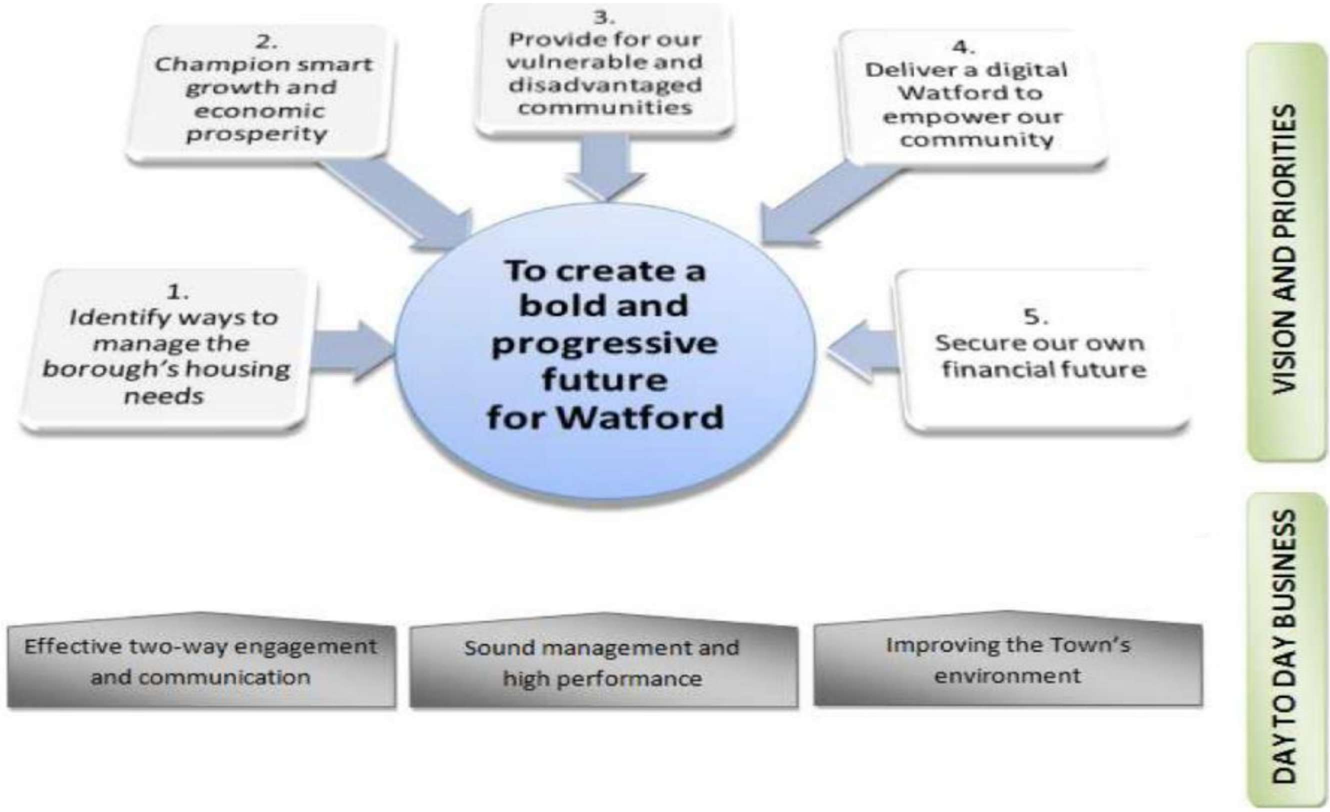
14. The Council acknowledges its responsibility for internal control, and for ensuring that its systems maintain the integrity of accounting records and safeguard its assets. These systems provide reasonable assurance as to the reliability of financial information and to maintain proper control over the income, expenditure, assets and liabilities of the Council. However, no system of internal control can provide absolute assurance against material misstatement or loss.

15. The Leadership Team is aware of the financial and other procedures and controls outlined in the Constitution, and senior officers are required to sign a declaration of compliance, in the form of a Management Assurance Statement at the end of each year. This evidences, amongst other things, that their staff are aware of and consistently apply the requirements of the Constitution.

16. Elected Members as decision-makers have to declare conflicts of interest as and when they occur, as well as when they are elected.

Strategic Aims and Objectives

17. The governance framework enables the Council's key objectives as outlined in the 2019/20 Corporate Plan to be met and these can be summarised as follows:-



Vision:

To create a bold and progressive future for Watford

Our Objectives:

- Identify ways to manage the borough's housing needs;
- Champion smart growth and economic prosperity;
- Provide for our vulnerable and disadvantaged communities;
- Deliver a digital Watford to empower our community;
- Secure our own financial future.

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

19. The Council's major change and improvement programme (Watford 2020) is underway and is about transforming how the Council operates, providing a digital infrastructure for the town to provide local businesses with a competitive advantage and enhance the quality of life of residents.

Decision Making Structures

20. At an Officer level, the Council has a Strategic Leadership Team made up of the Managing Director and Group Heads of Service. The Council also has an Operational Leadership Team comprising some Heads of Service. Financial control is primarily the responsibility of a shared Director of Finance with neighbouring Three Rivers District Council. Both Strategic Leadership Team and Operational Leadership Team meet monthly to review and progress the key objectives of the Council. The Council also has a Programme Management Board made up of members of

Strategic Leadership Team to review all key council projects. The Council also has a 2020 Steering Group, made up of members of Strategic Leadership Team and the 2020 Programme Manager, to track progress of the 2020 service transformation programme. Both of these also meet monthly.

21. Overall financial control is monitored on a monthly basis by Strategic Leadership Team and the Financial Scrutiny Committee, and quarterly by Cabinet. Budget preparation is influenced by the Council's Medium-Term Financial Strategy (MTFS) which forecasts budget pressures and available resources over a four-year period. This MTFS is reported quarterly to Cabinet and Financial Scrutiny Committee where variations to the strategy are approved. The Council has the ultimate responsibility for approving the annual budget. The final accounts at the end of a financial year are subject to formal approval by the Audit Committee (but is also reported to Cabinet and Financial Scrutiny Committee).

Constitution

22. The Council has a written constitution which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct. This sets out how the council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens.

23. The Council's Constitution is available to all on the Council's website.

24. There are regular meetings of the Council, Cabinet and other committees. Council, Cabinet and committee / scrutiny meetings are open to the public and written reports are available to the public through the council's website. Information is only treated as confidential when it is necessary to do so for legal / commercial reasons in accordance with the provisions of the Local Government Act 1972.

25. The Council publishes its Corporate Plan annually, which sets out key service improvement priorities for the medium term, with targets for performance and deadlines for achievement. This has been informed by public consultation on a range of topics, particularly around priority setting, and a detailed analysis of the Watford context based on information derived from sources such as Census 2011 and the Indices of Multiple Deprivation. Progress on the Plan is reported to the public through the Council's magazine, About Watford, which is distributed to every household in the Borough and is also available online.

26. 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 (as relevant) and other appropriate issues such as potential risks to non-achievement, all of which ensures that comprehensive advice is provided prior to decisions being taken.

27. The Constitution sets out an Officers' Code of Conduct, which includes: Disclosure of Information, Political Neutrality, Potential Conflict of Interest Situation, Bribery, Corruption and Fraud, Appointments and Other Employment Matters, Outside Commitments, Personal Interests, Equality Issues, Information Security, Criminal Offences, Whistle blowing and Breaches of the Code of Conduct.

28. The scrutiny function within a local authority provides a necessary check upon the role of Cabinet and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance, including those of the Council's outsourced services, it can also set up task groups to look in depth at issues it wishes to scrutinise and it also scrutinises the Community Safety Partnership. In addition, the Standards Committee considers member conduct and the Financial

Scrutiny Committee considers financial issues. Finally, the Audit Committee reviews the overall governance arrangements including the service related control and risk management environment. The Audit Committee also considers the response to Freedom of Information requests, the Ombudsman's annual report, risk management, Regulation of Investigatory Powers Act as well as annual accounts and treasury management (investment) policies.

29. 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.

30. Codes of Conduct defining the standards of behaviour for members, staff, partners and the community have been developed and communicated and are available on the Council's website. These include:

- Members Code of Conduct;
- Code of Conduct for staff;
- Anti-fraud and corruption policy (including whistle blowing and anti-bribery);
- Money Laundering detection guidance;
- Members and officer protocols;
- Regular performance appraisals, linked to service and corporate objectives;
- Service standards that define the behaviour of officers;
- A Standards Committee which has a key role in promoting and maintaining high standards of conduct for members;
- Officers are subject to the standards of any professional bodies to which they belong.

31. The Group Head of Democracy and Governance is the Council's Monitoring Officer and duties include: maintaining the Council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.

32. The Shared Director of Finance is the statutory Chief Finance Officer. Duties include: overall responsibility for financial administration, reporting on any actual or potential instances of illegality in expenditure, including unlawful loss or deficiency or illegal items of account, and giving advice to the council on financial planning.

Data Quality and Risk Management

33. 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. Guidance documents include a Data Quality Policy, an Information Security Policy, a Data Asset Register and management training modules, all of which are on the intranet.

34. The governance framework is dependent upon the underlying system of internal control which is designed to manage risk to a reasonable level. The Council's approach to risk management is governed by its Risk Management Strategy which is updated annually and approved by Strategic Leadership Team and the Audit Committee. This Strategy underpins the Corporate Risk Register which was updated and approved by the Audit Committee in December 2019 and covers major issues that will affect the achievement of the council's key objectives. The Corporate Risk Register is at a strategic / high level and is complemented by detailed project and service area registers. The Corporate Risk Register is reviewed quarterly by Strategic Leadership Team and is reviewed annually by Audit Committee. It was last reviewed by Audit Committee in December 2019.

Business continuity and emergency planning are other key aspects within the corporate governance framework. This is the responsibility of the Group Head of Transformation.

35. All committee reports contain a 'risk implications' section as an aid to decision taking. There is however, a continued need to ensure an effective risk identification process occurs where the Council has outsourced the provision of services to a private sector partner.

Shared Services with Three Rivers District Council

36. Watford Borough Council has been a leading authority in developing a shared service for revenues, benefits, ICT, financial services, human resources, pest control and procurement with Three Rivers District Council. Both councils also share the statutory post of Chief Financial Officer (S151) - the Shared Director of Finance.

37. From April 2014, the Governance arrangements for shared services changed to a lead authority model. Watford Borough Council are responsible for providing the services of ICT, human resources, pest control and procurement whilst Three Rivers District Council are responsible for providing financial services and revenues & benefits. An executive board of senior management from both councils are responsible for these services. The role of the Board covers:

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

Community Engagement

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

39. The Council has established twelve neighbourhood forums, which mirror the Borough's ward boundaries and each has a devolved budget of £3,000. These are organised and managed by the relevant local councillors as part of their commitment to community leadership and engagement.

40. 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'.

41. A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the Borough's Citizens' Panel and wider community, which covers a range of areas relating to the Council's services and activities, including how it spends its money and prioritises areas for focus and improvement. The Citizens Panel is refreshed regularly to ensure it is representative of the Watford community. Local residents are also invited to attend the Mayor's regular information seminars or Forums, which help build understanding

across a range of areas including Council finances and the implications for future service delivery. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community.

REVIEW OF EFFECTIVENESS

42. In accordance with recent external audit guidance, the review of the effectiveness of the governance framework will focus upon significant weaknesses and the 'big picture'. If issues have not been highlighted, it is because current governance arrangements have proved fit for purpose.

43. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Annual Report of the Head of Assurance for the Shared Internal Audit Service 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 regular reviews and on a day to day basis.

The Council

44. Council comprises 36 Members and an Elected Mayor. The main roles are:

- To set Watford Borough Council's Budget and Policy Framework;
- To receive a report from the Mayor, which Councillors can then ask the questions related to the report;
- To receive questions from the public, which are then debated by the Councillors;
- To receive petitions from the public, which are debated by the Councillors;
- To receive questions from Councillors with their response, these are not debated;
- To receive motions from Councillors, which are then debated;
- To consider any recommendations from Committees or Working Parties.

45. Council met five times during 2019/20 and agendas, reports and minutes are available on the Council's website.

Cabinet

46. Cabinet comprises the Mayor and five members and makes decisions which are in line with the Council's overall policies and Budget. It is chaired by the Mayor and includes the Portfolio Holders.

47. Each Member of Cabinet (with one exception) has responsibility for a range of Council functions, known as a portfolio and each portfolio-holder is required to work closely with Directors and Group Heads of Service and develop an in-depth knowledge of their portfolio area.

48. The dates of all cabinet meetings are pre-published and all decisions have been taken in public apart from a small number of reports which were considered and determined after the press and public has been lawfully excluded. Agendas, reports and minutes of the meetings are available on the Council's website.

49. Cabinet met eight times during 2019/20.

The Review Committees

50. The Council has two review committees, Overview and Scrutiny Committee and Financial Scrutiny Committee. Their role is to scrutinise the decisions and performance of Cabinet and the Council as a whole.

51. Overview and Scrutiny Committee comprising nine members, is the over-arching scrutiny committee for Watford Borough Council. Its work includes:

- Reviewing called in Executive decisions made by Cabinet, Portfolio Holders and Officers;
- Reviewing the Council's performance measures;
- Monitoring the Executive decisions taken and the key decisions to be taken by Cabinet, Portfolio Holders and Officers;
- Monitoring the progress of recommendations from previous scrutiny reviews;
- Setting up Task Groups to review suggested topics for scrutiny;
- Monitoring the progress of Task Groups and agreeing the final reports;
- Setting a rolling scrutiny work programme.

The committee met eight times in 2019/20.

52. Finance Scrutiny Committee comprises eight members and its work includes:

- To examine the Medium Term Financial Plan;
- To examine the budget strategy for the relevant financial year;
- To review the service spending priorities for the relevant financial year;
- To challenge, question and test those strategies and plans;
- To examine the draft proposals for the following financial year's budget;
- To challenge if the proposals match the strategy and priorities;
- To forward comments on the budget proposals to Cabinet in time for its January budget meeting;

The Finance Scrutiny Committee met five times in 2019/20.

Member Panels

53. There have been a number of cross-party Member Panels and Task Groups to review and monitor various areas of Council activity, e.g. Mental Health Task Group – to look at current mental health provision in the borough and consider what more Watford Borough Council could do to support those living with mental health difficulties; Watford Colosseum Task Group – to review responses from private sector theatre operators about the future use of the venue following refurbishment works (March to November 2021); Health Services for the Deaf Task Group – to consider and facilitate a response to issues relating to the accessibility of health services for those who are profoundly deaf or with severe hearing loss.

Standards Committee

54. The Standards Committee is set up as and when required to consider matters of Member conduct. There was one meeting of this committee in 2019/20.

Members' Remuneration

55. Members' remuneration was reviewed in 2018 by an Independent Remuneration Panel, which was made up of four independent members. The report and recommendations of the Independent Remuneration Panel was approved by the Full Council as part of the Budget Council meeting, details of which are available on the Council's website. The Panel recommend that with

effect from April 2019 the Basic Allowance should be linked to local government pay settlements and increased accordingly.

56. The Independent Remuneration Panel now sits on a quadrennial basis and is therefore next due to meet in in 2022.

Senior Management

57. There are three Council Officers who have statutory appointments - the Managing Director's role as the Head of Paid Service, the Shared Director of Finance's role as the Section 151 Officer and the Group Head of Democracy & Governance as the Monitoring Officer.

58. Strategic Leadership Team comprises the three statutory appointments above, plus the following officers: Group Head of Community and Environmental Services, Group Head of Corporate Strategy & Communications, Group Head of Transformation, Group Head of Human Resources, Group Head of Place, Head of Finance and Head of Revenues and Benefits. Strategic Leadership Team meet every month. Operational Leadership Team comprises the Head of IT, Head of Customer Services, Head of Legal Services, Finance Manager, Head of Transportation, Head of Housing, Head of Parks and Culture, and HR Manager, it also meets monthly.

Performance Management

59. Performance management follows a ‘cascade’ principle. The Council approves its Corporate Plan annually and highlights key aspirations and targets including a series of objectives to be achieved in the year ahead. This Corporate Plan then cascades down to individual service plans, which in turn translates into team and individual work plans. Performance is monitored regularly by Leadership Team and through Heads of Service, Cabinet Members, Overview and Scrutiny Committee and Outsourced Services Scrutiny Panel. Performance reviews also include consideration of complaints and progress against the Council’s equalities agenda.

60. The Council keeps residents and stakeholders informed of its progress through a publication called ‘About Watford’ which is delivered to every household and covers key issues, events and challenges. It also has a large social media following across Facebook, Twitter and Instagram platforms which are becoming a significant channel for communicating and engaging with residents.

Procurement

61. The Council aims to use its resources efficiently, effectively and economically.

62. The Council has a robust set of documentation to provide guidance and advice to Members and officers to ensure that Procurement is carried out in an effective and ethical manner. This documentation includes Contract Procedure Rules and a Contract Management Toolkit. These documents are regularly reviewed to reflect changes in local requirements and EU policy and legislation.

The Audit Committee

63. The Audit Committee comprises five members and met four times during 2019/20.

64. The Audit Committee’s terms of reference are consistent with best practice. The Committee approves the annual plan of internal audit and receives the quarterly and annual reports of the Head of Assurance for the Shared Internal Audit Service. It approves the Statement of Accounts, the annual governance statement and the review of the effectiveness of the internal audit system. It receives reports on risk management and reviews the operation of treasury management. It also received the annual letter from the Ombudsman and considers regular reports upon

Freedom of Information requests, risk management and the Regulation of Investigatory Powers Act.

Internal Audit

65. Internal Audit is an assurance function that provides an independent and objective opinion to the Council on its control environment - this comprises the systems of governance, internal control and risk management - by evaluating its effectiveness in achieving the organisation's objectives.

66. The internal audit function is carried out, by the Shared Internal Audit Service (SIAS), a local internal audit partnership hosted by Hertfordshire County Council. This provides greater independence and resilience and a positive step in improving governance. Internal Audit carry out a programme of reviews during the year which are based upon a risk assessment including fraud risk. The audit plan is approved by Audit Committee in March of the preceding year. As part of these audits, any failures to comply with legislation, council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to senior officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported in quarterly reviews to Audit Committee and to Leadership Team.

67. In line with Public Sector Internal Audit Standards, an Annual Assurance Statement and Internal Audit Report is compiled and presented to the first Audit Committee of each year, which:

- Includes an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- Discloses any qualifications to that opinion, together with any reasons for the qualification.
- Draws attention to any issues which are judged particularly relevant to the preparation of the Annual Governance Statement.

68. The SIAS Head of Assurance Annual Report is a key source document for the Council's Annual Governance Statement. For 2019/20 this Report includes the following statements:

- In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2019/20.
- A satisfactory assurance opinion is given on the adequacy and effectiveness of both financial systems and non-financial systems in the internal control environment, based on the internal audits completed in the year**.** The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements. There are no qualifications to this assurance.

The Council's External Auditors

69. External auditors, Ernst & Young LLP, provide an external review function through the audit of the annual accounts, assessment of value for money, certification of grant claims and the periodic inspection of services such as revenues and benefits. The Annual Audit Letter is circulated to all Members and formally reported to Cabinet and the Audit Committee.

70. The Annual Audit Letter 2018/19 was presented to the Audit Committee in July 2019 and the main conclusions for the year were:

- The 2018/19 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council; and

- The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

71. The Local Government contract for the Council was awarded to EY (Ernst & Young LLP) following re-tendering by the Audit Commission ahead of its abolition in March 2015. In December 2017 EY were appointed by PSAA as auditor for Watford Borough Council for 2018/19 onwards.

SIGNIFICANT GOVERNANCE ISSUES

72. The ‘normal’ running of Council business has and can be controlled through the governance framework detailed in this report. No significant governance issues have bene identified for 2019/20 and no outstanding matters were brought forward from 2018/19.

73. Coronavirus (COVID-19) – whilst the coronavirus is not a specific governance issue, the impact of this national crisis does need to be noted. There has been some financial impact in 2019/20 on the management accounts for the year, with reduced income and additional expenditure, however, the full financial impact of Coronavirus is not likely to be clear for some time yet and is currently being closely monitored, including via regular returns to Government. In the short-term there will be additional reporting to members and ongoing review of the budget position for 2020/21. To date Watford Borough Council has received a total of £1.159m of emergency Government funding.

Certification Statement from the Elected Mayor and the Managing Director

74. We propose to take steps over the coming financial year to address the above matters to further enhance our governance arrangements. We will also monitor the implementation of any audit recommendations that arise during the course of the year.

Signed ____________________________ Date ______________

Peter Taylor - Mayor

Signed ____________________________ Date ______________

Donna Nolan - Managing Director

EXPLANATION OF CORE FINANCIAL STATEMENTS

Statement of Movement in Reserves (Page 21)

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

Comprehensive Income and Expenditure Statement (Page 22)

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

Balance Sheet (Page 23)

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

Cash Flow Statement (Page 24)

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

MOVEMENT IN RESERVES STATEMENT

2019/20	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2019		**(1,999)**	**(19,492)**	**(1)**	**(4,228)**	**(25,720)**	**(203,875)**	**(229,595)**
Total Comprehensive income and expenditure		(88,213)				(88,213)	(40,382)	**(128,595)**
Adjustments between accounting basis, and funding basis under regulations	**8**	62,439		(27)	(71,423)	(9,011)	9,011	**0**
Transfer to\from Earmarked Reserves		25,482	(24,807)			675	(675)	**0**
Total Increase\(decrease) during the year		**(292)**	**(24,807)**	**(27)**	**(71,423)**	**(96,549)**	**(32,046)**	**(128,595)**
Balance as at 31 March 2020		**(2,291)**	**(44,299)**	**(28)**	**(75,651)**	**(122,269)**	**(235,921)**	**(358,190)**

2018/19 Restated	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2018		**(1,415)**	**(16,351)**	**(987)**	**(2,159)**	**(20,912)**	**(207,222)**	**(228,134)**
Total Comprehensive income and expenditure		(2,937)				(2,937)	1,476	(1,461)
Adjustments between accounting basis, and funding basis under regulations	**8**	(1,567)		986	(2,069)	(2,650)	2,650	0
Transfer to\from Earmarked Reserves		3,920	(3,141)			779	(779)	0
Total Increase\(decrease) during the year		**(584)**	**(3,141)**	**986**	**(2,069)**	**(4,808)**	**3,347**	**(1,461)**
Balance as at 31 March 2019		**(1,999)**	**(19,492)**	**(1)**	**(4,228)**	**(25,720)**	**(203,875)**	**(229,595)**

CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19 Restated					2019/20		
Gross Spend	Gross Income	Net Spend			Gross Spend	Gross Income	Net Spend
£'000	£'000	£'000		Note	£'000	£'000	£'000
			Services				
1,198	(9)	1,189	Corp Strategy & Client Services		1,315	(81)	1,234
14,445	(3,146)	11,299	Community Services		15,845	(3,642)	12,203
4,673	(1,001)	3,672	Democracy & Governance		2,513	(567)	1,946
753	(75)	678	Human Resources		673	(46)	627
12,735	(5,568)	7,167	Place Shaping & Performance		11,299	(4,569)	6,730
3,856	(46)	3,810	Service Transformation		6,458	(292)	6,166
39,627	(35,233)	4,394	Strategic Finance		35,328	(31,282)	4,046
77,287	**(45,078)**	**32,209**	**Cost of Services**		**73,431**	**(40,479)**	**32,952**
		(7,635)	Other Operating (Income)*	9			(10,735)
		(11,610)	Financing and Investment (Income)	10			(1,597)
		(15,901)	Taxation and Non-Specific Grant Income	11			(108,833)
		(2,937)	**Surplus(-)/Deficit on Provision of Services**				**(88,213)**
		(2,353)	(Surplus)/Deficit on Revalution of PPE	21(a)			(18,676)
		3,829	Re-measurement of the net defined benefit liability	33			(21,706)
		1,476	Other Comprehensive (Income)				**(40,382)**
		(1,461)	**Total Comprehensive (Income)/Expenditure**				**(128,595)**

*Please note that the substantial increase in Taxation and Non-specific Grant Income relates to the Croxley Park receipt which has been applied to the Capital Grants and Contributions reserve (£68m) and also the Croxley Park Reserve (£22.7m).

CORE FINANCIAL STATEMENTS

BALANCE SHEET

17/18 (Restated)	2018/19 (Restated)			2019/20
£'000	£'000			£'000
100,828	106,242	Property, Plant and Equipment	21	369,526
3,055	2,238	Assets Under Construction	21	1,331
1,945	1,978	Heritage Assets	22	2,609
830	2,146	Surplus Assets	23	2,600
169,339	171,711	Investment Properties	23	161,448
2,419	2,570	Long Term Investments	26	2,870
20,854	20,899	Long-Term Debtors	26	18,441
299,270	**307,784**	**Total Long term Assets**		**558,825**
0	0	Assets Held For Sale		0
16	17	Inventories		20
10,707	6,734	Short-Term Debtors	27	10,641
0	2,004	Short-Term Investments	28	94,413
15,992	4,932	Cash and Cash Equivalents	28	10,351
26,715	**13,687**	**Total Current Assets**		**115,425**
(25,354)	(15,462)	Short-Term Creditors	30	(24,061)
0	(7,500)	Short-Term Borrowing	30	(15,000)
(25,354)	**(22,962)**	**Total Current Liabilities**		**(39,061)**
(7,418)	86	Long-Term Creditors	31	(231,822)
(7,030)	(5,946)	Provisions	32	(2,987)
(58,049)	(63,053)	Defined Benefit Pension Scheme	33	(42,191)
(72,497)	**(68,913)**	**Total Long Term Liabilities**		**(277,000)**
228,134	**229,596**	**Net Assets**		**358,189**
		Reserves		
(20,912)	(25,720)	Usable Reserves	35	(122,269)
(207,222)	(203,875)	Unusable Reserves	36	(235,920)
(228,134)	**(229,595)**	**Total Reserves**		**(358,189)**

Signed: Date: 10 March 2022
Alison Scott, CIPFA
Director of Finance

Signed: Date: 10 March 2022
Mark Hofman
Chairman of Audit Committee

CASH FLOW STATEMENT

2019 (Restated)				2020	
£'000	**£'000**		**Note**	**£'000**	**£'000**
2,937		Net surplus on the provision of services	CIES	88,213	
4,226		Adjustments to net surplus or deficit on the provision of services for non cash movements	29a	24,434	
3,086		Adjustments for items that are outflows in provision of services from investing and financing activities	29a	298,509	
	10,250	Net cash outflows from Operating Activities			**411,156**
(10,792)		Investing Activities inflows	29b	(406,465)	
(4,518)		Financing Activities inflows	29c	728	
	(5,060)	Net increase in cash and cash equivalents			**5,419**
	9,991	**Cash and Cash equivalents at the beginning of the reporting period**			**4,931**
	4,931	Cash and Cash equivalents at the end of the reporting period	28		**10,350**

NOTES TO THE CORE FINANCIAL STATEMENTS

1 Accounting Policies - Single Entity and Group Accounts

1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, 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 2019/20 and the CIPFA Service Reporting Code of Practice 2019/20 (SERCOP). SERCOP does not prescribe guidance on the Statement of Accounts. This is provided by the Code, 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. The Statement of Accounts has been prepared on a 'going concern basis.

1.02 Turnover (for Group Accounts)

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

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

1.03 Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract

Where revenue and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.04 Cash and Cash Equivalents

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. The Council has no overdraft facility.

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

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

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See Note 4 for an outline of PPA's within this set of accounts.

1.06 Charges to Revenue for Long Term Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These entries are adjusted through 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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

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

The Local Government Pension Scheme

- the Local Government Scheme is accounted for as a defined benefits scheme
- the liabilities of Hertfordshire County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 2.3% (based on the indicative rate of return on high quality corporate bonds);
- the assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Council are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS) 19. Full details of the assets held by the Fund are disclosed as part of the Pension scheme disclosure.

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

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

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

Discretionary Benefits

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

1.08 Financial Instruments

Financial Liabilities

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

Financial Assets - Loans and Receivables

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument)

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its material financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to material lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Expected Credit Loss Model is not applied to debts related to Council Tax and Non Domestic Rates.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices –the market price
- other instruments with fixed and determinable payments –discounted cash flow analysis.

1.09 Government Grants and Contributions

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

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

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

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

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

1.10 Intangible Assets

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

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

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

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

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

Where there is intangible asset expenditure of an immaterial nature, the Council's policy is that these be capitalised and then written off in-year.

1.11 Inventories and Long Term Contracts

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

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

1.12 Investment Property

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

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

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

1.13 Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:-

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

1.14 Overheads and Support Services

The costs of overheads and support services are not charged to those service segments that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2016/17 (SERCOP).

But the costs of overheads and support services are accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

1.15 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

It should be noted that at present the Council has no donated assets.

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

- Infrastructure, community assets and assets under construction — depreciated historical
- 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. In addition, should current valuations of a similar class of asset suggest material differences in valuations, the entire class to which the asset belongs would be revalued. The current valuers have undertaken a market review of individual asset types within the Council's portfolio at year end to identify any material changes to the fair value of assets. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified:

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

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

Impairment

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

When impairment losses are identified:

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

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

Depreciation

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

Deprecation is calculated on the following bases:-

- Buildings — straight-line allocation over the useful life of the asset as estimated by the valuer - up to 70 years
- Vehicles — straight-line over the estimated life of the asset - up to 20 years
- Plant, furniture and equipment — straight-line over the estimated life of the asset - up to 20 years
- Infrastructure — straight-line over the estimated life of the asset - up to 25 years
- Finance leases — over the life on the underlying asset or over the life of the lease where there is no option to acquire the asset at the end of the lease.

Please note, to ensure consistency across the Councils policies, the previous accounting policy of depreciating some plant, furniture and equipment has been changed from reducing balance to straight-line. This now means all Councils assets if depreciated are depreciated based on a straight-line basis. The impact was immaterial.

Depreciation commences in the year following acquisition.

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

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 of Non-current Assets

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

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

Construction Contracts

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

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

1.16 Heritage Assets

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

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

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

1.17 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

The level of provisions are reviewed annually by the Council.

Contingent Liabilities

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

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

Contingent Assets

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

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

1.18 Reserves

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

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

1.19 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 Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.20 Value Added Tax (VAT)

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

1.21 Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other organisations, that involve the use of assets and resources of the Council and organisations without the establishment of a separate legal entity.

The Council recognises the assets and liabilities it controls on the Council's balance sheet. Expenditure incurred by the Council and income it earns from the operation is included in the Council's CI&E.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other organisations. The assets being used to obtain benefit to the Council and organisations. The arrangement does not involve the formation of a legal entity.

The Council accounts for only its share of jointly controlled assets, liabilities and expenses incurred in respect of its interest in the arrangement.

An agreement exists between Dacorum Borough Council, Hertsmere Borough Council, St Albans City & District Council, Three Rivers District Council and Watford Borough Council to constitute a West Herts Crematorium Joint Committee under the Local Government Act 2000.

The Joint Committee has one member from each of the constituent Councils. One Watford Councillor represents the Council on the Joint Committee. The Council's Managing Director is the Clerk to the Joint Committee. Three Rivers District Council provide the Treasurer.

1.22 Single Entity Financial Statements

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

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

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

- its subsidiary undertakings,
- its investments in associates, and

- its interests in joint ventures (jointly controlled entities); presented as a single economic entity.

Subsidiary undertakings are accounted for in accordance with the implementation of IAS27 (International Accounting Standard 27) in the 2019/20 Code. The 2019/20 Code requires consolidation of subsidiaries. Consolidation is a method of accounting whereby an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, reserves, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:-

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

Investments in associates are accounted for in accordance with the implementation of IAS28 in the Code. The Code requires the consolidation of an entity's interest in associates. Joint ventures are accounted for in accordance with the implementation of IFRS 11 in the Code. The Code requires use of the "equity method" of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the investor's share of the net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Taxation (for Group Accounts)

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

Subscription and Repayment of Members’ Capital (for Group Accounts)

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

Allocation of Profits and Drawings (for Group Accounts)

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

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

Work in progress (for Group Accounts)

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

1.24 Fair Value

The Council measures some of its non-financial assets, such as surplus assets and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices,
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly,
- Level 3 – unobservable inputs for the asset or liability.

2 Accounting Standards that have been issued but have not yet been adopted

The Council is required to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued, but has not yet been adopted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

For 2019/20 the following accounting standard changes that need to be reported relate to:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

- IAS 19 Employee Benefits will require the re-measurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

- IAS 28 Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures. This amendment clarifies that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate of joint venture. This will have no impact on the Council.

3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgement in the Statements of Accounts is the level of uncertainty about future levels of funding for local government. However, the Council has planned to make savings to compensate for reductions in funding. These savings will result predominantly from efficiencies and not reduced level of services, so the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

The Council has a well-established shared service arrangement with Three Rivers District Council for ICT, HR, Finance and Revenues & Benefits services. These working arrangements and future related changes will not reduce the level of service provided by the Council. Therefore the council believe that it is not necessary to impair any non-current assets in light of this arrangement.

4 Prior Period Adjustments

As referenced in our Narrative Statement, we have made some material changes to figures from previous years' accounts, these are highlighted in this section. Readers of the accounts will see the rationale for the change and how this is affected the comparative figures in the notes to the accounts and the primary statements.

Following the conclusion of the audit, there have been a number of prior period adjustments which have been applied to the accounts to present an updated position and to ensure that brought forward balances also reflect prior year changes. The areas in which prior year adjustments have been made are summarised below.

Fixed Assets, held as Property Plant and Equipment (PPE), Investment Property (IP), Assets Let Out under Finance Leases and Rent to Mortgage Properties have been adjusted for incorrect classifications and valuations, as shown in the following disclosures:

a) PPE Classifications and Valuations
b) IP and Surplus Asset Classifications and Valuations
c) Finance Lease Asset Classification.
d) Rent to mortgage properties – See 4d below.

The following items have also been adjusted

e) Operating lease disclosure – leases that have been disposed pre-Prior Year 18/19 have been incorrectly included in the PY operating leases disclosure; Prior Year operating lease comparatives to be restated;
f) Financial instruments disclosure – See 4f below.

The following tables provide the detail behind the changes to the numbers.

Fixed Asset Adjustments – Commentary

This year, the auditors have looked in great depth at our reporting arrangements for Property, Plant and Equipment. This has highlighted a number of classification issues and some additions which have not been linked to a particular asset. We also work on a five-year rolling basis for revaluations and to ensure that values are appropriate in years when they have not been valued, an indexation factor has been applied. Hence, the revaluations have increased. These indexed adjustments will crystallise when the assets are revalued as part of the rolling programme.

We have therefore made a number of changes to ensure that the closing balances in the Balance Sheet are correct. Each of the following tables summarises the impact on each class of fixed asset but does not itemise the movements between the fixed asset classes.

4a) PPE Classification and Valuation Adjustments

Opening Balances have been corrected for misclassification of assets prior to 1 April 2018.

The restatement of PPE entries for 2018/19 is as follows:

PPE 2018/19 Opening Balance Adjustments (B/f From 2017/18)	Assets Under Constr'n	Land & Building	Plant & Equipment	Infra-Structure	Total
Cost or Valuation as at 01/04/2018					
Originally Stated	1,424	85,992	26,762	3,123	**117,301**
Restated	3,055	98,309	25,428	4,233	**131,025**
Amount of Restatement	**1,631**	**12,317**	**(1,334)**	**1,110**	**13,724**
Accumulated Depreciation and Impairment as at 01/04/2018					
Originally Stated	0	(5,969)	(19,445)	(2,436)	**(27,850)**
Restated	0	(5,699)	(18,937)	(2,506)	**(27,142)**
Amount of Restatement	**0**	**270**	**508**	**(70)**	**708**
Balance Sheet Value as at 01/04/2018					
Originally Stated	1,424	80,023	7,317	687	**89,451**
Restated	3,055	92,610	6,491	1,727	**103,883**
Amount of Restatement	**1,631**	**12,587**	**(826)**	**1,040**	**14,432**

PPE 2018/19 In-Year Adjustment	Assets Under Constr'n	Land & Building	Plant & Equipment	Infra-Structure	Total
Additions					
Originally Stated	0	2,679	5,291	16	**7,986**
Restated	607	2,332	1,017	4,030	**7,986**
Amount of Restatement	**607**	**(347)**	**(4,274)**	**4,014**	**0**
Revaluation Increases / (Decreases)					
Recognised In the Revaluation Reserve					
Originally Stated	0	1,119	0	0	**1,119**
Restated	0	2,030	0	0	**2,030**
Amount of Restatement	**0**	**911**	**0**	**0**	**911**

Recognised in the Surplus/Deficit on Provision of Services					
Originally Stated	(1,424)	(75)	0	0	**(1,499)**
Restated	(1,424)	(332)	0	0	**(1,756)**
Amount of Restatement	**0**	**(257)**	**0**	**0**	**(257)**
Derecognition (Disposals)					
Originally Stated	0	(345)	0	0	**(345)**
Restated	0	(172)	(490)	(9)	**(671)**
Amount of Restatement	**0**	**173**	**(490)**	**(9)**	**(326)**
Assets Reclassified					
Originally Stated	0	176	0	0	**176**
Restated	0	1,365	0	0	**1,365**
Amount of Restatement	**0**	**1,189**	**0**	**0**	**1,189**
Cost/Valuation 31/3/2019					
Originally Stated (A1)	0	89,546	32,053	3,139	**124,738**
Restated (B1)	2,238	103,532	25,955	8,254	**139,979**
Amount of Restatement	**2,238**	**13,986**	**(6,098)**	**5,115**	**15,241**
Depreciation Charge					
Originally Stated	0	(3,019)	(2,752)	(349)	**(6,120)**
Restated	0	(2,487)	(1,992)	(600)	**(5,079)**
Amount of Restatement	**0**	**532**	**760**	**(251)**	**1,041**
Other Depreciation Movements					
Originally Stated	0	0	0	0	**0**
Restated	0	223	490	9	**722**
Amount of Restatement	**0**	**223**	**490**	**9**	**722**
Accumulated Depreciation and Impairment as at 01/04/2018					
Originally Stated (C1)	0	(8,988)	(22,197)	(2,785)	**(33,970)**
Restated (D1)	0	(7,963)	(20,439)	(3,097)	**(31,499)**
Amount of Restatement	**0**	**1,025**	**1,758**	**(312)**	**2,471**
Balance Sheet Value 31/3/19					
Originally Stated (A1+C1)	0	80,558	9,856	354	**90,768**
Restated (B1+D1)	2,238	95,569	5,516	5,157	**108,480**
Amount of Restatement	**2,238**	**15,011**	**(4,340)**	**4,803**	**17,712**

The Balance Sheet has been affected as illustrated in the tables. The revised prior year balance sheets have been provided in the main body of the accounts.

The adjustments we have made to the valuations have also affected the Comprehensive Income and Expenditure Statement (CIES), but it is important to stress that these changes due to revaluation are mitigated in local government accounts so there is no effect on the "bottom line" and the charge to council tax payers.

The following extracts show how the CIES was affected:

	2018/19 £000	As Restated £000	Change £000
(Surplus)/Deficit on Revaluation of non-current assets not posted to the Provision of Services	(1,212)	(2,353)	(1,141) increase
	2017/18	**As Restated**	**Change**
(Surplus)/Deficit on Revaluation of non-current assets not posted to the Provision of Services	(0.983)	(14,923)	(13,940) increase*

*NB. The amendments relating to previous years were actioned in the 17/18 account figures.

The changes in valuation and the reclassifications affect the Movement in Reserves (MIRS) analysis. The following is an extract of the MIRS showing the line in which this change is shown.

	2018/19 Originally Stated £000	Restated £000	Change £000
Total Comprehensive income and expenditure charged to Unusable Reserves in relation to Revaluations	2,617	1,476	1,141 decreased charge
	2017/18	**As Restated**	**Change**
Total Comprehensive income and expenditure charged to Unusable Reserves in relation to Revaluations	(7,160)	(21,100)	(13,940) increased income*

Note 8: Adjustments between accounting basis and funding basis under regulations reflect the way that in local government accounts these revaluations are mitigated. This note has therefore been updated to show this movement. The comparative year has been restated in the note on page 51.

The Cashflow Statement tracks the movement in cash movements and no-cash movements through the accounts. Revaluations are a non-cash movement, as are re-classifications, so these have changed the following in the cashflow analysis:

2019 Previously				2019 (Restated)		Difference
£'000	£'000		Note	£'000	£'000	
3,765		Net surplus on the provision of services	CIES	2,937		(828)
3,398		Adjustments to net surplus or deficit on the provision of services for non cash movements	29a	4,226		828
3,085		Adjustments for items that are outflows in provision of services from investing and financing activities	29a	3,086		1
	10,248	Net cash inflows from Operating Activities			**10,250**	**2**
(10,797)		Investing Activities outflows	29b	(10,792)		5
(4,510)		Financing Activities outflows	29c	(4,518)		(8)
	(5,059)	Net increase in cash and cash equivalents			**(5,060)**	**(1)**
	9,991	**Cash and Cash equivalents at the beginning of the reporting period**			**9,991**	**0**
	4,932	**Cash and Cash equivalents at the end of the reporting period**	28		**4,931**	**(1)**

The **Group Accounts** reflect the Council's accounts and include the interests the Council has in other relevant organisations. The Group Accounts statements have therefore been updated to reflect the prior year changes.

4b) Investment properties and Surplus Assets

During 2018/19 we had wrongly classified some properties (leisure centres) as Investment Properties, these have now been moved. This amendment changes the Investment Property note 23, along with other changes related to classification movements within PPE and Surplus Assets. The changes are summarised in the tables on the following pages

2018/19	Investment Properties	Surplus Assets	Total
	£'000	£'000	£'000
Valuation at 01/04/2018			
Originally Stated	168,950	605	**169,555**
Restated	169,339	830	**170,169**
Amount of Restatement	**389**	**225**	**614**
Revaluation Increases / (Decreases)			
Originally Stated	3,878	60	**3,938**
Restated	2,028	171	**2,199**
Amount of Restatement	**(1,850)**	**111**	**(1,739)**
Derecognition			
Originally Stated	(285)	(305)	**(590)**
Restated	(285)	(347)	**(632)**
Amount of Restatement	**0**	**(42)**	**(42)**
Assets Reclassified			
Originally Stated	(1,896)	1,660	**(236)**
Restated	(2,857)	1,492	**(1,365)**
Amount of Restatement	**(961)**	**(168)**	**(1,129)**
Valuation at 31/03/2019			
Originally Stated	174,133	2,021	**176,154**
Restated	171,711	2,146	**173,857**
Amount of Restatement	**(2,422)**	**125**	**(2,297)**

4c) Finance Lease Assets

Two Assets which were classified as being let under finance lease and therefore recognised in Long Term Debtors were found to be misclassified. The amendment has changed our Long Term Debtor note and the Balance Sheet. One asset was found to be an Investment Property, and one was found to be an operational asset, thus the amendment has changed Note 21 Property Plant and Equipment and Note 23 Investment Property. The assets were subsequently revalued. The impact of these changes are captured in tables 4a) and 4b) respectively.

4d) Rent to Mortgage Properties

We have a number of properties which are part owned by the Council and part owned by the tenant. We have previously carried the Council element as a Long Term Debtor. This was incorrect. The amendments have therefore changed our Long Term Debtor note and the Balance Sheet. As the Council element should have been shown as a property asset, the amendment has change our Fixed Asset Register and hence Note 21 Property Plant and Equipment.

The Long Term Debtor relating to these mortgages has now been removed and reclassified as Property. They have also been subsequently revalued. The impact of this change is included in table 4a).

4e) Operating leases

We had some leases which we had previously disposed of but were still inadvertently included in our figures. These extinguished leases have been removed from the operating lease note.

2018/19		2018/19
		RESTATED
£'000		£'000
677	Leases rolling over regularly	677
6,163	Not later than one year	5,933
23,425	Later than one year and not later than five years	22,500
169,624	Later than five years	144,800
199,889	**Balance as at 31 March carried forward**	**173,910**

4f) Financial Instruments – Note 37

We have revised our Financial Instrument note from that reported in the draft accounts as it did not comply fully with the CIPFA Code of Practice requirements. We also had a £6.734m investment in Watford Health Campus LABV which needed to be added to the prior year financial assets disclosure. The details within Note 37 have therefore been fully updated and we have separated out the financial instruments into current and non-current and classified them under Fair Value through Profit and Loss; Fair Value through Operating CI and amortised cost. An additional note has been added to disclose the Fair Value gain or loss on these Financial Instruments.

5 Events after the Balance Sheet date

There are no known events that would have material impact on the Council's position as at 31 March 2020. The draft Statement of Accounts was authorised for issue by the Section 151 Officer on 30 November 2020.

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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

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

The Items in the Council's Balance Sheet at 31 March 2020 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Impact
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it possible that the Council will be unable to sustain its current spending on repairs and maintenance, bringing in to doubt the useful lives assigned to assets. Due to the effects of Covid-19 on the property market the Council's valuer Avison Young have provided valuations reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, they advise that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. The impact of different valuations would have an impact on the value of non-current assets and reserves on the Balance Sheet changing both by the same amount.
Investment Properties	Due to the effects of Covid-19 on the property market the Council's valuer Avison Yung have provided valuations reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, they advise that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.	The impact of different valuations would have an impact on the value of non-current assets and reserves on the Balance Sheet changing both by the same amount.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to: the discount rate used; the rate at which salaries are projected to increase; changes in the retirement ages; mortality rates; and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied The ongoing impact of the Covid19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and	The effects of these individual assumptions can have a major impact on the pension liability calculation. During 2019/20, The Council's actuaries advised that the net pension's liability had decreased by £21.3m as a result of estimates and assumptions being updated.

	infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy.	
Arrears	At 31 March 2020, the Council had a short term sundry debtor balance of £16,135k. A review of significant balances suggested a provision for bad debts of £5,494k was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient. See Note 27. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.	If collection rates were to deteriorate an increasing level of doubtful debts would require an additional amount to be put aside as a bad debt provision for additional bad debt write offs.
Domestic Rates Appeals Provision	The provision for NDR Appeals includes an assessment of the appeals lodged to 31st March 2020, plus an estimate of the appeals not yet lodged.	If NDR appeals were to significantly increase, the provision would have to be reassessed and increased. The increased liability would be shared between the Council, Central Government and County Council.

Fair Value Estimations	When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques: For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; For level 3 inputs, valuations based on: - Most recent valuations adjusted to current valuation by the use of indexation and impairment review. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of The Council's assets and liabilities.Where Level 1 inputs are not available, the authority employs RICS (Royal Institution of Chartered Surveyors) qualified valuers to identify the most appropriate valuation techniques to determine fair value.All valuations are carried out in accordance with the methodologies and bases for estimation set out in the RICS professional standards. The Council's valuation experts work closely with finance officers reporting directly to the chief financial officer on a regular basis regarding all valuation matters.	The Council uses combination of indexation techniques, beacon valuations and discounted cash flow (DCF) models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13, depending on which technique it considers most appropriate.The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.

7 (a) Expenditure and Funding Analysis

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2018/19 Restated				2019/20		
Net Expenditure chargeable to General Fund	Adjustments	Net Expenditure in the CIES		Net Expenditure chargeable to General Fund	Adjustments	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
1,166	23	1,189	Corp Strategy & Client Services	1,233	1	1,234
9,387	1,912	11,299	Community Services	9,561	2,642	12,203
3,244	428	3,672	Democracy & Governance	1,943	3	1,946
679	(1)	678	Human Resources	625	2	627
(6,246)	13,413	7,167	Place Shaping & Performance	(10,192)	16,922	6,730
3,628	182	3,810	Service Transformation	5,255	911	6,166
9,499	(5,105)	4,394	Strategic Finance	14,694	(10,648)	4,046
21,357	**10,852**	**32,209**	**Net Cost of Services**	**23,120**	**9,832**	**32,952**
(25,861)	(9,285)	(35,146)	Other Income and Expenditure	(48,894)	(72,271)	(121,165)
(4,504)	**1,567**	**(2,937)**	**(Surplus) on Provision of Services**	**(25,774)**	**(62,439)**	**(88,213)**
3,920			Transfer (from)\to Reserves	25,482		
(584)			**(Surplus) as per Outturn**	**(292)**		
(1,415)			**Opening General Fund Balance**	**(1,999)**		
(4,504)			(Surplus) on Provision of Services	(25,774)		
3,920			Transfer to Earmarked Reserves	25,482		
(1,999)			**Closing General Fund Balance**	**(2,291)**		

(b) Note to Expenditure and Funding Analysis

2018/19 Restated					2019/20			
Adjustments for capital purposes	Net change for the pension adjustments	Other Difference	Total Adjustments		Adjustments for capital purposes	Net change for the pension adjustments	Other Difference	Total Adjustments
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
0	0	23	23	Corp Strategy & Client Services	0	0	1	1
2,079	0	(167)	1,912	Community Services	2,844	0	(202)	2,642
430	0	(2)	428	Democracy & Governance	0	0	3	3
0	0	(1)	(1)	Human Resources	0	0	2	2
4,455	0	8,958	13,413	Place Shaping & Performance	2,893	0	14,029	16,922
632	0	(450)	182	Service Transformation	1,097	0	(186)	911
14	(329)	(4,790)	(5,105)	Strategic Finance	552	(665)	(10,535)	(10,648)
7,610	**(329)**	**3,571**	**10,852**	**Net Cost of Services**	**7,386**	**(665)**	**3,111**	**9,832**
(10,765)	1,504	(24)	(9,285)	Other Income and Expenditure	(67,785)	1,509	(5,995)	(72,271)
(3,155)	**1,175**	**3,547**	**1,567**	**Difference between General Fund (surplus) and Comprehensive Income and Expenditure Statement (surplus)**	**(60,399)**	**844**	**(2,884)**	**(62,439)**

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8 Adjustments between accounting basis and funding basis under regulations

2019/20	General Fund	Capital Receipts	Capital Grants	Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the CIES:				
Charges for depreciation, impairment and revaluation losses	(6,092)			6,092
Movements in the market value of Investment Properties	(12,464)			12,464
Revenue Expenditure Funded from Capital Under Statute	(1,073)			1,073
Amortisation of intangible assets	(221)			221
Amounts of non-current assets written off on disposal or sales as part of the gain/loss on disposals	(1,288)			1,288
MRP transfer to CAA	83			(83)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	75,615		(75,615)	
Application of grants to capital financing transferred to the CAA			4,192	(4,192)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of gain/loss on disposal to the CIES	5,839	(5,839)		
Capital Receipts applied		5,812		(5,812)
Transfer (from)/to the Deferred Capital Receipts upon receipt of cash				0
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	(4,536)			4,536
Employer's pensions contributions and direct payments to pensioners payable in the year	3,692			(3,692)
Adjustments primarily involving the Collection Fund Adjustments Accounts:				
Amount by which council tax & business rates income credited to the CIES is different from statutory requirements	2,898			(2,898)
Adjustments primarily involving the Accumulated Absences Accounts:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from statutory requirements.	(14)			14
	62,439	**(27)**	**(71,423)**	**9,011**

2018/19 Restated	General Fund	Capital Receipts	Capital Grants	Unusable Reserves
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the CIES:				
Charges for depreciation, impairment and revaluation losses	(6,903)			6,903
Movements in the market value of Investment Properties	2,028			(2,028)
Revenue Expenditure Funded from Capital Under Statute	(209)			209
Amortisation of intangible assets	(45)			45
Amounts of non-current assets written off on disposal or sales as part of the gain/loss on disposals	(632)			632
Other adjustments				
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	4,475		(4,475)	
Application of grants to capital financing transferred to the CAA			2,405	(2,405)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of gain/loss on disposal to the CIES	4,441	(4,441)		
Capital Receipts applied		5,427		(5,427)
Transfer (from)/to the Deferred Capital Receipts upon receipt of cash				
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	(4,767)			4,767
Employer's pensions contributions and direct payments to pensioners payable in the year	3,592			(3,592)
Adjustments primarily involving the Collection Fund Adjustments Accounts:				
Amount by which council tax & business rates income credited to the CIES is different from statutory requirements	(3,511)			3,511
Adjustments primarily involving the Accumulated Absences Accounts:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from statutory requirements.	(36)		1	35
	(1,567)	**986**	**(2,069)**	**2,650**

NOTES TO THE CORE FINANCIAL STATEMENTS

9 Other Operating Income and Expenditure

2018/19 Restated		2019/20
£'000		£'000
(572)	(Gains) on Disposal of Non-Current Assets	(634)
(3,236)	Unattached Capital Receipts	(3,917)
(3,827)	Other Operating (Income)	(6,184)
(7,635)		**(10,735)**

10 Financing and Investment Income and Expenditure

2018/19 Restated		2019/20
£'000		£'000
0	Interest Payable and Similar Charges	3,962
1,504	Net Interest on the Net Defined Benefit Liability/(Asset)	1,509
(2,762)	Interest Receivable and Similar Income	(5,891)
(8,325)	(Income) in Relation to Investment Properties	(13,641)
(2,028)	Investment Properties - Changes in their Fair Value	12,464
(11,611)		**(1,597)**

11 Taxation and Non Specific Grant Incomes

2018/19		2019/20
£'000		£'000
(8,694)	Council Tax Income	(8,975)
(2,884)	Non-domestic Rates Income and Expenditure	(4,709)
(1,179)	Non-ringfenced Government Grants	(721)
(3,144)	Capital Grants & Contributions	(3,679)
0	Contribution in respect of Croxley Business Park	(90,749)
(15,901)		**(108,833)**

12 Expenditure and Income analysed by Nature

2018/19 Restated		2019/20
£'000		£'000
(7,169)	Fees and Charges	(7,223)
(13,115)	Net Interest and Investment Income	(7,068)
(11,578)	Income From Council Tax and Business Rates	(13,684)
(7,063)	Other Income	(100,850)
(41,792)	Government Grants and Contributions	(37,065)
(701)	Support Services Recharge	(587)
(81,418)	**Total Income**	**(166,477)**
15,796	Employee Expenses	17,355
54,873	Other Service Expenditure	50,932
6,878	Depreciation, Amortisation and Impairment	5,140
(572)	(Gains) on disposal of non-current assets	(634)
0	Interest Payable and Similar Charges	3,962
1,504	Net interest expense on Defined Benefit Pension Liability	1,509
78,479	**Total Expenditure**	**78,264**
(2,939)	**(Surplus)/Deficit on Provision of Services (I&E)**	**(88,213)**

13 Grant Income

2018/19 £'000		2019/20 £'000
	Credited to Taxation and Non-Specific Grant Income	
(1,015)	New Homes Bonus	(721)
(475)	Non Specific Grant	0
(114)	Revenue Support Grant	0
(2,670)	Section 106 Contributions	(3,664)
(49)	Other	(15)
(4,323)	**Subtotal Grant Income Credited to Taxation and Non-Specific Grant Income**	**(4,400)**
	Credited To Services	
0	Arts Council - Lottery	(55)
(30)	Building Safer Communities	(17)
(13)	CCTV	(15)
(25)	Cemeteries	0
(109)	Housing & Council Tax Benefit Administration Grant	(112)
0	Highways	(97)
(34,613)	DWP Housing Benefit Grant	(29,838)
0	Partnerships and Performance	(67)
(849)	Elections	(512)
(17)	Environmental Health	(62)
(454)	Housing - Homelessness	(271)
(71)	Housing Refugees	(52)
2	Museum	0
(13)	New Burdens	(194)
(194)	NNDR - Cost of Collection Grant	(176)
(30)	Public Health & Nuisance	(27)
(60)	Planning	(298)
(91)	Little Cassiobury	(54)
(55)	Sports Development	(42)
(43)	Taxi Marshall Scheme	(32)
(66)	Town Centre Special Events	(45)
(738)	Waste Management	(699)
(37,469)	**Subtotal Grant Income Credited to Services**	**(32,665)**
(41,792)	**Total Grant Income**	**(37,065)**

14 Joint Operations

The Council is party to the West Herts Crematorium Joint Committee under the Local Government Act 2000, as disclosed at note 19.

15 External Audit Costs

The council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections for 2018/19 and 2019/20 by Ernst & Young.

2018/19		2019/20
£'000		£'000
40	Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor for the year.	40
11	Fees payable for other services provided by external auditors during the year.	11
51		**51**

16 Members Allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and the maximum amounts payable in respect of certain allowances. The total of Members' Allowances paid in the year was £477k (2018/19: £485k).

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

17 Officers' Remunerations

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. For completeness, the Council has included the senior officers' remuneration (excluding pensions) from the second table of this note, in the first table of this note, detailed below:-

2018/19				2019/20
No of Employees		**Remuneration Band**		**No of Employees**
13	£50,000	-	£54,999	11
6	£55,000	-	£59,999	6
1	£60,000	-	£64,999	3
2	£70,000	-	£74,999	1
2	£75,000	-	£79,999	2
1	£80,000	-	£84,999	3
1	£100,000	-	£104,999	1
0	£110,000	-	£114,999	1
1	£140,000	-	£144,999	1
27				**29**

The Director of Finance is the statutory Chief Finance officer (S151) and is a shared post with Three Rivers District Council (TRDC) who under the lead authority model pick up the costs of this post which is recharged to Watford Borough Council on a 50:50 basis. The full cost is shown in the TRDC accounts.

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

2019/20 **Post**	**Salary Including Fees and Allowances**	**Expenses Allowances**	**Compensation for Loss of Office**	**Pension Contribution**	**Total Remuneration**
	£	**£**	**£**	**£**	**£**
Managing Director	144,823	0	0	26,358	171,181
Group Head of Place Shaping (Apr 19 - Aug 19)	74,731	0	26,010	7,902	108,643
Interim Group Head of Place Shaping	98,700	0	0	0	98,700
Group Head of Community & Environmental Services	78,671	0	0	14,318	92,989
Group Head of Transformation	77,275	0	0	14,064	91,339
Group Head of Democracy & Governance (Monitoring Officer)	81,382	0	0	14,812	96,194
Group Head of Commercial (Mar 20)	8,805	0	0	1,603	10,408
Executive Head of Strategy and Communications	74,829	0	0	13,607	88,436
Executive Head of HR and Organisational Development	81,523	0	0	14,387	95,910
Total	**720,739**	**0**	**26,010**	**107,050**	**853,799**

2018/19 Post	Salary Including Fees and Allowances	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total Remuneration
	£	£	£	£	£
Managing Director	141,983	0	0	25,841	167,824
Deputy Managing Director: Place Shaping and Corp. Performance	102,000	0	0	18,564	120,564
Head of Community & Environmental Services	74,820	0	0	13,617	88,437
Head of Corporate Strategy & Communications	55,861	0	0	10,167	66,028
Head of Democracy & Governance (Monitoring Officer)	77,451	0	0	14,096	91,547
Head of Service Transformation	71,662	0	0	13,043	84,705
Total	**523,777**	**0**	**0**	**95,328**	**619,105**

During the financial year, there was a restructure in senior management team. No bonuses were given during either period.

18 Termination Benefits

The Council terminated the contracts of 10 employees in 2019/20, incurring liabilities of £309,197 (2018/19: £101,155). Of this total, £196,687 (2018/19: £90,091) was payable in the form of compensation for loss of office and £112,510 (2018/19: nil payment) in enhanced pension benefits as part of the Council's rationalisation of Services.

2018/19				2019/20		
Compulsory Redundancy	Other Departures	Total Cost	Remuneration Band	Compulsory Redundancy	Other Departures	Total Cost
6	0	55,655	£0 - £20,000	6	0	69,416
0	0	0	£20,001 - £40,000	1	0	32,652
1	0	45,500	£40,001 - £60,000	2	0	94,762
0	0	0	£150,001 - £200,000	1	0	156,485
7	**0**	**101,155**		**10**	**0**	**353,315**

19 Related Party Transactions

This disclosure note has been prepared using specific declarations obtained in respect of related party transactions from Members and Senior Officers. The Council is required to disclose material transactions with related parties - bodies and individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council.

Details of grant funding transactions with government departments and agencies are set out in Note 9 to the Core Financial Statements. The Council also paid precepts to Hertfordshire County Council, Hertfordshire Police Authority and Parish Council's with which details can be found in the Collection Fund Accounts.

Members and Senior Officers Information gathered through declarations provided by both members and officers alike has been tabulated below:

Name	Role	Position	Name of Entity	Details
Derek Scudder	Councillor	Representative	Bedford Morison & Cordery Almshouse Charity	Occasional transactions in the normal course of business
Tim Williams	Councillor	Representative	Board of Watford Workshop	Occasional transactions in the normal course of business
Mark Watkin	Councillor	Governor	Chessbrook ESC	Occasional transactions in the normal course of business
Peter Taylor	Mayor	Declaration of Interest	East of England LGA	Routine business transactions with regard invoicing Watford Borough Council for services supplied
Stephen Bolton	Councillor	Representative	Groundwork East	Occasional transactions in the normal course of business
Alan Gough	Head of Community & Customer Services	Director	Hart Homes LLP	Council has a 50% stake
Alison Scott	Head of Finance/Director of Finance	Director		
Jo Wagstaffe	Director of Finance	Board Member		
Matt Turmaine	Councillor	Declaration of Interest	Hertfordshire Sustainability Forum	Employed as a Project Manager for Health and Social Care related projects
Rabi Martins	Councillor	Representative	Hertfordshire Police & Crime Panel	No transactions identified between Council & Entity
Tim Williams	Councillor	Representative	Hertfordshire Sustainability Forum	Occasional transactions in the normal course of business
			Hertfordshire Waste Management Group	Occasional transactions in the normal course of business
Peter Taylor	Mayor	Declaration of Interest	Herts Leaders Group	Routine transactions with regard invoicing
			LGA Eastern Region Local	No transactions identified between Council & Entity

			Government Conference	
			LGA General Assembly	No transactions identified between Council & Entity
			LGIU	No transactions identified between Council & Entity
Kareen Hastrick	Councillor	Board Member	Shopmobility Watford	Occasional transactions in the normal course of business
Mark Watkin	Councillor	Representative	Val Mirugan Hindu Temple Trust	Occasional transactions in the normal course of business
Rabi Martins	Councillor	Representative	Val Mirugan Hindu Temple Trust	Occasional transactions in the normal course of business
Kathryn Robson	Group Head of Corporate Strategy and Communications	Declaration of Interest	Veolia	Husband undertakes consultancy work for Watford Borough Council to the amount of roughly £6,500
Manny Lewis	Managing Director	Board Member	Watford BID	Occasional transactions in the normal course of business
Stephen Bolton	Councillor	Board Member	Watford Citizens Advice Bureau	Occasional transactions in the normal course of business
Alan Gough	Head of Community & Customer Services	Director	Watford Commercial Services Ltd	Wholly owned subsidiary of Council
Alison Scott	Head of Finance/Director of Finance	Director	Watford Commercial Services Ltd	Wholly owned subsidiary of Council
Peter Jeffree	Councillor	Board Member	Watford Community Housing	Occasional transactions in the normal course of business
Jo Wagstaffe	Director of Finance	Board Member	Watford Health Campus Partnership LLP	Set up in 2013, the Council is in partnership with Kier Property Investment Ltd in a LABV (Local Asset Backed Vehicle). This is developing a large site next to Watford hospital which has many complex issues to resolve and will take well over a decade to complete all aspects. The Council's financial input relates to providing land and equity (Loan Notes A). The equity required varies between years in line with the needs of the developments within the overall scheme. In 2019/20
Alison Scott	Head of Finance/Director of Finance	Board Member	Watford Health Campus Partnership LLP	
Manny Lewis	Managing Director	Board Member	Watford Health Campus Partnership LLP	

				the net equity at the year-end was £10.051m (£7.078m is 18/19) including accrued interest.
Karen Collett	Councillor	Director	Watford Palace Theatre	Occasional transactions in the normal course of business
Tim Williams	Councillor	Representative		
Stephen Bolton	Councillor	Representative	Wellspring Church	Occasional transactions in the normal course of business
Derek Scudder	Councillor	Representative	West Herts Crematorium Joint Committee	An Agreement existing between neighbouring authorities (Hertsmere, St Albans, Dacorum, Three Rivers & Watford) to constitute a Joint Committee under the Local Government Act 2000. In 2019/20, Watford received a contribution of £50,000 (2018/19 £50,000)
Jo Wagstaffe	Director of Finance	Honorary Treasurer		
Karen Collett	Councillor	Board Member		
Manny Lewis	Managing Director	Clerk		
Derek Scudder	Councillor	Representative	West Herts Golf Club Consultative Committee	Rent Received from West Herts Golf Club of £70,000 per annum (2018/19 £70,000) as well as occasional transactions in the normal course of business
Jagtar Dhindsa				
Darren Walford				
Darren Walford	Councillor	Director	Walford Painting and Decorating Ltd	No Transactions
Peter Kloss	Councillor	Director	Kloss Consulting Ltd	No Transactions

20 Partnership Working

2018/19		2019/20		
Total Net Cost		Provided by WBC	Provided by TRDC	Total Net Cost
£'000	**Services**	£'000	£'000	£'000
1,464	Local Tax Collection		1,474	1,474
1,690	Housing Benefits		1,486	1,486
1,496	Finance		1,397	1,397
716	HR	668		668
1,195	ICT	1,201		1,201
6,561	**Net Cost of Services / Operating Expenditure**	**1,869**	**4,357**	**6,226**
(3,944)	**Paid by Watford Borough Council**	**(1,175)**	**(2,572)**	**(3,747)**
(2,617)	**Paid by Three Rivers District Council**	**(694)**	**(1,785)**	**(2,479)**
0	**(Surplus) / Deficit for the year**	0	0	0

21 Property, Plant and Equipment

(a) Movement of Property, Plant and Equipment

2019/20	Assets Under Constr'n	Land & Building	Plant & Equipment	Infra-Structure	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2019	**2,238**	**103,532**	**25,955**	**8,254**	**139,979**
Additions - Capital Programme	336	2,656	7,665	3,694	14,351
Additions - Finance Leases	0	236,890	0	0	236,890
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	17,214	0	0	17,214
Revaluation increases/ (decreases) recognised in the Surplus / Deficit on the provisions of services	(343)	(467)	(539)	(134)	(1,483)
Derecognition - Disposals	0	(28)	0	0	(28)
Assets reclassified	(900)	(344)	0	0	(1,244)
At 31 March 2020	**1,331**	**359,453**	**33,081**	**11,814**	**405,679**
Accumulated Depreciation & Impairment					
At 1 April 2019	**0**	**(7,963)**	**(20,439)**	**(3,097)**	**(31,499)**
Depreciation Charge	0	(2,678)	(1,083)	(417)	(4,178)
Depreciation written out to the Revaluation Reserve	0	855	0	0	855
At 31 March 2020	**0**	**(9,786)**	**(21,522)**	**(3,514)**	**(34,822)**
Balance Sheet Value at 31 March 2020	**1,331**	**349,667**	**11,559**	**8,300**	**370,857**
Balance Sheet Value at 1 April 2019	**2,238**	**95,569**	**5,516**	**5,157**	**108,480**

2018/19 Restated	Assets Under Constuction	Land & Building	Plant & Equipment	Infra-Structure	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2018	**3,055**	**98,309**	**25,428**	**4,233**	**131,025**
Additions - Capital Programme	607	2,332	1,017	4,030	7,986
Additions - Finance Leases	0	0	0	0	0
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	2,030	0	0	2,030
Revaluation increases / (decreases) recognised in the Surplus /Deficit on the provisions of services	(1,424)	(332)	0	0	(1,756)
Derecognition - Disposals	0	(172)	(490)	(9)	(671)
Assets reclassified	0	1,365	0	0	1,365
At 31 March 2019	**2,238**	**103,532**	**25,955**	**8,254**	**139,979**
Accumulated Depreciation & Impairment					
At 1 April 2018	**0**	**(5,699)**	**(18,937)**	**(2,506)**	**(27,142)**
Depreciation Charge	0	(2,487)	(1,992)	(600)	(5,079)
Depreciation written out to the Revaluation Reserve	0	51	0	0	51
Other Movements	0	172	490	9	671
At 31 March 2019	**0**	**(7,963)**	**(20,439)**	**(3,097)**	**(31,499)**
Balance Sheet Value at 31 March 2019	**2,238**	**95,569**	**5,516**	**5,157**	**108,480**
Balance Sheet Value at 1 April 2018	**3,055**	**92,610**	**6,491**	**1,727**	**103,883**

(b) Revaluations

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

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme. Prior year valuations have been indexed using property market indices to ensure that any impact of varying market conditions is considered and valuations remain reliable.

Revaluations	Land & Building	Plant & Equipment	Infra-Structure	Total
	£'000	£'000	£'000	£'000
Carried at historical cost	**0**	**33,081**	**11,815**	**44,896**
Valued at current value as at:				
31/03/2020	256,293	0	0	256,293
31/03/2019	4,030	0	0	4,030
31/03/2018	13,102	0	0	13,102
31/03/2017	6,348	0	0	6,348
31/03/2016	79,681	0	0	79,681
Total cost at 31 March 2020 carried forward	**359,454**	**33,081**	**11,815**	**404,350**

(c) Information About Depreciation Methodologies

Depreciation has been provided for all assets with a finite useful life. The basis for depreciating assets is detailed in the Statement of Accounting Policies (Note 1.15). Depreciation commences in the year following acquisition. Freehold land, Investment Properties, Assets under construction, Surplus Assets and Heritage Assets are not depreciated.

22 Heritage Assets

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

2019/20	Musical Instrument	Statues, Sculptures & War Memorials	Works of Art	Civic Regalia	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2019	400	645	700	233	1,978
Revaluation increases recognised in the Revaluation	0	2	597	32	631
At 31 March 2020	**400**	**647**	**1,297**	**265**	**2,609**

2018/19	Musical Instrument	Statues, Sculptures & War Memorials	Works of Art	Civic Regalia	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2018	**400**	**645**	**700**	**200**	**1,945**
Revaluation increases ! (decreases) recognised in the Revaluation	0	0	0	33	33
At 31 March 2019	**400**	**645**	**700**	**233**	**1,978**

23 Investment Properties and Surplus Assets

(a) Movement of Investment Properties and Surplus Assets

2019/20	Investment Properties	Surplus Assets	Total
	£'000	£'000	£'000
At 1 April 2019	**171,711**	**2,146**	**173,857**
Additions	3,129		3,129
Revaluation increases recognised in the surplus/deficit on the provision of services	(12,464)	(458)	(12,922)
Derecognition - disposals	(875)	(385)	(1,260)
Derecognition - Other	(1)	1	0
Assets reclassified	(52)	1,296	1,244
At 31 March 2020	**161,448**	**2,600**	**164,048**
Balance Sheet Value at 31 March 2020	**161,448**	**2,600**	**164,048**
Balance Sheet Value at 1 April 2019	**171,711**	**2,146**	**173,857**

2018/19 Restated	Investment Properties	Surplus Assets	Total
	£'000	£'000	£'000
At 1 April 2018	**169,339**	**830**	**170,169**
Additions	3,486		3,486
Revaluation increases recognised in the surplus/deficit on the provision of services	2,028	171	2,199
Derecognition - disposals	(285)	(347)	(632)
Derecognition - Other	0	0	0
Assets reclassified	(2,857)	1,492	(1,365)
At 31 March 2019	**171,711**	**2,146**	**173,857**
Balance Sheet Value at 31 March 2019	**171,711**	**2,146**	**173,857**
Balance Sheet Value at 1 April 2018	**169,339**	**830**	**170,169**

Fair Value Hierarchy

All the Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 1 for explanation of fair value levels).

Valuation Techniques Used to Determine Level 2 Fair Values for Investment Properties

The fair value of investment property has been measured using the Investment Method of Valuation. The valuers have used a desktop valuation relying on data provided by Avison Young, the Council's managing agents. Valuations have taken account of the following factors: existing lease terms and rentals taken from the tenancy schedule, independent research into market evidence including Market rentals and yields, and then adjusted to reflect the nature of each business tenancy or void and the covenant strength for existing tenants.

Valuers

The investment property portfolio has been valued at 31 March 2020 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by Avison Young, the Council's valuing agents.

(b) Accounted for in Comprehensive Income and Expenditure Statement

2018/19		2019/20
£'000		£'000
(8,204)	Rental income from investment property	**(16,072)**
335	Direct operating expenses arising from investment properties	2,431
(7,869)	**Net (Gain) /Loss**	**(13,641)**

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

24 Capital Expenditure, Financing and Commitments

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

2018/19 Restated		2019/20
£'000		£'000
29,127	**Opening Capital Financing Requirement**	**31,117**
	Capital Investment	
7,986	Property, Plant and Equipment	251,241
3,486	Investment Properties	3,129
45	Intangible Assets	221
209	Revenue Expenditure Funded from Capital Under Statute	1,073
0	Long Term Debtors	225
6,000	Long Term Investments	3,617
17,726		**259,506**
	Sources of Finance	
(5,428)	Capital receipts	(5,811)
(2,405)	Government Grants and Other Contributions (including S106)	(4,192)
	Earmarked Reserves	
(35)	Capital Fund	(615)
(73)	Project and Programme Management	(60)
(135)	Dev Sites Decontamination	0
(536)	New Home Bonus	0
0	Car Parking Zone	0
(12)	Long Term Debtors	(6,000)
(7,112)	Long Term Investments	0
0	Minimum Revenue Provision	(83)
(15,736)		**(16,761)**
31,117		**273,862**

At 31 March 2020 the Council had contractual commitments totalling £22.781m (31 March 2019: £11.543m)

25 Leases

Operating Leases – The council as Lessor

The Council leases out property under operational leases.
The future minimum leases payments receivable are:

2018/19 Restated		2019/20
£'000		£'000
677	Leases rolling over regularly	536
5,933	Not later than one year	4,794
22,500	Later than one year and not later than five years	15,550
144,800	Later than five years	131,220
173,910	**Balance as at 31 March carried forward**	**152,100**

26 Debtors & Investments - Long Term

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

Restated 2018/19		Net Movements in Year	2019/20
£'000		£'000	£'000
	Long Term Debtors		
8	Loan to YMCA	0	8
150	Watford Muslim Youth	0	150
7	Charges Registered to Properties	0	7
2,000	Watford Health Hospital Trust	0	2,000
6,000	Hart Homes Watford - Loan	0	6,000
6,734	Watford Health Campus LABV	3,317	10,051
6,000	Watford Health Campus - Growing Places (interest free loan)	(6,000)	0
0	Everyone Active - Leisure Centres	225	225
20,899		**(2,458)**	**18,441**
	Long Term Investments		
2,400	Hart Homes Watford - Equity	0	2,400
20	Municipal Bonds Agency & Local Capital Finance Company	0	20
150	Watford Commercial Services	300	450
2,570		**300**	**2,870**
23,469		**(2,158)**	**21,311**

27 Debtors - Short Term

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

2018/19		2019/20
£'000		£'000
1,615	Central Government Bodies	3,647
9	Local Authorities	594
10,325	Other Entities and Individuals	11,671
314	Payments in Advance	223
12,263		**16,135**
(5,529)	Less: Provision for Bad Debts / Impairment	(5,494)
6,734	**Total**	**10,641**

28 a Cash and Cash Equivalents

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

2018/19		2019/20
£'000		£'000
(Restated)		
	Current Assets	
1	Cash held by the Authority	521
4,931	Bank Current Accounts	9,830
4,932		**10,351**
	Current Liabilities	
0	Bank overdrafts	**0**
4,932	**Total**	**10,351**

28 b Short Term Investments:

2018/19		2019/20
£'000	**Short Term Investments**	£'000
2,004	Short-term Investments	94,413
2,004	Total	**94,413**

Short term Investments include £92m received in July 2019 in advance as part of acquiring Croxley Business Park on finance lease. The money will be used for planned capital maintenance and to cover revenue shortfall over the lease period.

29 Cash Flow Statement - Operating, Investing and Financing Activities

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

2018/19 Restated			2019/20	
£'000	£'000	**Note 29a - Operating Activities**	£'000	£'000
1,079		Interest received	1,347	
0		Interest paid	(4)	
1,680		Dividend\Profit Received	4,550	
	2,759			**5,893**
5,079		Depreciation	4,178	
1,824		Impairment and downward valuations	1,915	
45		Amortisation	221	
(56)		Increase/(decrease) in impairment of bad debts	(35)	
(3,504)		Increase/(decrease) in creditors	8,423	
2,144		(Increase)/decrease in debtors	(1,901)	
(1)		Decrease in inventories	(3)	
1,175		Movement in pensions liability	844	
632		Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,288	
(3,112)		Other non-cash items charged to the provision of services	9,504	
	4,226			**24,434**
12,000		Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	379,963	
(4,440)		Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,839)	
(4,474)		Any other items for which the cash effects are investing or financing cash flows	(75,615)	
	3,086			**298,509**
	10,071			**328,836**
		Note 29B- Investing Activities		
(11,517)		Purchase of property, plant, equipment, investment property and intangible assets	(17,700)	
(15,170)		Purchase of st and lt investments	(475,993)	
(149)		Other payments for investing activities	(225)	
4,440		Proceeds from the sale of property, plant, equipment, investment property and intangible assets	5,839	
7,112		Proceeds from st and lt investments	0	
4,492		Other receipts from investing activities	81,615	
	(10,792)			**(406,465)**
		Note 29c- Financing Activities		
0		Other receipts from financing activities	0	
0		Cash receipts of short and long term borrowing	15,000	
0		Cash payments - Finance Leases	(6,274)	
(4,508)		Other payments for financing activities	(498)	
(10)		Repayments of st and lt borrowing	(7,500)	
	(4,518)			**728**

30 Creditors - Short Term

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

2018/19		2019/20
£'000	**Short-term creditors**	**£'000**
(5,483)	Central Government Bodies	(5,092)
(2,776)	Local Authorities	(5,079)
0	NHS	0
0	Public Corporations	0
(5,755)	Other Entities and Individuals	(7,705)
(1,448)	Receipts in Advance less than 1 year	(2,495)
0	Deferred Liabilities (obligations under finance leases)	(3,690)
(15,462)	**Total**	**(24,061)**
	Short-term borrowing	
(7,500)	Loans repayable witin one year	**(15,000)**
(22,962)	Total	**(39,061)**

31 Creditors - Long Term

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

2018/19		2019/20
£'000	**Long Term Creditors**	**£'000**
92	Deferred Liabilities (obligations under finance leases)	(230,524)
(6)	Capital Grants receipts in advance	(6)
0	Section 106 Contributions receipts in advance	0
86	Total	**(231,822)**

32 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.

2018/19		Change	Used	2019/20
£'000		£'000	£'000	£'000
(77)	Property Searches	0	0	(77)
(48)	Municipal Mutual Insurance	0	0	(48)
(74)	Contractual Provision	0	0	(74)
(5,747)	NDR Appeals	39	2,920	(2,788)
(5,946)	Total	**39**	**2,920**	**(2,987)**

Property Searches

The Council is a defendant in proceedings brought by a group of property Search Companies for refunds of fees paid to the Council to access land charges data. It is possible that additional claimants may come forward to submit claims for refunds, but none have been initiated as present.

Municipal Mutual Insurance

Under Watford Borough Council's agreement with its previous insurer Municipal Mutual Insurance (MMI), the Council is exposed to the possibility of having to repay all or part of its claims already settled, or to be settled, by MMI. The Council believes the provision of £48k is prudent.

Contractual Provision

This provision reflects a potential liability for the Council on one of its contracted services.

NDR Appeals

The NNDR Appeals provision has arisen because of the change to the NNDR regime. All business premises can appeal their valuation, set by the Valuation Office, which is used for setting the level of rates payable. Until the appeal is heard and decided a provision is estimated to cover the likely outcome.

33 Defined Benefit Pension Scheme

Participation in Pension Scheme

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

The Council participates in the Local Government Pension Scheme administered locally by Hertfordshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pensions Committee of HCC. Policy is determined in accordance with the Local Government Pension Scheme Regulations 2013. The investment managers of the fund are appointed by the Investment sub-committee of HCC and consist of the fifteen Investment Fund Managers.

Principal risks of the scheme for the Council are longevity assumptions, statutory and structural scheme changes, changes to inflation, bond yields and performance of the scheme's equity investments. The Council has taken into account the impact of the McCloud Judgement and the Guaranteed Minimum Pensions equalisation on future liabilities arising from the defined benefit pension scheme.

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:-

2018/19		2019/20
£'000		£'000
	Comprehensive Income and Expenditure Statement (CI&ES)	
	Costs of Service	
	Service cost comprising:	
2,721	current service cost	3,027
542	past service cost	0
	Financing and Investment Income and Expenditure	
1,504	Net Interest Expense	1,509
4,767	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**4,536**
	Other Post Employment Benefit Charged to the CI&ES	
	Remeasurement of the net defined benefit liability comprising:	
(4,813)	Return on plan assets	(9,238)
0	Actuarial gains and losses arising on changes in demographic assumptions	0
0	Actuarial gains and losses arising on changes in financial assumptions	0
8,642	Other	(12,468)
3,829	**Total Remeasurement recognised in Other CI&ES**	**(21,706)**
8,596	Total Post Employment Benefit Charged to CI&ES	**(17,170)**
	Movement in Reserves Statement	
(4,767)	Reversal of net charges made to the Provision of Services for post employment benefits in accordance with the Code	4,536
3,592	Employers' contributions payable to the scheme	3,692
3,592	**Actual amount charged against the General Fund Balance for pensions in the year**	**3,692**

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

2018/19 £'000		2019/20 £'000
(178,200)	Present value of the defined benefit obligation	(167,147)
115,147	Fair value of plan assets	124,956
(63,053)	**Total**	**(42,191)**

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

2018/19 £'000		2019/20 £'000
109,439	Opening fair value of scheme assets at 1 April	115,147
2,819	Interest income	2,743
	Remeasurement gain/(loss):	
4,813	Return on plan assets	9,238
3,592	Contributions from employer	3,692
503	Contributions from employees into the scheme	523
(6,019)	Benefits paid	(6,387)
0	Other	0
115,147	**Closing fair value of scheme assets at 31 March**	**124,956**

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

2018/19 £'000		2019/20 £'000
(167,488)	**Opening Balance at 1 April**	**(178,200)**
(2,721)	Current service costs	(3,027)
(542)	Past service costs	0
(4,323)	Interest cost	(4,252)
(503)	Contributions from scheme participants	(523)
	Remeasurement (gains) and losses:	
0	Actuarial gains and losses arising from changes in demographic assumptions	0
(8,642)	Actuarial gains and losses arising from changes in financial assumptions	12,468
0	Other	0
	Past service costs	
0	Losses/(gains) on curtailments	0
6,019	Benefits paid	6,387
(178,200)	**Closing Balance at 31 March**	**(167,147)**

Local Government Pension Scheme assets comprised

2018/19				2019/20		
Quoted active market	**Quoted non-active market**	**Total**		**Quoted active market**	**Quoted non-active market**	**Total**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
3,726	0	3,726	Cash and cash equivalents	2,713	0	2,713
			Equity instruments: by industry type			
5,122	0	5,122	Consumer	2,398	0	2,398
4,465	0	4,465	Manufacturing	1,914	0	1,914
1,189	0	1,189	Energy and Utilities	0	0	0
4,748	0	4,748	Financial Institutions	1,840	0	1,840
937	0	937	Health and Care	1,130	0	1,130
3,603	0	3,603	Information Technology	4,303	0	4,303
309	0	309	Other	206	0	206
24,096	**0**	**24,096**	Sub-total equity	**14,503**	**0**	**14,503**
			Bonds: by sector			
0	0	0	Corporate Bonds (inv. grade)	0	0	0
0	0	0	UK Government	0	0	0
0	53	53	Other	0	3,255	3,255
0	**53**	**53**	Sub-total bonds	**0**	**3,255**	**3,255**
			Property: by type			
0	4,079	4,079	UK Property	0	3,674	3,674
0	4,367	4,367	Overseas Property	0	7,496	7,496
0	**8,447**	**8,447**	Sub-total property	**0**	**11,170**	**11,170**
			Private Equity:			
0	5,399	5,399	All	0	6,312	6,312
0	**5,399**	**5,399**	Sub-total private equity	**0**	**6,312**	**6,312**
			Other Investment Funds:			
29,055	0	29,055	Equities	39,074	0	39,074
40,061	0	40,061	Bonds	41,180	0	41,180
0	0	0	Commodities	0	0	0
0	1,116	1,116	Infrastructure	0	0	0
973	6,086	7,059	Other	1,059	8,536	9,596
70,088	**7,202**	**77,290**	Sub-total other investment funds	**81,313**	**8,536**	**89,849**
			Derivatives:			
0	(137)	(137)	Foreign exchange	0	(133)	(133)
0	**(137)**	**(137)**	Sub-total derivatives	**0**	**(133)**	**(133)**
94,184	**20,963**	**115,147**		**95,817**	**29,140**	**124,957**

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary have been:

31 Mar 19		31 Mar 20
7.0%	**Total Returns from 1 April 2019 to 31 March 2020**	-1.3%
	Mortality Assumptions	
	Longevity at 65 for current pensioners	
22.5	Men	21.9
24.9	Women	24.1
	Longevity at 65 for future pensioners	
24.1	Men	22.8
26.7	Women	25.5
2.6%	Rate of increase in salaries	2.3%
2.5%	Rate of increase in pensions	1.9%
2.4%	Rate for discounting scheme liabilities	2.3%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes whilst all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

2018/19 £'000		2019/20 £'000
3-5%	Longevity (increase in 1 year)	3-5%
1,253	Rate of increase in salaries (increase by 0.5%)	746
14,174	Rate of increase in pensions (increase by 0.5%)	12,833
15,611	Rate for discounting scheme liabilities (decrease by 0.5%)	13,648
31,038	Total	**27,227**

Information about the Defined benefit obligation

Funding levels are monitored on an annual basis, and the latest triennial review is based on 31 March 2019 data. The fund liability may go up or down based on this review, and a sensitivity analysis is set out within this note under "impact on the defined benefit obligation in the scheme". The total value of contributions expected to be made by the Council in 2020/21 is £3.753m.

34 Contingent Assets and Liabilities

We have no contingent assets or liabilities in the year.

35 Usable Reserves

(a) Movement in Usable Reserves

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

Balance at 31-Mar-19 Restated		Net Movement in Year	Balance at 31-Mar-20	Further Detail Note
£'000		£'000	£'000	
(1)	Capital Receipts Reserve	(27)	(28)	35(b)
(19,492)	Earmarked Reserves	(24,807)	(44,299)	35(c)
(2,000)	General Fund Balance	(291)	(2,290)	35(d)
(4,228)	Capital Grants Unapplied	(71,423)	(75,651)	35(e)
(25,721)	**Total Net Worth**	**(96,548)**	**(122,268)**	

(b) Capital Receipts Reserve

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

2018/19		2019/20
£'000		£'000
(987)	**Balance brought forward at 1 April**	**(1)**
	Received in year:	
(1,205)	Proceeds from sale of long-term assets	(1,922)
(3,236)	Unattached Capital Receipts	(3,917)
0	Loan repayments (Unattached Capital Receipt)	
(4,441)		**(5,839)**
	Applied in year:	
5,428	Applied to Capital Adjustment Account to finance new capital expenditure	5,811
(1)	Transferred to Capital Adjustment Account to finance new capital expenditure	1
5,427		**5,812**
(1)	**Balance carried forward at 31 March**	**(28)**

(c) Earmarked Reserves

This note sets out the amounts set aside from the General Funding earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

For each Reserve established the Council identifies:

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

Balance at 01-Apr-18	Approp - riations to Reserve	Approp - riations From Reserve	Balance at 31-Mar-19		Approp - riations to Reserve	Approp - riations From Reserve	Balance at 31-Mar-20
£'000	£'000	£'000	£'000		£'000	£'000	£'000
(86)	0	0	(86)	Area Based Grant	0	0	(86)
(1,058)	(1,303)	1,059	(1,302)	Budget Carry Forward	(1,975)	1,344	(1,933)
(650)	0	35	(615)	Capital Fund	0	615	0
(333)	(308)	0	(641)	Car Parking Zones	(56)	0	(697)
(93)	0	0	(93)	Charter Place Tenants	0	0	(93)
(56)	0	0	(56)	Climate Change	8	0	(48)
(150)	0	0	(150)	Crematorium	0	0	(150)
(135)	0	135	0	Development Sites Decontamination	0	0	0
(1,421)	(3,778)	1,549	(3,650)	Economic Impact	0	670	(2,980)
(997)	0	0	(997)	Housing Benefit Subsidy	0	0	(997)
(266)	0	0	(266)	Housing Planning Delivery Grant	0	0	(266)
(839)	0	150	(689)	Invest to Save	0	0	(689)
(13)	0	2	(11)	Le Marie Centre Repairs	(2)	2	(11)
(423)	0	0	(423)	Leisure Structured Maintenance	0	0	(423)
(178)	0	0	(178)	Local Development Framework	0	0	(178)
(181)	0	0	(181)	Multi-Storey Car Park Repair	0	0	(181)
(536)	0	536	0	New Homes Bonus	0	0	0
(2,486)	(3,335)	3,300	(2,521)	NNDR Collection Fund	0	2,224	(297)
(60)	0	0	(60)	Parks, Waste & Street Strategy	0	0	(60)
(2,248)	0	0	(2,248)	Pension Funding	0	0	(2,248)
(141)	0	0	(141)	Performance Reward Grant (Capital)	0	0	(141)
(28)	0	0	(28)	Performance Reward Grant (Revenue)	0	0	(28)
(359)	(538)	486	(411)	Project and Programme Management	52	60	(299)
(100)	0	0	(100)	Rent Deposit Guarantee Scheme	0	0	(100)
(3,249)	(1,423)	730	(3,942)	Riverwell	(3,392)	0	(7,334)
(182)	0	0	(182)	Vehicle Replacement	0	0	(182)
(83)	0	0	(83)	Weekly Collection Support Grant	0	0	(83)
0	0	0	0	Croxley Park Reserve	(25,179)	1,251	(23,928)
0	0	0	0	Grounds Maintenance	(32)	0	(32)
0	(438)	0	(438)	HB Equalisation Reserve	(397)	0	(835)
(16,351)	**(11,123)**	**7,982**	**(19,492)**	**Total**	**(30,973)**	**6,166**	**(44,299)**

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

Reserve	Purpose
Area Based Grant Reserve	This grant was received to encourage initiatives relating to preventing violent extremism and anti-social behaviour.
Budget Carry Forward Reserve	This reserve has been created to 'carry forward' unspent revenue budgets for use in the proceeding financial year.
Capital Fund Reserve	To provide for funding of key capital projects.
Car Parking Zone Reserve	This is a statutory ring-fenced reserve, for future controlled parking related costs.
Charter Place Tenants Reserve	Tenants' contributions to meet major works.
Climate Change Reserve	To fund energy saving initiatives to reduce energy consumption.
Crematorium Reserve	To fund future repairs and maintenance.
Croxley Park Reserve	To provide resources to offset the impact of reduced income over the life of the finance lease.
Development Sites Decontamination Reserve	Provide for the costs of any decontamination of development sites for which the Council may have liability.
Economic Impact Reserve	To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget.
Grounds Maintenance Reserve	To provide for the commuted sum for ground maintenance, tree works and legal and surveyor costs owed to Taylor Wimpey that relate to POS transfer, Hopwood Close
High Street Innovation Reserve	To assist with regeneration of Town Centres.
Homelessness Prevention Reserve	To assist with homelessness among young people.
Housing Benefit Subsidy Reserve	This reserve has been created to meet any subsidy clawback by DWP.
Housing Planning Delivery Grant Reserve	This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes.
Invest to Save Reserve	To support schemes where initial expenditure will produce longer term savings.
LA Business Growth Incentive Reserve	Government grant received in respect of business rate growth.
Le Marie Centre Repairs Reserve	To help meet the Council's obligation as landlord.
Leisure Structural Maintenance Reserve	To fund future structural maintenance needs not covered within the existing Leisure services contract.
Local Development Framework Reserve	To help fund the costs of the production of the Local Development Plan.
Multi Storey Car Park Repair Reserve	To provide funds towards major structural works.
New Homes Bonus Reserve	Government grant received in respect of new homes built.
NNDR Collection Fund Reserve	Equalisation fund to support the NNDR Collection Fund variation.
Parks, Waste & Street Strategy Reserve	To support the Council's parks, waste and street cleansing strategy.

Pension Funding Reserve	To meet one off pension costs and redundancy programme.
Performance Reward Grant Reserve	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets.
Projects and Programme Mgmnt Reserve	This supports the Council's major project programme
Rent Deposit Guarantee Scheme Reserve	To assist in the provision of homelessness accommodation.
Riverwell Reserve	This reserve is for holding disbursements from Riverwell and is available for redistribution to the General Fund or Economic Impact Reserve as and when required.
Vehicle Replacement Reserve	To provide for the replacement of the Council's refuse freighters.
Weekly Collection Support Grant Reserve	Grant received to support the weekly domestic waste collection.

(d) General Fund Reserves

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

2018/19 Restated		2019/20
£'000		£'000
(1,415)	**Balance brought forward at 1 April**	**(2,000)**
(4,504)	Net increase/(decrease) before transfers to earmarked reserves	(25,774)
3,920	Transfer (to)/from earmarked reserves	25,482
(2,000)	**Balance carried forward at 31 March**	**(2,292)**

(e) Capital Grant Unapplied

The Capital Grant Unapplied Reserve is the resources available to meet future grant funded projects. The unallocated of resources held are set out below:

2018/19		2019/20
£'000		£'000
(2,159)	**Balance brought forward at 1 April**	**(4,228)**
(1,286)	Section 106- grants held for future use (new in year)	(579)
0	Section 106- grants applied (to Capital Adjustment Account)	322
2,405	Capital Grants applied	3,870
(1,818)	Capital Grants received	(71,928)
(1,370)	Community Infrastructure Levy	(3,108)
(4,228)	**Balance carried forward at 31 March**	**(75,651)**

36 Unusable Reserves

(a) Movement in Unusable Reserves

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

Balance at 31-Mar-18 Restated	Balance at 31-Mar-19 Restated		Net Movement in Year	Balance at 31-Mar-20	Further Detail Note
£'000	**£'000**		**£'000**	**£'000**	
74	107	Accumulated Absences Reserve	19	126	
(204,636)	(208,890)	Capital Adjustment Account	9,514	(199,376)	36(b)
(1,402)	2,109	Collection Fund Account	(2,897)	(788)	36(c)
123	123	Deferred Capital Payments	0	123	36(d)
(225)	(225)	Deferred Capital Receipts	0	(225)	36(e)
76	76	Financial Instruments Account	0	76	
58,049	63,053	Pensions Reserve	(20,862)	42,191	36(f)
(59,281)	(60,228)	Revaluation Reserve	(17,820)	(78,048)	36(g)
(207,222)	**(203,875)**	**Total Net Worth**	**(32,046)**	**(235,921)**	

(b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisation are charged to the CI&ES (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The Account is credited with the amount set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

The Account contains accumulated gains/losses on Investment Properties.

The Account also contains revaluation gains accumulated on PPE before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

The MIRS provides details of the source of all the transactions posted to the Account apart from those involving the Revaluation Reserve

2017/18 Restated	2018/19 Restated		2019/20
£'000	£'000		£'000
(189,787)	**(204,636)**	**Balance brought forward at 1 April**	**(208,890)**
		Reversal of items relating to capital expenditure debited/credited to the CIES	
5,622	5,079	Charges for depreciation	4,178
599	1,754	Impairment of non-current assets	741
0	45	Amortisation of Intangible Assets	221
4,416	70	Revaluation (Gain) \ losses on PPE	1,174
1,113	209	Revenue Expenditure Funded from Capital under Statute	1,073
5,169	632	Amounts of non-current assets w/o on disposal/sale as part of the gain/loss on disposal to the CI&ES	1,288
16,919	**7,789**	**Total of reversing entries debited/credied to CIES**	**8,675**
(515)	(1,406)	Adjusting amounts written out of the Revaluation Reserve	(856)
16,404	**6,383**	**Net w/o amount of the cost of non-current assets consumed in the year**	**7,819**
		Capital financing applied in the year:	
(20,668)	(5,428)	Use of Capital Receipts Reserve to finance new capital expenditure	(5,811)
(2,372)	(2,405)	Capital Grants/Contributions, applied to capital financing	(4,192)
(3,957)	(779)	Earmarked Reserves:	(675)
(8,471)	0	Repayment of Long term loan	0
0	0	Minimum Revenue Provision (MRP)	(83)
(35,468)	**(8,612)**		**(10,761)**
		Other Movements:	
8,471	0	Repayment of Long term debtors	0
(2,613)	(2,028)	Mvmnt in Market value of Investment Properties debited/credited to the CI&ES	12,464
(1,643)	3	Other	(8)
4,215	**(2,025)**		**12,456**
(204,636)	**(208,890)**	**Balance carried forward at 31 March**	**(199,376)**

(c) Collection Fund Adjustment Account

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

2018/19		2019/20
£'000		£'000
(1,402)	**Balance brought forward at 1 April**	**2,109**
3,511	Amount by which council tax and non-domestic rates income credited to CI&E Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	(2,897)
2,109	**Balance carried forward at 31 March**	**(788)**

(d) Deferred Capital Payments

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

2018/19		2019/20
£'000		£'000
123	**Balance brought forward at 1 April**	**123**
0	Deferred Payment of Local Enterprise Partnership (LEP) Loan	0
123	**Balance carried forward at 31 March**	**123**

(e) Deferred Capital Receipts

The Deferred Capital receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by capital receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Deferred capital receipts are amounts representing capital receipts from the sale of long-term assets that will be repaid to the Council in instalments over an agreed number of years. They have arisen from loans to community groups, which forms part of long term debtors.

2018/19		2019/20
£'000		£'000
(225)	**Balance brought forward at 1 April**	**(225)**
0	Deferred Receipts received	0
(225)	**Balance carried forward at 31 March**	**(225)**

(f) Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employments benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CI&ES as the benefits are earned by employees accruing years of service, updating the liability recognised to reflect inflation, charging assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19		2019/20
£'000		£'000
58,049	**Balance brought forward at 1 April**	**63,053**
3,829	Remeasurements of the net defined benefit liability/(asset)	(21,706)
4,767	Reversal of items relating to retirement benefits debited/(credited) to the Surplus/Deficit on the Provision of Services in the CIES	4,536
(3,592)	Employer's pension contributions and direct payments to pensioners payable in year	(3,692)
63,053	**Balance carried forward at 31 March**	**42,191**

(g) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation
- disposed of and the gains are realised

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

2017/18 Restated	2018/19 Restated		2019/20
£'000	£'000		£'000
(44,873)	**(59,281)**	**Balance brought forward at 1 April**	**(60,228)**
(15,215)	(2,641)	Upward Revaluation of assets	(25,893)
292	288	Downward Revaluation of assets and impairment losses not charged to the Provision of service	7,217
(14,923)	**(2,353)**	Net (Surplus) on revaluation of non-current assets not posted to the Provision of services	**(18,676)**
349	1,195	Difference between fair value depreciation and historical cost depreciation	804
166	211	Revaluation reserve written-off on disposal of asset	52
515	**1,406**	Amount written off to the Capital Adjustment Account	**856**
(59,281)	**(60,228)**	Balance carried forward at 31 March	**(78,048)**

37 Financial Instruments

Financial Instruments – Balances

The Balance Sheet includes the following financial instruments:

Non-Current Restated	Current Restated		Non-Current	Current
31 Mar 19	31 Mar 19		31 Mar 20	31 Mar 20
£'000	£'000	**FINANCIAL ASSETS**	£'000	£'000
		Carried at Amortised Cost		
6,150	2,004	Investments	6,450	94,413
	4,932	Cash and Equivalents		10,351
8,296	6,734	Debtors	2,521	10,641
14,446	**13,670**	**Total at Amortised Cost**	**8,971**	**115,405**
		Carried at Fair Value through Profit and Loss		
6,734		Long Term Debtors	10,051	
2,420		Equity Instruments	2,420	0
9,154	**0**	**Total at Fair Value through Profit and Loss**	**12,471**	**0**
23,600	**13,670**	**Total Financial Assets**	**21,442**	**115,405**
		FINANCIAL LIABILITIES		
		Borrowing		
	(7,500)	Financial liabilities at amortised cost		(15,000)
		Other long-term Liabilities		
92		PFI and Finance Leases (deferred liabilities)	(234,214)	
		Creditors		
	(14,014)	Financial liabilities carried at contract amount		(18,159)
92	**(21,514)**	**Total Financial Liabilities**	**(234,214)**	**(33,159)**
23,692	**(7,844)**	**TOTAL**	**(212,772)**	**82,246**
15,848			**(130,526)**	

Financial Instruments – Gains and Losses

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

Total		Financial Liabilities at Amortised Cost	Financial Assets		Total
			Amortised Cost	Fair Value through Profit and Loss	
31 Mar 19		31 Mar 20	31 Mar 20	31 Mar 20	31 Mar 20
£'000		£'000	£'000	£'000	£'000
0	Interest Expense	148			148
0	Fees Paid	2			2
0	**Interest Payable and Similar Charges**	**150**	**0**	**0**	**150**
(1,360)	Interest Income		(573)	(756)	(1,328)
(1,400)	Dividend Income		0	(4,550)	(4,550)
(2,760)	**Interest and Investment Income**	**0**	**(573)**	**(5,306)**	**(5,878)**
(2,760)	**Net Impact on Surplus/Deficit on Provision of Services**	**150**	**(573)**	**(5,306)**	**(5,728)**

Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at Amortised Cost. Their Fair Value can be assessed by calculating the Present Value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate the Fair Value. The Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values calculated are as follows:

31/03/2019			31/03/2020	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
		Financial Assets Held at Fair Value		
6,734	6,734	Long Term Debtors	10,051	10,051
2,420	2,420	Equity Instruments	2,420	2,420
		Financial Assets Held at Amortised Cost		
8,154	8,154	Investments	100,863	100,863
4,932	4,932	Cash and Equivalents	10,351	10,351
15,030	15,030	Trade Debtors	13,163	13,163
37,270	**37,270**	**TOTAL**	**136,848**	**136,848**

31/03/2019			31/03/2020	
Carrying Amount	Fair Value	Financial Liabilities Held at Fair Value	Carrying Amount	Fair Value
(7,500)	(7,500)	Short-Term Loans	(15,000)	(15,000)
92	92	Other Long Term Liabilities	(234,214)	(236,891)
(14,014)	(14,014)	Liabilities at Contract Amount	(18,159)	(18,159)
(21,422)	**(21,422)**	**TOTAL**	**(267,373)**	**(270,050)**

Disclosure of Nature and Extent of Risk Arising from Financial Instruments

Fair Value

Long term debtors comprise finance lease and loans to other organisations. Short term creditors and debtors arise from charges to and from the Council for goods and services, and short term investments are those made in cash for less than twelve months. These instruments are carried on the balance sheet at amortised cost, which represents their fair value.

The Council has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £1,000 (2018/19: £1,000) is recorded as a gain in the Comprehensive Income and Expenditure Account and reflected as a reduction in the Financial Instruments Adjustment Account.

Key Risks

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

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

Overall procedures for managing risk

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

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

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

The 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:

The annual treasury management strategy which incorporates the prudential indicators was approved by the Council on 29th January 2019 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for 2019/20 was set at £55 million (2018/19: £30 million). This is the maximum limit of external borrowings or other long term liabilities
- the Operational Boundary was expected to be £40 million (2018/19: £25 million). This is the expected level of debt and other long term liabilities during the year

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

Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's 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 2019/20, which was approved by the Council on 29th January 2019, can be found on the Council's website.

One long-standing investment for £2m, which met the criteria when placed, does not meet the Council's current criteria. However, because it was placed to support local businesses, its continuing use as a counterparty has been approved by Leadership Team.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2020 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 it's 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 maturity analysis of financial liabilities is as follows:

2018/19			2019/20	
£'000	%	**Time to Maturity**	£'000	%
7,500	100%	Less Than One Year	15,000	100%
7,500		**Total**	**15,000**	

The Council does not generally allow credit for its trade debtors, such that £1.307 million (2018/19 £0.787 million) of the £11.671 million (2018/19: £10.325 million) balance is past its due date for payment. The past due amount can be analysed by age as follows:

31 Mar 19		31 Mar 20
£'000		£'000
368	Less than 3 months	903
18	More than 3 months, less than 6 months	18
137	More than 6 months, less than 1 year	117
264	More than 1 year	269
787		1,307

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 2020 is as follows:

31 Mar 19		31 Mar 20
£'000		£'000
2,004	Less than 1 year	0
2,004		**0**

Interest Rate Risk

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

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

31 Mar 19		31 Mar 20
£'000		£'000
70	Less than 1 year	1,043
70		**1,043**

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.

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.

38 Going Concern

Underlying Principle: The accounts have been prepared on a going concern basis that the Council will continue in operational existence for the foreseeable future.

The Council has carried out a detailed assessment of the likely impact of COVID-19 on its financial position and performance during 2019/20, 2020/21 and beyond. This included consideration of the following:-

- Loss of income on a service by service basis, due to temporary closures, reduction in demand, and increased collection losses.
- Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to the crisis (such as additional costs relating to temporary accommodation for the homeless), and additional costs associated with changes to working practices (such as remote working).
- Changes to Government policy, e.g. changes to business rate reliefs, guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact on the Council's capital programme, e.g. delays caused by Government restrictions, and whether there is a need to rephase work for other reasons.
- The impact on the Council's subsidiaries and joint ventures.
- The impact of all of the above on the Council's cash flow and treasury management, including availability of liquid cash (as at June 2020 the Council has around £94m short term investments), impact on investment returns, and availability of external borrowing if required.
- The estimated overall impact on the Council's General Fund and reserves.
- Central Government support - the Council has received grants from the Government. These have been:
    - Grants that the Council has administered and passported onto individuals and businesses to provide support to them and whilst these have been in the millions of pounds there has been no impact on the Council's financial position.
    - Grants for the Council to cover the additional expenditure incurred to respond to COVID related issues and then also grants to cover the loss of non-commercial income (although this has been limited to a maximum of 75% of the loss).

This review has highlighted that COVID-19 poses a significant financial challenge for the Council, as it will for all local authorities. To reflect this, the Council will publish an update to its Medium Term Financial Strategy in Autumn 2020.

The Council's assessment as at 14 July 2020 was that the net total adverse impact of COVID-19 on the General Fund would be £1.03 million, the vast majority of which is expected to crystallise within 2020/21. This assumed no extra funding above that already announced by Central Government, no re-prioritisation of services or alternative service provision. By way of context, the General Fund balance as at 31 March 2020 is £2.0 million (subject to year-end adjustments and audit). The Council's prudent minimum balance on the General Fund is £2.3 million. In addition to this the Council has an Economic Impact reserve which has a balance of £2.980 million at 31 March 2020 and it is expected that the COVID-19 financial impact will be met from this reserve. It is therefore felt that there is significant headroom within the General Fund to absorb the estimated financial impact of COVID-19 in the short to medium-term.

The Council has also reviewed it cash requirements over the medium term (up to the end of March 2022) and remains confident in its ability to maintain sufficient cash for its services throughout the medium term, even there is some uncertainty round income levels. The Council holds over £90m in cash all of which is available at short notice. This is based on our review of the cashflow forecast which covers a period twelve months beyond the signing of the accounts i.e. through to July 2022. The Council is of course also able to borrow short term for revenue purposes if ever needed. Even as the impact of COVID-19 continues and the Country finds itself in the midst of a second wave and a third lockdown, and with income levels recovering slowly, the Council has sufficient levels of reserves and investments such that it would not run out of cash.

The Council concludes that it is appropriate to prepare the financial statements on a going concern basis, and that the Council will continue as a going concern, based on the review of the forecast reserve and cash position 12 months from the signing of the accounts.

COLLECTION FUND

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

2018/19				2019/20		
£'000	£'000	£'000		£'000	£'000	£'000
NNDR	Ctax	Total		NNDR	Ctax	Total
			Income receivable:			
	(57,959)	(57,959)	Council Tax receivable		(60,997)	(60,997)
(63,996)		(63,996)	Business Rates receivable	(60,044)		(60,044)
			Transitional Protection Receivable	(45)		(45)
			Repayment of previous years deficit			
			Watford Borough Council	(3,411)		(3,411)
			Hertfordshire County Council	(853)		(853)
			Central Government	(4,263)		(4,263)
(63,996)	**(57,959)**	**(121,955)**	**Total Income**	**(68,616)**	**(60,997)**	**(129,613)**
			Expenditure:			
			Repayment of previous years surplus			
3,382	181	3,563	Watford Borough Council		250	250
846	887	1,733	Hertfordshire County Council		1,257	1,257
	108	108	Hertfordshire Police and Crime Commissioner		156	156
4,228		4,228	Central Government			0
			Precepts			
24,876	8,502	33,378	Watford Borough Council	23,344	8,809	32,153
6,219	42,775	48,994	Hertfordshire County Council	26,679	44,661	71,340
	5,313	5,313	Hertfordshire Police and Crime Commissioner		6,174	6,174
31,095		31,095	Central Government	16,675		16,675
			Charges to the Collection Fund			
1,693	119	1,812	Increase(Decrease) in Bad Debts Provision	851	224	1,075
(2,711)		(2,711)	Increase(Decrease) in Appeals Provision	(6,400)		(6,400)
169		169	Cost of Collection	167		167
3,005		3,005	Transitional Protection Payable	0		0
72,802	**57,885**	**130,687**		**61,316**	**61,531**	**122,847**
8,806	**(74)**	**8,732**	**(Surplus)/Deficit for the year**	**(7,300)**	**534**	**(6,766)**
(2,848)	(1,751)	(4,599)	**Fund Balance as at 1 April**	5,958	(1,825)	**4,133**
5,958	**(1,825)**	**4,133**	**(Surplus)/Deficit carried forward**	**(1,342)**	**(1,291)**	**(2,633)**
			Fund Balance Allocation			
2,383	(274)	2,109	Watford Borough Council	(598)	(190)	(788)
596	(1,378)	(782)	Hertfordshire County Council	234	(967)	(733)
	(173)	(173)	Hertfordshire Police and Crime Commissioner		(134)	(134)
2,979		2,979	Central Government	(978)		(978)

NOTES TO THE COLLECTION FUND

CF1 Council Tax Payers

The charge for council tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts or exemptions apply and is converted into an "equivalent number of Band D dwellings" where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection and contributions in lieu of tax in respect of certain government properties. The table below sets out the calculation of the Council Tax Base for 2019/20.

2018/19		2019/20				
Equivalent Number of Band D Dwellings	Valuation Band	Total Number of Dwellings in Band	Discounts, Exemptions & Disabled Relief	Total Chargeable Dwellings	Conversion Faction (Proportion)	Equivalent Number of Band D Dwellings
1.11	A (Disabled Relief)	0.00	0	0.00	5/9	0.00
237.53	A	493.00	(166)	327.20	6/9	218.13
2,187.93	B	4,259.00	(1,373)	2,886.50	7/9	2,245.06
10,250.27	C	14,515.00	(2,820)	11,694.95	8/9	10,395.51
10,769.70	D	12,708.00	(1,860)	10,848.35	9/9	10,848.35
3,911.42	E	3,606.00	(356)	3,250.20	11/9	3,972.47
2,890.41	F	2,171.00	(123)	2,048.35	13/9	2,958.73
3,002.92	G	1,902.00	(72)	1,830.00	15/9	3,050.00
144.49	H	78.00	6	84.00	18/9	168.00
33,395.78		39,732.00	(6,762.45)	32,969.55		**33,856.24**
(1,001.87)	Less Allowance for losses on collection					(1,015.69)
32,393.90	Tax Base for Calculation of Council Tax					32,840.56
	Add: Adjustment for changes during the year for successful appeals against valuations bandings, new properties, demolitions, disabled persons' relief and empty properties					
32,393.90						32,840.56

Each year, the Council needs to collect enough money from local residents to cover the cost of the services it provides which is not funded by government grants and charges for services. It also collects charges for Hertfordshire County Council and the Hertfordshire Police. The total is divided by the tax base for the purposes of calculating the council tax to arrive at an average Band D tax per dwelling. The Council set an average council tax charge for Band D dwellings of £1,816.17 (£1,746.92 for 2018/19).

2018/19 £'000		2019/20 £'000
(57,959)	Gross Council Tax Charge	(60,997)

CF2 Business Rate Payers

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

The relevant rateable value and multiplier data is shown below:

2018/19		2019/20
£		£
149,458,837	Total Non-Domestic Rateable Value at 31 March	148,212,001
49.3	National Non-Domestic Rate Multiplier - Standard	50.4
48.0	National Non-Domestic Rate Multiplier - Small Business	49.1

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

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

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

GROUP ACCOUNTS

2019/20

Watford Riverwell is the brand logo for Watford Health Partnership LLP (WHCP)

GROUP MOVEMENT IN RESERVES STATEMENT

2019/20	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Share of JV Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2019	**(1,999)**	**(19,492)**	**(1)**	**(4,228)**	**(2,741)**	**(28,461)**	**(203,875)**	**(232,336)**
Total Comprehensive income and expenditure	(88,213)	0	0	0		(88,213)	(40,382)	**(128,595)**
Adjustments between accounting basis, and funding basis under regulations	62,439	0	(27)	(71,423)		(9,011)	9,011	**0**
Adjustments primarily involving the share of Joint Venture Reserve					2,404	2,404		**2,404**
Transfer to\from Earmarked Reserves	25,482	(24,807)	0	0	0	675	(675)	**0**
Total Increase\(decrease) during the year	**(292)**	**(24,807)**	**(27)**	**(71,423)**	**2,404**	**(94,145)**	**(32,046)**	**(126,191)**
Balance as 31 March 2020	**(2,291)**	**(44,299)**	**(28)**	**(75,651)**	**(337)**	**(122,606)**	**(235,921)**	**(358,527)**

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2018/19 Restated	General Fund Balance	Earmarke d Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Share of JV Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2018	**(1,415)**	**(16,351)**	**(987)**	**(2,159)**	**(433)**	**(21,345)**	**(207,222)**	**(228,567)**
Total Comprehensive income and expenditure	(2,937)					(2,937)	**1,476**	(1,461)
Adjustments between accounting basis, and funding basis under regulations	(1,567)		986	(2,069)		(2,650)	**2,650**	0
Adjustments primarily involving the share of Joint Venture Reserve					(2,309)	(2,309)		(2,309)
Transfer to\from Earmarked Reserves	3,920	(3,141)	0	0	0	779	(779)	0
Total Increase\(decrease) during the year	**(584)**	**(3,141)**	**986**	**(2,069)**	**(2,309)**	**(7,117)**	**3,347**	**(3,770)**
Balance as at 31 March 2019	**(1,999)**	**(19,492)**	**(1)**	**(4,228)**	**(2,741)**	**(28,461)**	**(203,875)**	**(232,336)**

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19 Restated		2019/20		
Net Expenditure	**GROUP CIES STATEMENT**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**
£000		**£000**	**£000**	**£000**
	Services			
1,189	Corp Strategy & Client Service	1,315	(81)	1,234
11,299	Community Services	15,845	(3,642)	12,203
3,672	Democracy & Governance	2,513	(567)	1,946
678	Human Resources	673	(46)	627
7,167	Place Shaping & Performance	11,299	(4,569)	6,730
3,810	Service Transformation	6,458	(292)	6,166
4,394	Strategic Finance	35,328	(31,282)	4,046
32,209	**Net Cost of Services**	**73,431**	**(40,479)**	**32,952**
(7,635)	Other Operating (Income) and Expenditure			(10,735)
(11,610)	Financing and Investment (Income) /Expenditure			(1,597)
(15,901)	Taxation and Non-Specific Grant Income			(108,833)
(2,937)	**(Surplus) or Deficit on Provision of Services**			**(88,213)**
(2,129)	Share of (Surplus) / Deficit on Provision of Services by Joint Venture			**2,404**
(5,066)	**Group (Surplus) / Deficit**			**(85,809)**
(2,353)	(Surplus) / Deficit on revaluation of long-term assets			(18,676)
3,829	Actuarial (gains) or losses on pension assets and liabilities			(21,706)
1,476	**Other Comprehensive (Income) and Expenditure**			**(40,382)**
(3,590)	**Total Comprehensive (Income) and Expenditure**			**(126,191)**

GROUP ACCOUNTS

GROUP BALANCE SHEET

31 March 2018 Restated	31 March 2019 Restated		31 March 2020
£'000	£'000		£'000
100,828	106,242	Property, Plant and Equipment	369,526
3,055	2,238	Assets under Construction	1,331
1,945	1,978	Heritage Assets	2,609
830	2,146	Surplus Assets	2,600
169,339	171,711	Investment Properties	161,448
2,852	5,311	Long Term Investments	3,208
20,854	20,899	Long-Term Debtors	18,441
299,702	**310,525**	**Total Long term Assets**	**559,163**
0	0	Assets Held For Sale	0
17	17	Inventories	20
10,707	6,734	Short-Term Debtors	10,641
	2,004	Short-Term Investments	94,413
15,992	4,932	Cash and Cash Equivalents	10,351
26,716	**13,687**	**Total Current Assets**	**115,425**
(25,354)	(15,462)	Short-Term Creditors	(24,061)
0	(7,500)	Short-Term Borrowing	(15,000)
(25,354)	**(22,962)**	**Total Current Liabilities**	**(39,061)**
(7,418)	86	Long-Term Creditors	(231,822)
(7,030)	(5,946)	Provisions	(2,987)
(58,049)	(63,053)	Defined Benefit Pension Scheme	(42,191)
(72,497)	**(68,913)**	**Total Long Term Liabilities**	**(277,000)**
228,567	**232,337**	**Net Assets**	**358,527**
		Reserves	
(21,345)	(28,462)	Usable Reserves	(122,606)
(207,222)	(203,875)	Unusable Reserves	(235,921)
(228,567)	**(232,337)**	**Total Reserves**	**(358,527)**

During the financial year, the Council acquired Croxley Business Park on a finance lease for 40 years at a cost of £237m. The Council received £92m in advance for planned capital programme and rent shortfall over the lease period. This sum is reflected in Earmarked Reserves and Capital Grants and Contributions in the following notes.

Signed: Date: 10 March 2022
Alison Scott, CPFA
Director of Finance

Signed: Date: 10 March 2022
Mark Hofman
Chairman of Audit Committee

GROUP CASH FLOW STATEMENT

2018/2019 (Restated)			2019/2020	
£'000	£'000		£'000	£'000
5,066		Net surplus on the provision of services	88,213	
2,097		Adjustments to net surplus or deficit on the provision of services for non cash movements	24,434	
3,086		Adjustments for items that are outflows in provision of services from investing and financing activities	298,509	
	10,250	Net cash inflows from Operating Activities		**411,156**
		Investing Activities Inflows /(outflows)		
(11,517)		Purchase of PPE, Investment Property and intangible assets	(17,700)	
(15,170)		Purchase of short term / long term investments	(475,993)	
(149)		Other payments for investing activities	(225)	
4,440		Proceeds from the sale of PPE, Investment Property and intangible assets	5,839	
7,112		Proceeds from short term / long term investments	0	
4,492		Other receipts from investing activities	81,615	
	(10,792)			**(406,465)**
		Financing Activities Inflows /(outflows)		
0		Other receipts/payments from financing activities	0	
(10)		Repayments of short and long term borrowing	(7,500)	
(4,508)		Other payments for financing activities	(498)	
0		Cash payments - finance leases	(6,274)	
0		Cash receipts of short-term / long term borrowing	15,000	
	(4,518)			**728**
	(5,060)	Net increase in cash and cash equivalents		**5,419**
	9,991	**Cash and Cash equivalents at the beginning of the reporting period**		**4,931**
	4,931	**Cash and Cash equivalents at the end of the reporting period**		**10,350**

NOTES TO THE GROUP ACCOUNTS

1. The Group Accounting Policies

The Group Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2019/20 using the equity method for Joint Ventures under International Accounting Standard 28, Interests in Joint Ventures, and using the line-by-line consolidation method for subsidiaries under International Accounting Standard 27, Consolidated and Separate Financial Statements. There are no material subsidiaries or associated organisations excluded from the Group Accounts. There are no material differences in the accounting policies of the Council or any of the companies or organisations forming part of the Group Accounts.

Cross references to notes on the single entity accounts are to be used for material balances on the group accounts.

2. Watford Borough Council's Share of Joint Venture Company within the Group

Joint Ventures	Share of Ownership	Other Stakeholder	Date Incorporated
Watford Health Campus Partnership LLP (WHCP)	50%	Kier Property Investment	18 June 2013
Hart Homes (Watford) Limited	50%	Watford Community Housing Trust	24 June 2016

Watford Borough Council has 100% ownership in Watford Commercial Services Limited (net assets not material as at 31 March 2020) which in turn has 50% ownership in Hart Homes Watford Development LLP (net liabilities of £147k as at 31 March 2020) and part of joint committee with Wests Herts Crematorium as at 31 March 2020. The aggregate net assets of these companies is not material, and therefore has not been consolidated as part of the group accounts.

The table below shows 50% share for Watford Borough Council.

Restated 2018/19			2019/20	
Watford Health Campus Partnership LLP	Hart Homes (Watford) Limited		Watford Health Campus Partnership LLP	Hart Homes (Watford) Limited
£'000	£'000		£'000	£'000
(11,532)	(93)	Revenue	(14,400)	(368)
7,278	0	Cost of Sales	12,203	0
270	85	Administrative Expenses	141	200
0	0	Finance Cost	0	128
(3,985)	**(8)**	**(Profit)\Loss for the period**	**(2,057)**	**(40)**
0	5,567	Property, Plant and Equipment	0	5,515
5,259	0	Project under Development	5,151	0
9,055	0	Work in Progress (Current Assets)	5,087	0
1,126	9	Debtors (Current Assets)	75	36
1,382	45	Cash and Cash Equivalents (Current Assets)	474	69
(4,117)	(230)	Creditors (Current Liabilities)	(427)	(99)
(9,953)	(3,000)	Creditors (Long term liabilities)	(10,051)	(3,090)
2,752	**2,390**	**Net Assets**	**308**	**2,430**
5,141		**TOTAL NET ASSETS**	**2,738**	

3. Related Party Transactions

During the Period, there were no transactions between WHCP and the three related parties; Kier Project Investments, Kier Project Development, and Watford Borough Council.

4. WHCP Members' Capital Contributions (Loan Notes)

2018/19		2019/20		
Amounts outstanding at 31 March		New Loans	Repayments	Amounts outstanding at 31 March
£'000		£'000	£'000	£'000
7,078	Loan Note A	2,973	0	10,051
7,078		**2,973**	**0**	**10,051**

Interest of £0.518m has been accrued in respect of the total contributions by Watford Borough Council.

Grant and interest free loans
The project has a committed grant of £9.0m from West Hertfordshire Hospital Trust (WHHT) which has been used to fund part of the development of infrastructure, including construction of road and a bridge.

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF WATFORD BOROUGH COUNCIL

Opinion

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 38;
- Collection Fund and the related notes CF1 and CF2; and
- The Group Accounts and 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, [name of body] put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 1, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the Watford Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Watford Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Watford Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF WATFORD BOROUGH COUNCIL

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

Certificate

We certify that we have completed the audit of the accounts of Watford Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Watford Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Reading

10 March 2022

GLOSSARY OF TERMS

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

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

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

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

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

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

Chartered Institute of Public Finance and Accountancy (CIPFA)
The professional accountancy body concerned with local authorities and the public sector.

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

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

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

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

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

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

GLOSSARY OF TERMS

Financial Reporting Standard (FRS)
A statement of accounting practice issued by the Accounting Standards Board.

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

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

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

IFRS
International Financial Reporting Standards.

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

Investments
Deposits for with approved institutions.

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

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

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

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

National Non-Domestic Rates (NNDR)
Under the arrangements for uniform business rates, which came into effect on 1 April 1990, the Council collected Non-Domestic Rates for its area based on local rateable values, multiplied by nationally set rates. The total amount, less certain reliefs and deductions, was paid to a central pool managed by the Government, which in turn, paid back to Authorities their share of the pool based on a standard amount per head of the local adult population.
New arrangements for the distribution of NNDR came into force on 1 April 2013.

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

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

Pension Fund

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

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

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

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

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

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

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

WATFORD BOROUGH COUNCIL
BE BOLD

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watford.gov.uk

Maria Grindley
Ernst & Young
Apex Plaza
Forbury Road
Reading, RG1 1YE

10 March 2022

Dear Maria,

This letter of representations is provided in connection with your audit of the financial statements of Watford Borough Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Watford Borough Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by the auditor and brought to the attention of the committee because they are immaterial and do not have an impact on the general fund position.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

    - involving financial statements;

    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;

    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

    - involving management, or employees who have significant roles in internal controls, or others; or

• In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

    • Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

    • Additional information that you have requested from us for the purpose of the audit; and

    • Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 10th March 2022.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 30 July 2019, the date of our last management representation letter, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 34 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note 38 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the valuation of PPE, investment property and surplus assets; NNDR appeals provision; pensions liability; and manual accruals appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete, including the effects of the COVID-19 pandemic on the valuation of PPE, investment property and surplus assets; NNDR appeals provision; pension liability; and manual accruals, and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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(Director of Finance)

____

(Chair of the Audit Committee)

Schedule of Unadjusted Differences

Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors					
Known differences:					
• Overcharge of Employer Pension Reduce Deficit	-111			111	
Projected differences:					
• 20/21 ST Creditors incorrectly recognised in 19/20	-232			232	
• Debt written off in FY19/20 has not been fully provided for	112	-112			
• Incorrect capitalisation of revenue expenditure	82		-82		
• Extrapolated misstatement in ST Creditor testing	-101			101	
• Incorrect valuation of car parks due to inappropriate valuation methodology	-387		387		
Balance sheet totals		-112	305	444	
Income effect of uncorrected misstatements (before tax)	-637				
Cumulative effect of uncorrected misstatements before turnaround effect	-637				
Turnaround effect. See Note 1 below.	200				
Cumulative effect of uncorrected misstatements, after turnaround effect	-437				

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period.

1. Accounting Policies - Single Entity and Group Accounts

1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year end of 31 March 2022. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, 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 2021/22 and the CIPFA Service Reporting Code of Practice 2021/22 (SERCOP). SERCOP does not prescribe guidance on the Statement of Accounts. This is provided by the Code, 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. The Statement of Accounts has been prepared on a 'going concern basis.

1.02 Turnover (for Group Accounts)

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

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

1.03 Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- supplies are recorded as expenditure when they are consumed — where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet

- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract

Where revenue and expenditure have been recognised, but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.04 Cash and Cash Equivalents

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

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. The Council has no overdraft facility.

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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period, as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. See Note 4 for an outline of PPA's within this set of accounts.

1.06 Charges to Revenue for Long Term Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These entries are adjusted through 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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post-Employment Benefits

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

The Local Government Pension Scheme

- the Local Government Scheme is accounted for as a defined benefits scheme
- the liabilities of Hertfordshire County Council Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 3.6%-3.8% (based on the indicative rate of return on high quality corporate bonds);
- the assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Council are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS) 19. Full details of the assets held by the Fund are disclosed as part of the Pension scheme disclosure.

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

- current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost — the increase in liabilities arising from current year decisions which relate to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- interest cost — the expected increase in the present value of liabilities during the year as they move one year closer to being paid — debited to the Financing and Investment

Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- expected return on assets — the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments — the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees — debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — credited to the Comprehensive income and expenditure — Other Comprehensive Income and Expenditure line and reversed through the Movement in Reserves 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 the Comprehensive Income and Expenditure Statement.

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

Discretionary Benefits

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

1.08 Financial Instruments

Financial Liabilities

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

Financial Assets - Loans and Receivables

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument)

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 (CIES) 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 financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

The authority recognises expected credit losses on all of its material financial assets held at amortised cost [or where relevant FVOCI], either on a 12-month or lifetime basis. The expected credit loss model also applies to material lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Expected Credit Loss Model is not applied to debts related to Council Tax and Non Domestic Rates.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices –the market price
- other instruments with fixed and determinable payments –discounted cash flow analysis.

1.09 Government Grants and Contributions

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

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

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

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

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

1.10 Intangible Assets

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

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

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

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

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

Where there is intangible asset expenditure of an immaterial nature, the Council's policy is that these be capitalised and then written off in-year.

1.11 Inventories and Long Term Contracts

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

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

1.12 Investment Property

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

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

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

1.13 Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:-

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

1.14 Overheads and Support Services

The costs of overheads and support services are not charged to those service segments that benefit from the supply or service in accordance with the costing principles of the SERCOP.

But the costs of overheads and support services are accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

1.15 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

It should be noted that at present the Council has no donated assets.

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

- Infrastructure, community assets and assets under construction — depreciated historical
- 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. In addition, should current valuations of a similar class of asset suggest material differences in valuations, the entire class to which the asset belongs would be revalued. The current valuers have undertaken a market review of individual asset types within the Council's portfolio at year end to identify any material changes to the fair value of assets. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified:

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

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

Impairment

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

When impairment losses are identified:

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

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

Depreciation

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

Deprecation is calculated on the following bases:-

- Buildings — straight-line allocation over the useful life of the asset as estimated by the valuer - up to 70 years
- Vehicles — straight-line over the estimated life of the asset - up to 20 years
- Plant, furniture and equipment — straight-line over the estimated life of the asset - up to 20

  years
- Infrastructure — straight-line over the estimated life of the asset - up to 25 years
- Finance leases — over the life on the underlying asset or over the life of the lease where there is no option to acquire the asset at the end of the lease.

Please note, to ensure consistency across the Councils policies, the previous accounting policy of depreciating some plant, furniture and equipment has been changed from reducing balance to straight-line. This now means all Councils assets if depreciated are depreciated based on a straight-line basis. The impact was immaterial.

Depreciation commences in the year following acquisition.

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

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 of Non-current Assets

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

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

Construction Contracts

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

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

1.16 Heritage Assets

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

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

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

1.17 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

The level of provisions are reviewed annually by the Council.

Contingent Liabilities

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

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

Contingent Assets

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

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

1.18 Reserves

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

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

1.19 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 Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

1.20 Value Added Tax (VAT)

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

1.21 Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the Council in conjunction with other organisations, that involve the use of assets and resources of the Council and organisations without the establishment of a separate legal entity.

The Council recognises the assets and liabilities it controls on the Council's balance sheet. Expenditure incurred by the Council and income it earns from the operation is included in the Council's CI&E.

Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Council and other organisations. The assets being used to obtain benefit to the Council and organisations. The arrangement does not involve the formation of a legal entity.

The Council accounts for only its share of jointly controlled assets, liabilities and expenses incurred in respect of its interest in the arrangement.

An agreement exists between Dacorum Borough Council, Hertsmere Borough Council, St Albans City & District Council, Three Rivers District Council and Watford Borough Council to constitute a West Herts Crematorium Joint Committee under the Local Government Act 2000.

The Joint Committee has one member from each of the constituent Councils. One Watford Councillor represents the Council on the Joint Committee. The Council's Managing Director is the Clerk to the Joint Committee. Three Rivers District Council provide the Treasurer.

1.22 Single Entity Financial Statements

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

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

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

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

Subsidiary undertakings are accounted for in accordance with the implementation of IAS27 (International Accounting Standard 27) in the 2019/20 Code. The 2019/20 Code requires consolidation of subsidiaries. Consolidation is a method of accounting whereby an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, reserves, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:-

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

Investments in associates are accounted for in accordance with the implementation of IAS28 in the Code. The Code requires the consolidation of an entity's interest in associates. Joint ventures are accounted for in accordance with the implementation of IFRS 11 in the Code. The Code requires use of the "equity method" of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the investor's share of the net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Taxation (for Group Accounts)

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

Subscription and Repayment of Members’ Capital (for Group Accounts)

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

Allocation of Profits and Drawings (for Group Accounts)

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

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

Work in progress (for Group Accounts)

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

1.24 Fair Value

The Council measures some of its non-financial assets, such as surplus assets and investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices,
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly,
- Level 3 – unobservable inputs for the asset or liability.

Watford Borough Council
Draft Audit results report

Year ended 31 March 2020

10 March 2022

Private and Confidential

8 March 2022

Dear Audit Committee Members

We have substantially completed our audit of Watford Borough Council for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This 2019/20 audit has been significantly delayed. This has been a challenging year and the Council has had to deal with a much wider range of issues and so has not been able to prioritise the completion of the audit as they would have hoped to. We are keen to get the Council back on track and are already agreeing plans for the 2020/21 audit with your key officers to ensure a timely completion.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 10 March 2022.

Yours faithfully

Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report tabled at the 24 March 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Valuation of Property Plant and Equipment** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment.
- **Disclosures on Going Concern** – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- **Adoption of IFRS16** – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1,590k, with performance materiality, at 75% of overall materiality, of £1,190k, and a threshold for reporting misstatements of £79k. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1,633k (Audit Planning Report – £1,590k). This resulted in updated performance materiality, at 75% of overall materiality, of £1,225k, and an updated threshold for reporting misstatements of £81.7k.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee in Section 9.

Executive Summary

Status of the audit

We have substantially completed our audit of Watford Borough Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the outstanding matters set out in appendix B we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

1. Final amendments to plant, property and equipment;
2. Final Partner review of audit file;
3. Receipt and review of the final version of the financial statements;
4. Completion of subsequent events review;
5. Receipt of the signed management representation letter.

We expect to issue the audit certificate at the same time as the audit opinion.

Audit differences

We identified 6 unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £0.637m to the CIES, £0.305m to non-current assets, £0.112m to current assets, and £0.444m to current liabilities. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £10.8m to the CIES, £10.8m to the OCI/MIRS, £91.5m to reserves, £93.8m to non-current liabilities, £3.5m to current liabilities, and £1.1m to non-current assets. These have been adjusted by management.

In addition prior year adjustments have been made by management. This has an aggregated impact of £0.325m to the CIES, -£0.325m to the OCI/MIRS, -£13.9m to reserves and £13.9m to non-current assets.

Details can be found in Section 5 Audit Differences.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Watford Borough Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

Audit findings and conclusions: Significant risk - Incorrect accounting for manual accruals - risk of fraud in revenue and expenditure recognition

- A reclassification error of £190,000 was identified, where an agreement on Avenue Car Park, between the Council and Hertfordshire Council, had been shown as £200,000 in short term creditors, but £190,000 of this should have been in long term creditors.
- £105,123 was overstated in short term creditors due to the incorrect cut-ff of Croxley Park rental receipts.
- Our cut-off testing identified an error of £2,423, which when extrapolated over the population amounts to a potential error of £232,331.
- Our substantive year end creditor testing identified a further 5 errors, which when extrapolated over the population amounts to a potential error of £101,122.

Audit findings and conclusions: Significant risk – Incorrect accounting for income from investment and leasehold properties

- Our testing identified a £137,293 variance between the interest charged for 2019/20 per the lease schedule (£3,813,687) and the amount recorded in the general ledger (£3,950,980).
- £1,102,228 reclassification of rental deposits for Croxley Park where they are not expected to be repaid within a year, from short term to long term creditors.

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Audit findings and conclusions: Significant risk – Accounting for the Acquisition of Croxley Business Park

We worked both with your staff and our specialists to clarify the exact nature of this acquisition and several adjustments were required to the accounts;

- £68,000,000 reclassification of Croxley Park for Planned Property Maintenance (PPM) from long term liabilities to capital grants unapplied.
- £24,000,000 reclassification of Croxley Park for future rental top-up from long term liabilities to earmarked reserves.
- £3,690,487 capital payment of Croxley Park Finance Lease due in 1 year had been classified as a long term creditor instead of a short term creditor.
- £1,251,031 reclassification of Croxley Park for future rental top-up utilised in year, from short term liabilities to earmarked reserves.

Audit findings and conclusions: Significant risk – Valuation of land and buildings

We have identified issues around the valuations and classifications of PPE, IP, and surplus assets. We have also noted that rent to mortgage properties have been incorrectly classified as LT debtors when they are operational PPE. These misstatements also relate to prior year and prior period adjustment has been made. See section 5 for more details. The summary of our amendments are as follows:

	2017/18	2018/19	2019/20
PPE	£14.432m	£17.711m	£13.357m
IP	£0.389m	-£2.422m	-£11.905m
Surplus Assets	£0.225m	£0.125m	£0.579m

Executive Summary

Areas of audit focus

Audit findings and conclusions : Area of audit focus - Going concern and Covid-19

We have not identified any issues regarding going concern.

Audit findings and conclusions : Area of audit focus – Valuation of Pension Fund Assets and Liabilities

- The McCloud ruling meant that the remeasurement of the defined pension liability needed to be amended by £137,000, but the authority have adjusted past service cost instead of other operating income.
- Through the audit of the pension fund, the pension fund auditor noted there were differences in asset values in the fund. The pension fund auditor noted that once apportioned to Watford Borough Council, this would result in a difference of £648,000 downwards in the asset values disclosed in the IAS19 report.

Audit findings and conclusions : Area of audit focus – Valuation of NDR Appeals Provision

We have not identified any material misstatements arising from the valuation of the non-domestic rates appeals provision.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary

Control observations

MRP

We have identified a control deficiency in relation to the Council's capital financing requirement (CFR) and minimum revenue provision (MRP) record keeping as they were not able to produce a breakdown of its £32.4 million outstanding CFR on an asset by asset basis.

The decision on what is prudent is for the Council to make. Management agreed to amend the accounts to include a provision of £83,000 and we therefore accept that the Council has complied with its statutory duty to make a revenue provision it considers to be prudent.
However in our view, whilst the Council has made a provision, a charge of £83,000 is aggressive as it would take 385 years for the Council to cover its capital financing requirement of £32.4 million at that level of provision. We therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.

Lack of review of capital accounting

We have also identified the following significant deficiencies in internal control around fixed assets.

For plant, property and equipment, there are issues around incorrect classification, valuation, and lack of capital expenditure allocation. There is incorrect classification amongst asset classes, and also incorrect classification with investment properties and surplus assets. We recommend that management reviews the fixed asset register in detail, document their rationalisation, and retain supporting evidence for their classification of assets.

Also plant, property and equipment are not valued to year end 31st March 2020. Management operates a 5-year rolling cycle for valuation and assets are valued one year in arrear. In other words for the year ended 31st March 20, land and buildings are valued as at 01st April 2019. For assets not revalued in year the prior year valuation is used. As a recommendation management should pro-rate the land and buildings using an index to reflect their valuation as at year end 31st March 2020.

There is also a lack of capital expenditure allocation of land and buildings. This will lead to the double counting of asset value, as an unallocated capital expenditure and also included within the valuation by the management specialist of the whole asset. We therefore recommend that management allocates its capital expenditure on land and buildings annually. Management should also document their rationale on allocation, and for new assets not requiring allocation this should also be clearly documented. As plant, property and equipment are valued by the management specialist one year in arrear, the capital allocation for land and buildings should also be one year in arrear.

Similar issues have been identified in investment properties with respect to incorrect classification, and also incorrect capital expenditure allocation. However as investment properties are valued annually at year end these are not affected by the indexation issue. We have also identified classification issues around surplus assets that affects also plant, property and equipment and investment properties.

Lack of review of base data used for valuations work

We have also noted two valuation misstatements of which the incorrect rental income had been used. This has led to a £7.8m downward revaluation for Harlequin Shopping Centre, and an upward revaluation of £0.122m for 27 Greenhill Crescent. We recommend that management reviews the accuracy of base data before providing this to the specialist for valuations.

Executive Summary

Control observations

<u>Lack of review of management specialist's work in property valuation</u>
As part of our testing of plant, property and equipment we have also noted an arithmetic error in the management specialist's work for a property, 60 Rickmansworth Road, that had not been identified by management. This has led to a misstatement of £0.131m. We recommend that management reviews the work of the specialist and challenges the specialist memo.

<u>Lack of management review of accounts</u>
We note that there are a number of other misstatements in disclosures identified within the accounts. These include arithmetic errors and also non-compliance to the CIPFA disclosure requirements. We recommend that management performs a thorough review of the accounts and completes the CIPFA disclosure checklist, as well as make reference to the CIPFA guidance notes when preparing the accounts.

It should be noted though that significant improvements have been made by management in recent months during the audit for these areas.

See Section 3 – Areas of audit focus for further details on the misstatements, and Section 08 – Assessment of the Control Environment for our report on control deficiencies.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.
We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.
We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

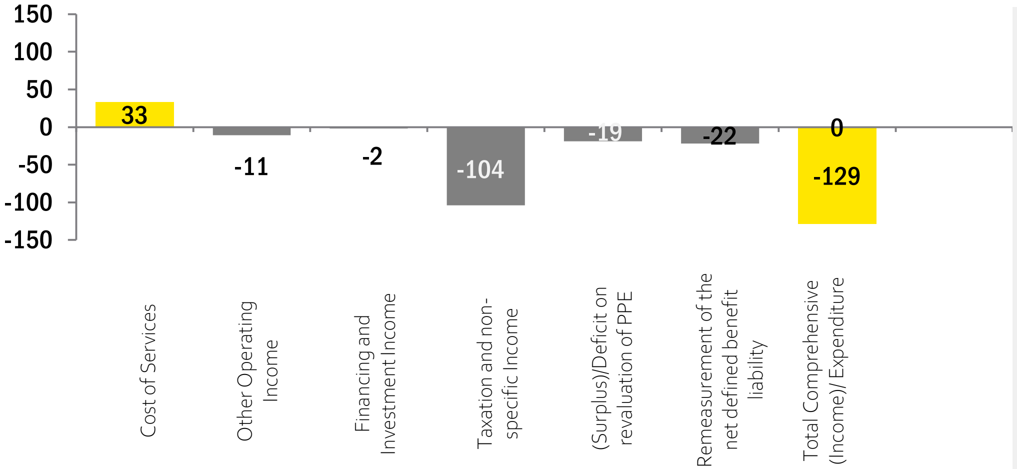
Independence

Please refer to Section 10 for our update on Independence.

02 Understanding Financial Statements

Key components of net expenditure

Net expenditure for the year ended 31 March 2020 was £33m, an increase of £1m from the prior year. During the year significant events have occurred with an impact on the underlying financial position of the Authority. The following provides an overview of the material items:



Taxation and non-specific grant income:
During the year there was a one off income of £92m that relates to the Croxley Park finance lease. £68m relates to monies received for future planned property maintenance, £20m for coverage of potential future rental income shortfall and £4m other.

Financing and investment income
Financing and investment income is mainly driven by movement in Investment property valuations. IP valuations is determined by valuer estimations, which is driven by market conditions and will fluctuate year on year.

Surplus/(Deficit) on revaluation of PPE
As with investment property valuations, operational PPE valuations are also determined by valuer estimations and therefore also fluctuate year-on-year.

Remeasurement of the net defined benefit liability
Net defined benefit liability is determined by actuarial assumptions (e.g. life expectancy, retirement age etc) and will fluctuate year-on-year.

03 Areas of Audit Focus

Significant risk

Incorrect accounting for manual accruals - risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through inappropriate timing or measurement of estimates, manual accruals around the year end being a typical estimate that could be affected.

What judgements are we focused on?

Correctness of recognition of manual accruals within accounting periods.

What did we do?

We focused on our journals testing strategy around the year-end period, with a particular focus on those manual entries that impact income and expenditure.

Where there was any management estimation or assumptions involved in the calculation of year end accruals we ensured that the rationale provided by management was appropriate and clearly documented on file via minutes of conversations held by management.

In addition to the focused review of manual accruals, our work was part of a suite of mandatory procedures performed regardless of specifically identified fraud risks. This included:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Assessing accounting estimates for evidence of management bias; and
- Evaluating the business rationale for significant unusual transactions.

To support our work on mandatory procedures, we utilised our data analytics capabilities to assist with our work, including carrying out testing on the income and expenditure accounts and journal entry testing.

What are our conclusions?

Our testing identified the following mis-statements:

- A reclassification error of £190,000 was identified, where an agreement on Avenue Car Park, between the Council and Hertfordshire Council, had been shown as £200,000 in short term creditors, but £190,000 of this should have been in long term creditors.
- £105,123 was overstated in short term creditors due to the incorrect cut-ff of Croxley Park rental receipts.

These errors have now been corrected on the revised statement of accounts.

We have identified another 5 uncorrected projected misstatements. These include:
- Cut-off testing identified an error of £2,423, which when extrapolated over the population amounts to a potential error of £232,331.
- Substantive creditor testing identified a further 4 errors relating to cut-off issues, which when extrapolated over the population amounts to a potential error of £133,714.

There were no further matters identified that we need to report to you.

Significant risk

Incorrect accounting income from investment and leasehold properties - risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through the inappropriate recognition of Investment property rental income from the properties held by the council and from leasehold properties.

What judgements are we focused on?

As 2019-20 will be the first year of managing and accounting for the Croxley Business Park, this will be the first year of allocating income streams to correct accounting periods for this asset and therefore recognized income could be more prone to fraud or error.

What did we do?

We have reviewed a sample of investment property and leasehold property income to confirm it is appropriately accounted for, particularly around the year end, given this is the first year of allocating income streams to correct accounting periods for this asset and could be more prone to fraud or error.

What are our conclusions?

Our testing identified a £137,293 variance between the interest charged for the year end 31/03/2020 per the lease schedule (£3,813,687) and the amount recorded in the general ledger (£3,950,980).

There is also a reclassification of £1,102,228 relating to rental deposits for Croxley Park where they are not expected to be repaid within a year, from short term to long term creditors.

These errors have now been corrected on the revised statement of accounts.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Significant risk

Accounting for the Acquisition of Croxley Business Park

What is the risk?

The Croxley Business Park acquisition will potentially materially affect not only Land and Buildings and Leasehold Creditors on the Statement of Financial Position but also other areas of the financial statements – income from investment properties, for example.

Areas of accounting treatment to consider include:

- valuation of the liability and the asset, including NPV calculations, asset life and incremental borrowing rate;
- financing and MRP;
- substance of cash back received at inception of the lease; and
- revisiting the conclusion last year to treat as an operational asset.

What judgements are we focused on?

A large number of new transaction streams will be brought to account at a time when there is expected staff turnover within the Authority's finance team. It will be important that learning is captured and shared as the accounting treatment is reviewed, agreed and implemented.

What did we do?

We continued to work with your finance team to understand and review the accounting treatment and we consulted with our EY Accounting specialist in this area.

We revisited testing thresholds within affected areas and ensured that our usual procedures have continued to meet the normal expectations of readers of the accounts.

We have retained documents of the agreed accounting treatment to support year on year comparisons as the asset progresses through it's life cycle. We have confirmed that similar arrangements are in place within the authority.

For the year end valuation of the Business Park, we have reviewed data and assumptions and methodology of management's experts. As the asset is new and the leasehold interests are various, we engaged with EY internal valuers for an assessment of the valuation reported.

What are our conclusions?

We worked both with your staff and our specialists to clarify the exact nature of this acquisition and several adjustments were required to the accounts;

- £68,000,000 reclassification of Croxley Park for Planned Property Maintenance (PPM) from long term liabilities to capital grants unapplied.

- £24,000,000 reclassification of Croxley Park for future rental top-up from long term liabilities to earmarked reserves.
- - £1,251,031 adjustment to long term receipts in advance was required, since it hadn't been adjusted for the current year. It was recorded at £24,000,000 but it should have been £22,748,969 after using £1,251,031 in year.
- £3,690,000 capital payment of Croxley Park Finance Lease due in 1 year had been classified as a long term creditor instead of a short term creditor.

Our work did not identify any other material issues we need to report to you.

Significant risk

Valuation of Land and Buildings

What is the risk?

Land and Buildings within Property, Plant and Equipment, investment properties and surplus assets represent material balances in Watford Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Detailed valuation work was undertaken in 2019-20 by the Council's valuers Avison Young. They undertook detailed revaluation work at 01st April 2019 for operational PPE, 31st March 2020 for surplus assets, and 01st April 2020 for investment properties. Our procedures included a review of the scope and timing of the valuer's work, base data used by the valuers, methodology and assumptions.

What judgements are we focused on?

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Following the Covid-19 outbreak in March 2020, there is potential for significant impact on the estimations and assumptions applied to asset valuations with qualified valuers reporting 'material uncertainty' within valuation reports.

This is particularly relevant for Fair Value / Market Value based assets because of the paucity of market information available at 31 March upon which to give those valuations.

What did we do?

We have:

- Considered the work performed by the Council's valuers Avison Young, including the scope and timing of the work performed on valuations and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise;
- Reviewed that procedures are applied by the Council to any roll forward valuations from 01 April 2019 to the year end 31 March 2020 for operational PPE;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed any assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated. We have considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries to ensure they have been correctly processed in the financial statements; and
- Reviewed valuer reports and findings, which determined our specialist EY valuer was required to review of methodologies, data and assumptions.

Significant risk

What are our conclusions?

We have identified a number of misstatements arising from the

PPE

- An error of £1.250m resulting from revaluation input error on the PPE FAR;
- An arithmetic error by the valuer resulting in undervaluation of the asset (60 Rickmansworth Road) by £0.131m;
- Operational assets that are valued to 01st April 2019 (i.e. one year in arrears) have not been uprated to represent the balance as at YE 31st March 2020;
- Similarly assets not revalued in year have also not been uprated to represent the the balance as at YE 31st March 2020;
- Unallocated capital expenditure that would be double-counted when operational PPE are valued by the valuers at YE;
- Classification issues between PPE asset classes, and also IP, and surplus assets
- PY incorrect classification of PPE additions into IP, which are not corrected until CY19/20.
- Rent to mortgage properties incorrectly classified as long term debtors when they should be operational PPE
- Prior period adjustments are required as the misstatements relating to the prior year are above our performance materiality.
- The overall amendment to PPE is:

PPE (NBV)

2017/18: £14.432m

2018/19: £17.711m

2019/20: £13.357m

Significant risk

Further details on procedures/work performed

IP

- An aggregate error of £5.016m resulting from revaluation input error on the IP FAR;
- Unsupported market rent for 2 properties – Harlequin Shopping Centre and 27 Greenhill Crescent. This has led to a downward revaluation of the asset by £7.8m for Harlequin Shopping Centre, and an upward revaluation of 27 Greenhill Crescent by £0.122m.
- Incorrect valuation methodology – EUV – adopted by management for valuations of car parks in IP. This has led to an upward revaluation of Occupation Road car park by £0.135m, and an additional extrapolated difference of other IP car parks by £0.387m.
- Classification issues between PPE asset classes, and also IP, and surplus assets
- Prior period adjustments are required as the misstatements relating to the prior year are above our performance materiality.
- The overall amendment to IP is:
  2017/18: £0.389m
  2018/19: -£2.422m
  2019/20: -£11.905m

Surplus assets

- There are misclassification misstatements between PPE, IP and surplus assets as noted above. The overall adjustments to surplus assets are:
  2017/18: £0.225m
  2018/19: £0.125m
  2019/20: £0.579m

Control deficiency:

We note that there is a lack of review of capital accounting, and in our testing we have identified a number of issues around the valuations, classification of land and buildings. We also note that there is a lack of challenge of valuer's work by management. Given the size of property valuations the deficiency in these controls are likely to lead to material misstatements as we have identified in the FY19/20 audit. We will discuss these control deficiencies in greater detail in Section 8 – Assessment of Control Environment.

Other areas of audit focus

Going Concern and Covid-19 (higher inherent risk)

What is the risk?

Covid-19 has created a number of financial pressures throughout Local Government. It is creating financial stress through a combination of increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. This results in significant judgement to conclude whether events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Authority's ability to continue as a going concern. This judgement will determine the appropriate disclosures to be made in the financial statements, which will be reflected in the audit report.

There is presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19 emphasises the need for the Council to undertake a detailed going concern assessment to support its assertion.

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What judgements are we focused on?

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Finance Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 states that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Authority's assessment will also need to cover this period.

Other areas of audit focus (Going concern – continued)

What did we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of future government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis and particularly with a view whether there are any material uncertainties for disclosure.

We reviewed the going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. We considered whether the necessary disclosures had been included regarding any material uncertainties that do exist.

We considered whether these disclosures also included details of the process that has been undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19).

Our audit procedures to review these included consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting;
- Sensitivities and stress testing; and
- Challenge of management's assessment, by thorough testing of the supporting evidence and consideration of the risk of management bias.

What are our conclusions?

We have reviewed the disclosures, supporting assessment and the final updated cash flow. We have no issues to report on in this area.

Other areas of audit focus

Valuation of Pension Fund Assets and Liabilities (higher inherent risk)

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.

Watford Borough Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2020 the net liability was valued at £42,191,000.

Asset and Liability values captured in Watford Borough Council's 2019-20 accounts are derived from information issued to the Council by the actuary to Hertfordshire County Council and involve significant estimation and judgement.

What did we do?

We have:

- Liaised with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Watford Borough Council;
- Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used; and
- Reviewed and tested the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19.

What are our conclusions?

The McCloud ruling meant that the remeasurement of the defined pension liability needed to be amended by £137,000, but the authority have adjusted past service cost instead of other operating income.

Through the audit of the pension fund the auditor it was noted there were differences in asset values in the fund. The pension fund auditor noted that once apportioned to Watford Borough Council, this would result in a difference of £648,000 downwards in the asset values disclosed in the IAS19 report.

No other issues were identified.

Other areas of audit focus

Valuation of NDR Appeals Provision (higher inherent risk)

What is the risk?

The valuation of NDR appeals provision is a high value estimate, with complex calculations. This means that their could be a material mis-statement in the accounts if this has been calculated incorrectly.

What judgements are we focused on?

Watford Borough Council's NNDR Appeal Provision was valued at £2,788,000 at 31 March 2020. This is a high value estimate driven by complex calculations.

What did we do?

We have:

- Considered the work performed by Inform, including the scope of the work, data provided to Inform and assumptions used; and
- Compared the level of appeals at 31 March 2019 and 31 March 2020 to assess the reasonableness of amounts provided for at year end.

What are our conclusions?

Our testing has not identified any material misstatements of the non-domestic rate appeals provision.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

Other areas of audit (Minimum revenue provision)

The issue and what did we do?

Watford Borough Council are required, under the 2003 Local Government Act, to charge Minimum Revenue Provision (MRP) to its revenue account in each financial year. In calculating a prudent provision, local authorities are required to have regard to statutory guidance issued periodically by MHCLG.

MHCLG consider that the methods of making prudent provision include the options set out in its guidance but does not rule out or preclude a local authority from using alternative methods of making prudent provision should it decide that is more appropriate.

However the current guidance clearly states a charge to a revenue account for MRP can only be £nil if a local authority's CFR was nil or negative on the last day of the preceding financial year; or a local authority chooses to offset a previous year's overpayment against the current year's prudent provision. As at 31 March 2019 the Council has a brought forward capital financing requirement of £32.4 million. In 2019/20 the draft accounts had a £nil MRP charge which is a divergence from the guidance.

We challenged the Council's position as follows:

- Requested a breakdown of the £32.4m CFR balance into relevant categories such as capital loans and investments; expenditure on investment property and additions to property plant and equipment. Officers were unable to do this.
- Asked officers to justify not charging any MRP in 2019/20 reviewing correspondence from the Council's treasury management advisors in the process.
- Reviewed the current MRP policy for adequacy

As a result of our challenge officers have agreed to:

- Amend the Council's MRP policy to reflect accounting for MRP in the year of acquisition for Commercial properties in view of the short term nature of these acquisitions. In our view the policy should also include MRP on capital loans to and investments in 3rd parties, and explain the approach in relation to its historic CFR from 1 April 2017 which should also be supported.
- Charge MRP of £83,000 in 2019/20 on unfinanced capital expenditure incurred in 2018/19. We welcome this adjustment but note that this approach only covers £3.5m of the £32.4m unfinanced as at 31 March 2019. There is no MRP planned to cover the remaining £28.9m unfinanced capital expenditure. The £83,000 charge is an estimate based on a 40 year life and allocation of financing in 2018/19 which has not been verified by Officers.
- Charge MRP of £4.1m in 2020/21. There are two concerns with this proposal (which does not impact the 2019/20 audit).

  1. Charging MRP at this rate continues to understate MRP in relation to the £32.4m unfinanced as at 31 March 2019.
  2. This charge assumes an estimated useful life of 60 years for the £237m of unfinanced capital expenditure incurred in 2019/20. The statutory guidance sets clear conditions for the use of the asset life method (option 3). Where a local authority uses any methodology that has the UL of assets as a component to the calculation, it should normally not exceed a maximum UL of 50 years. Local authorities can exceed this maximum where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years. In which case it can use the life suggested by its professional advisor. Officers should obtain this professional view or cap the useful life being used at a maximum of 50 years.

Other areas of audit focus (Minimum revenue provision)

What are our conclusions?

We recommend:

1. Revisit the MRP policy to ensure that it leads to a more prudent provision being made by the Council in line with MHCLG statutory guidance.
2. Review the £32.4m CFR as at 31 March 2019 so that it is clear how much relates to PPE; Investment Property; capital loans; and capital investments.
3. Determine the useful lives of all items which remain unfinanced, seeking the opinion of a suitably qualified professional where appropriate (this will be the case where the Council deems the asset life exceeds 50 years).
4. Calculate MRP charges going forward sufficient to cover all the outstanding CFR in a reasonable time frame.

Control deficiency:

As part of our review of the CFR and MRP systems within the Council we noted that officers were unable to produce a breakdown on an asset by asset basis of the Council's £32.4m capital financing requirement as at 31 March 2019.

In conclusion, whilst the Council has made a provision, a charge of £83,000 is aggressive as it would take 385 years for the Council to cover its capital financing requirement of £32.4 million at that level of provision. We therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.

04 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 38;
- Collection Fund and the related notes CF1 and CF2; and
- The Group Accounts and 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, [name of body] put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Our opinion on the financial statements

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of the Chief Finance Officer Responsibilities set out on page 1, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the Watford Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Watford Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Watford Borough Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

Our opinion on the financial statements

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

Certificate

We certify that we have completed the audit of the accounts of Watford Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of Watford Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
10 March 2022

05 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.082m which have been corrected by management that were identified during the course of our audit:

Significant risk - Incorrect accounting for manual accruals - risk of fraud in revenue and expenditure recognition

- £0.190m reclassification of Avenue Car Park agreement from short term to long term creditors.
- £0.105m overstatement of short term creditors due to incorrect cut-off of Croxley Park rental receipts.

Audit findings and conclusions: Significant risk – Incorrect accounting for income from investment and leasehold properties

- £0.137m interest charged for Croxley Park headlease overstated.
- £1,102m reclassification of rental deposits for Croxley Park where they are not expected to be repaid within a year, from short term to long term creditors.

Significant risk – Accounting for the Acquisition of Croxley Business Park

- £68m reclassification of Croxley Park planned property maintenance, from long term liabilities to capital grants unapplied.
- £24m reclassification of Croxley Park for future rental top-up, from long term liabilities to earmarked reserves.
- £3.690m reclassification of capital payment of Croxley Park finance lease due in one year, from long term liabilities to short term liabilities.
- £1.251m reclassification of Croxley Park for future rental top-up utilised in year, from short term liabilities to earmarked reserves.

Significant risk – Valuation of land and buildings

- CY and PY Adjustments to PPE, IP and surplus asset valuations:

	2017/18	2018/19	2019/20
PPE	£14.432m	£17.711m	£13.357m
IP	£0.389m	-£2.422m	-£11.905m
Surplus Assets	£0.225m	£0.125m	£0.579m

Valuation of Pension Fund Assets and Liabilities (higher inherent risk)

- £0.137m adjustment to defined pension liability was adjusted to past service cost instead of other operating income.
- £0.648m through the audit of the pension fund, the pension fund auditor noted there were differences in asset values in the fund. The pension fund auditor noted that once apportioned to Watford Borough Council, this would result in a difference of £648,000 downwards in the asset values disclosed in the IAS19 report.

Other corrected misstatements

- £0.083m minimum revenue provision charge had been omitted from the accounts.
- £94.413m short term deposits incorrectly classified to cash and cash equivalents when this should be short term investments. An incorrect prior period adjustment had also been made to reclassify £2.004m ST investments into cash and cash equivalents.
- £0.631m incorrect valuation of heritage assets, they had been undervalued. £0.110m overpayment of the employer pension contribution.

Audit Differences (continued)

Summary of adjusted differences – misstatements in disclosures

We highlight the following misstatements greater than £0.082m which have been corrected by management that were identified during the course of our audit regarding the disclosure notes supporting the accounts:

- Note 17 – Officers' remuneration - An understatement of £7k for honorarium and unsociable hours pay in the salary figure for the Executive Head of Strategy and Communication was identified. We note it here due to the sensitivity of these figures.
- Note 24 – Capital expenditure, financing and commitments - Under capital investments, disclosure of long term investments was understated by £3.617m. Under sources of finance, car parking zone was overstated by £0.134m.
- Note 34 – Contingent assets – Probable income from WHHT needed to be disclosed as a contingent asset with all possible outcomes.
- Note 36 (b) – Capital adjustment account - The reserves figure was understated by the same £0.134m mentioned above.
- Note 37 – Financial instruments – Long term investments understated, Watford Health Campus LABV £10.051m. There were also some presentation issues with the financial instruments note.
- Group accounts – Note 2 - A number of errors were identified in the consolidation numbers and disclosures;
    - For Hart Homes (Watford) Ltd, £0.128m finance costs had not been shown separately and had been included in admin expenses in error.
    - For Watford Health Campus Partnership LLP, revenue was understated by £0.210m, cost of sales understated by £0.323m, project under development understated by £0.134m, short term creditors overstated by £1.338m, long term creditors understated by £10.049m.

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In addition there were casting errors, typographical errors and narrative amendments that were required.

The following prior year adjustments (PYA) were identified:

- Leases - Assets relating to leases disposed on or before 2018/19 had been incorrectly included in the 2018/19 operating lease schedule. The overall misstatement is £25.9m (£0.230m due in 1 year, £0.894m due in 2-5 years, and £24.8m due over 5 years).
- Rent-to-mortgage arrangements – These properties had previously been classified as long term debtors, the amount recorded being the value of the unpurchased share. This is incorrect as there is no obligation for the tenant to make the purchase. The Council's share for these rent-to-mortgage properties for £1.31m should be reclassified as other land and buildings (OLB) under PPE as they are operational (they provide accommodation for in borough tenants) and the council owns a percentage of the property.
- Property, plant and equipment (PPE) - There have been a number of misstatements in the valuation of land and buildings that requires a PYA:
    1. Unallocated capex in land and buildings: we have noted that there are unallocated capital expenditure in land and buildings. This will result in double counting when the land and buildings is next revalued as the property valuers will take into account any additions that have taken place.
    2. Lack of indexation adjustment to reflect the year end valuation: Land and buildings under PPE are valued one year in arrears (e.g. assets are valued at 01/04/19 for year end 31/03/20) and therefore requires indexation to reflect the year end valuation. We have also noted that assets not revalued in year have not been adjusted to reflect the year end value.
    3. There is also a misstatement relating to the incorrect classification between PPE asset classes and also between PPE, IP and surplus assets.

- PYA amounts have been noted in the previous slide.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit Committee** and provided within the Letter of Representation:

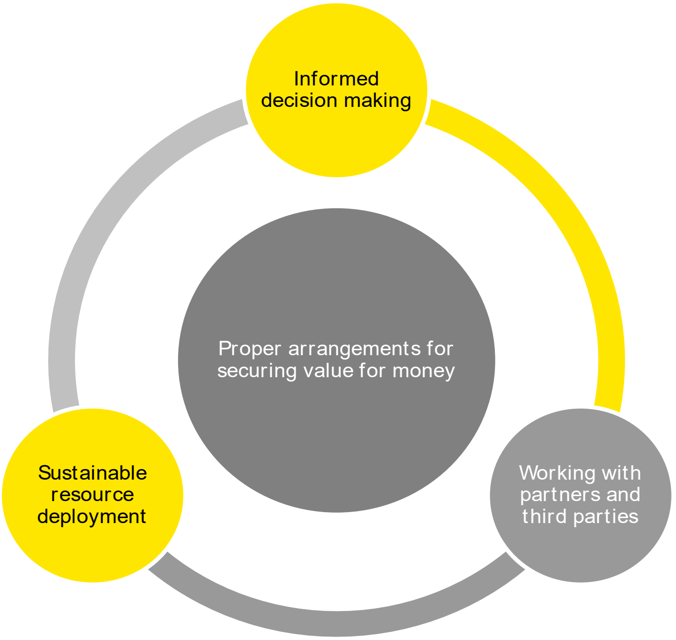
Uncorrected misstatements 31 March 2020 (£000)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)
Errors					
Known differences:					
• Overcharge of Employer Pension Reduce Deficit	-111			111	
Projected differences:					
• 20/21 ST Creditors incorrectly recognised in 19/20	-232			232	
• Debt written off in FY19/20 has not been fully provided for	112	-112			
• Incorrect capitalisation of revenue expenditure	82		-82		
• Extrapolated misstatement in ST Creditor testing	-101			101	
• Incorrect valuation of car parks due to inappropriate valuation methodology	-387		387		
Balance sheet totals		-112	305	444	
Income effect of uncorrected misstatements (before tax)	-637				
Cumulative effect of uncorrected misstatements before turnaround effect	-637				
Turnaround effect. See Note 1 below.	200				
Cumulative effect of uncorrected misstatements, after turnaround effect	-437				

There are no amounts that we identified that are individually or in aggregate material to the presentation and disclosures of the consolidated financial statements for the year ended 31 March 2020.

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period.

06 Value for Money

Value for Money



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Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Value for Money Risks

Overall conclusion
We identified a significant risk around these arrangements. The table in the below present our findings in response to the risks identified. We therefore have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Managing cash receipts from Leasehold and Investment Properties	Deploy resources in a sustainable manner	We carried out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources – specifically around management of cash flows and revenue receipts from Croxley Park. On review of the arrangements in place and results to date, we are satisfied there is no evidence to date of the VFM risk around failing to safeguard income receipts from Croxley Park crystallising.

07 Other Reporting Issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Annual Governance Statement with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Annual Governance Statement and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have completed our work in this area and have no matters to report.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Watford Borough Council’s financial reporting process. At the time of writing this report, there were no matters to report.

08 Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

MRP Record Keeping

We have identified a control deficiency in relation to the Council's capital financing requirement (CFR) and minimum revenue provision (MRP) record keeping as they were not able to produce a breakdown of its £32.4 million outstanding CFR on an asset by asset basis. See Section 2 for further details.

The decision on what is prudent is for the Council to make. Management agreed to amend the accounts to include a provision of £83,000 and we therefore accept that the Council has complied with its statutory duty to make a revenue provision it considers to be prudent.

However in our view, whilst the Council has made a provision, a charge of £83,000 is aggressive as it would take 385 years for the Council to cover its capital financing requirement of £32.4 million at that level of provision. We therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.

Fixed Assets

Lack of review of capital accounting

We have identified the following deficiencies in internal control in our test of fixed assets, including property, plant and equipment, investment properties, and surplus assets. We note that there is a lack of review of capital accounting, and in our testing we have identified a number of issues around the classification of fixed assets and valuations of land and buildings.

Plant, property and equipment

For plant, property and equipment, there are issues around incorrect classification, valuation, and lack of capital expenditure allocation. There is incorrect classification amongst asset classes, and also incorrect classification with investment properties and surplus assets. We recommend that management reviews the fixed asset register in detail, document their rationalisation, and retain supporting evidence for their classification of assets.

Also plant, property and equipment are not valued to year end 31st March 2020. Management operates a 5-year rolling cycle for valuation and assets are valued one year in arrear. In other words for the year ended 31st March 2020, land and buildings are valued as at 01st April 2019. For assets not revalued in year the prior year valuation is used. As a recommendation management should pro-rate the land and buildings using an index to reflect their valuation as at year end 31st March 2020.

Financial controls

There is also a lack of capital expenditure allocation of land and buildings. This will lead to the double counting of asset value, as an unallocated capital expenditure and also included within the valuation by the management specialist of the whole asset. We therefore recommend that management allocates its capital expenditure on land and buildings annually. Management should also document their rationale on allocation, and for new assets not requiring allocation this should also be clearly documented. As plant, property and equipment are valued by the management specialist one year in arrear, the capital allocation for land and buildings should also be one year in arrear.

Investment properties
Similar issues have been identified in investment properties with respect to incorrect classification, and also incorrect capital expenditure allocation. However as investment properties are valued annually at year end these are not affected by the indexation issue.

We also note that management has selected EUV rather than FV for Occupation Road Car Park. This is incorrect as Occupation Road Car Park is an investment property and therefore should be valued under FV. This has led to an upward revaluation of Occupation Road car park by £0.135m, and an additional extrapolated difference of other IP car parks by £0.387m. We note that this is due to lack of consideration by management and we recommend that they document their rationale for choice of valuations with reference to the CIPFA Code.

Surplus assets
We have identified classification issues around surplus assets that affects also plant, property and equipment and investment properties. We have discussed these in the sections above.

<u>Lack of review of management specialist's work in property valuation</u>
As part of our testing of plant, property and equipment we have also noted an arithmetic error in the management specialist's work for a property, 60 Rickmansworth Road, that had not been identified by management. This has led to a misstatement of £0.131m. We recommend that management reviews the work of the specialist and challenges the specialist memo.

<u>Lack of review of base data used for valuations work</u>
We have also noted two valuation misstatements of which the incorrect rental income had been used. This has led to a £7.8m downward revaluation for Harlequin Shopping Centre, and an upward revaluation of £0.122m for 27 Greenhill Crescent. We recommend that management reviews the accuracy of base data before providing this to the specialist for valuations.

Other disclosures
<u>Lack of management review of accounts</u>
We note that there are a number of other misstatements in disclosures identified within the accounts. These include arithmetic errors and also non-compliance to the CIPFA disclosure requirements. We recommend that management performs a thorough review of the accounts and completes the CIPFA disclosure checklist, as well as make reference to the CIPFA guidance notes when preparing the accounts.

It should be noted though that significant improvements have been made by management in recent months during the audit for these areas.

Assessment of Control Environment

Financial controls

To summarise, we recommend that the Council's key finance officers:

1. Reconsider the current MRP policy to ensure it is not overly aggressive whilst remaining prudent;
2. Review the fixed asset register in detail, documenting their rationalisation, and retain supporting evidence for their classification of assets.
3. Pro-rate land and buildings not valued at year end 31st March through the use of indices to reflect valuation at Balance Sheet date.
4. Review the allocation of capital expenditure for land and buildings, investment properties, and surplus assets annually.
5. Review the work of the valuation specialist and challenges the specialist memo.
6. Review the accuracy of base data before providing this to the specialist for valuations.
7. Perform a thorough review of the accounts and completes the CIPFA disclosure checklist, as well as make reference to the CIPFA guidance notes when preparing the accounts.

09 Data Analytics

Data analytics

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

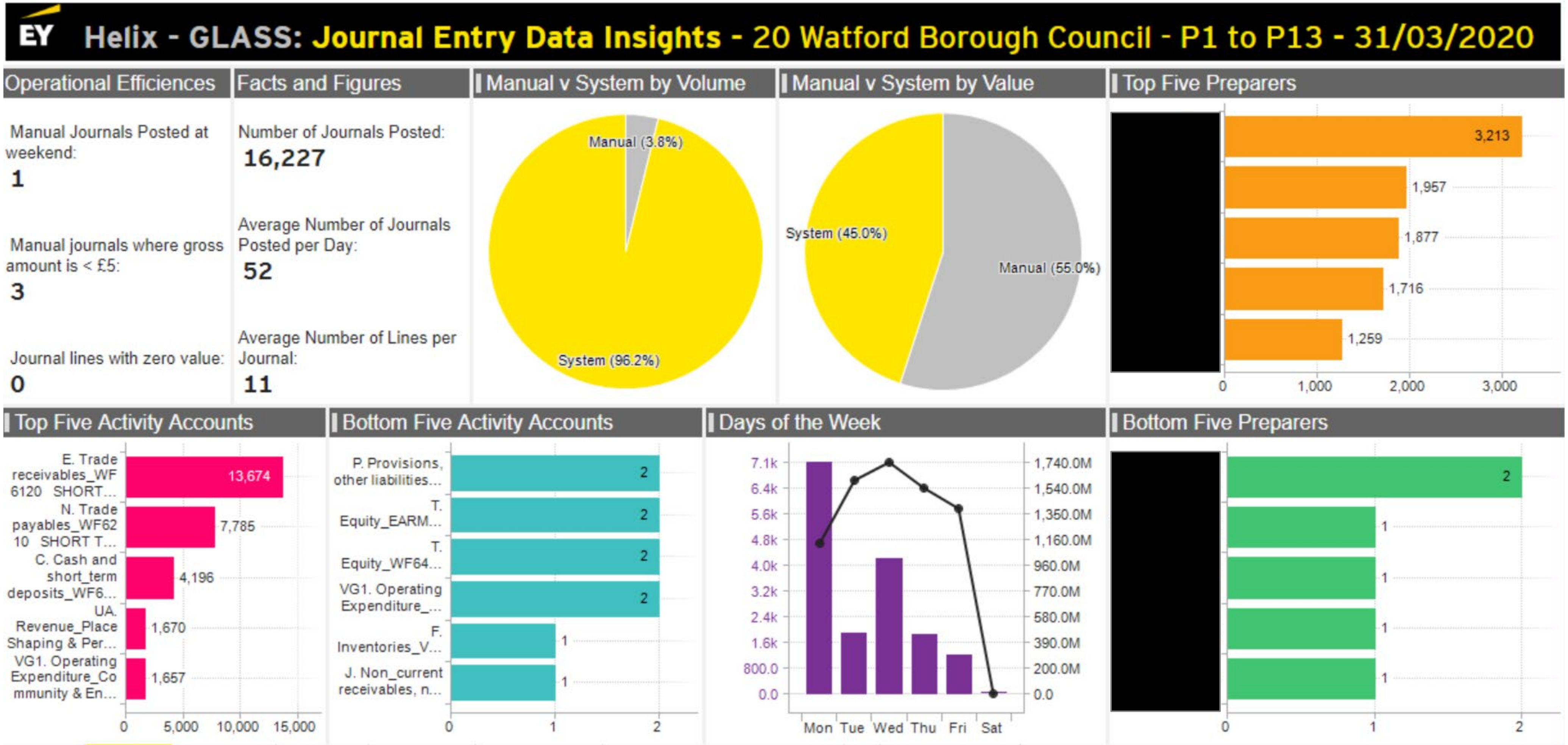
We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



Journal Entry Testing

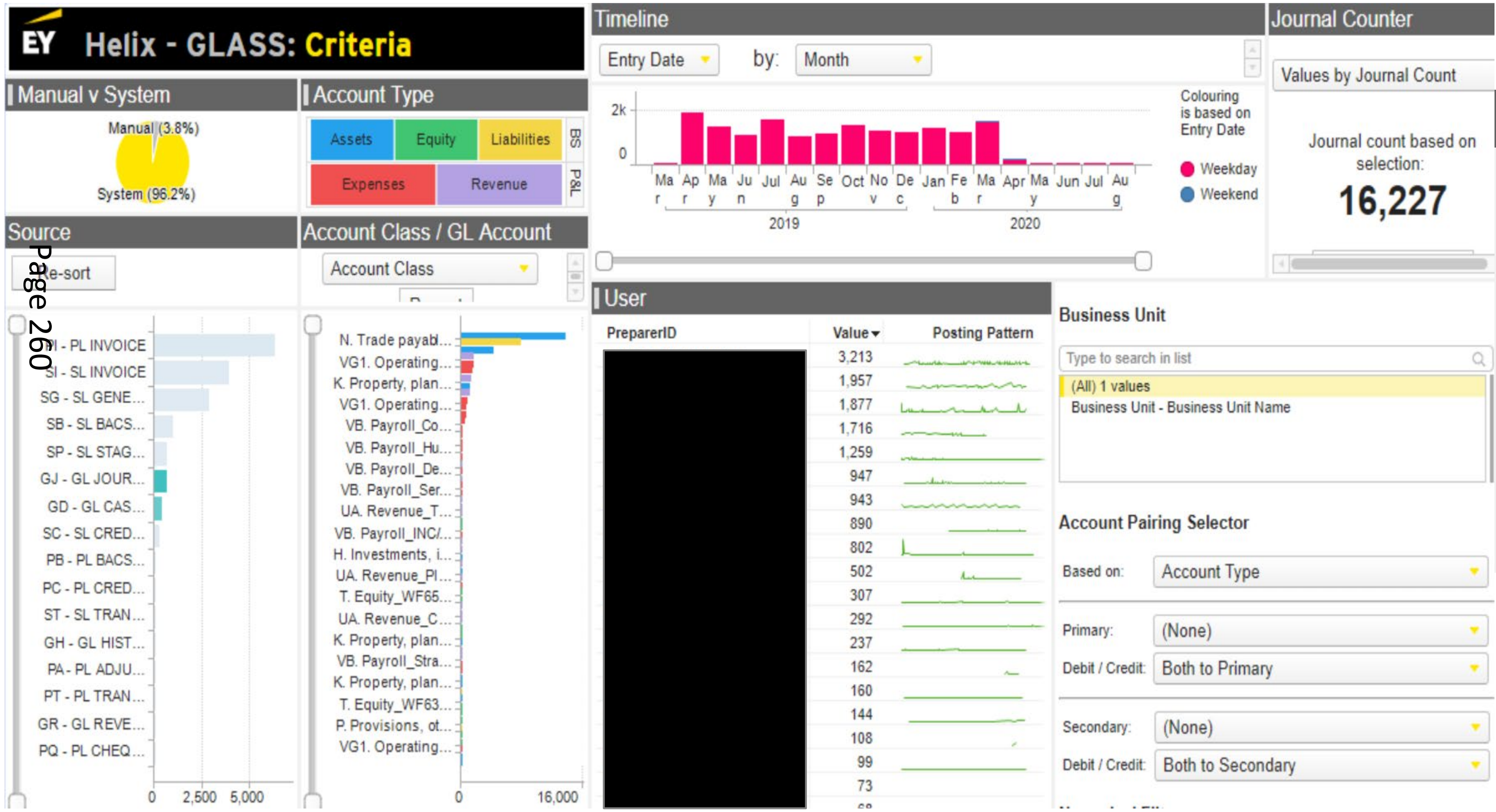
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2020



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

10 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 24th March 2020.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 10 March 2022.

We confirm we have not undertaken non-audit work outside the NAO Code requirements other than certification of HB grant claims.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table In the fees section sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Overview and Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Overview and Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

Fees

As part of our reporting on our independence, we set out below a summary of the fees for the year ended 31 March 2020.
We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have complied with Auditor Guidance Note 1 issued by the NAO.

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2019/20 accounts.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work. A breakdown of our fees is shown below.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	TBC	40,021	40,020
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk. (Note 1)	TBC	50,730	-
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation and VFM conclusion (Note 2)	TBC	TBC	3,999
Total Audit Fees	Notes 1 & 2	TBC	44,019

Note 1 – The proposed increase reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority as well as the changes and incremental increase in regulatory standards. The proposed increase in the baseline fee is relatively consistent with other councils of a similar size, risk profile and complexity that EY audits.

Note 2 – The impact of Covid-19 on the audit, the updated requirements on VfM conclusion, group requirements, use of experts for the work on valuation of PPE and the work on going concern will all impact the work that is required to be done. As we near the conclusion of the audit, we will be in a position to quantify the impact of these additional procedures and where we propose a variation to the Authority's scale fee.

On both points, we will continue to discuss and share with you our assessment of the audit fees required to safeguard audit quality and our professional standards.

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. We have summarised below a few 7key factors to consider.

Summary of key factors

1. **Status of sector**. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates**. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions and use of our internal specialists.

3. **Regulatory environment**. Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees (continued)

Summary of key factors (cont'd)
4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables. • We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality. • We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps
• In light of recent communication from PSAA, we have quantified the impact in the fee table earlier in this section of the above to be able to accurately re-assess what the baseline fee is for the Authority should be in the current environment. This is currently in review with PSAA Ltd

11 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Trade payables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change
Cash	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Final amendments to plant, property and equipment	Capex allocation should be one year in arrear for L&B in PPE, in line with the valuation schedule. Management has allocated capex in year rather than one year in arrear and they are to resolve issue around incorrect timing of capex allocation	EY and management
Final review and clearance of points	EY to complete review of all final areas of the work and raise any final queries.	EY and management
Statement of Accounts 2019/20	Review of the final draft set of statements to ensure all amendments have been made correctly. The final draft has been received on the date of this report.	EY and management
Management representation letter	Receipt of signed management representation letter	Management and Audit & Governance Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern, directors' remuneration and impairment sensitivities] remain to be finalised and audited.

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Audit results report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit results report
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit results report

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Audit results report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and Audit results report

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report

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Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit Planning Report and Audit Results Report

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Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

Maria Grindley
Ernst & Young
Apex Plaza
Forbury Road
Reading, RG1 1YE

Dear Maria,

This letter of representations is provided in connection with your audit of the financial statements of Watford Borough Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Watford Borough Council as of 31 March 2020 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

Management representation letter (continued)

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1.We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 10th March 2022.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

Management representation letter (continued)

Management Rep Letter

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From 30 July 2019, the date of our last management representation letter, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 34 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note 38 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

Management representation letter (continued)

Management Rep Letter

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

I. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of PPE, investment property and surplus assets; NNDR appeals provision; pensions liability; and manual accruals appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete, including the effects of the COVID-19 pandemic on the valuation of PPE, investment property and surplus assets; NNDR appeals provision; pension liability; and manual accruals, and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

J. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

(Director of Finance)

____

(Chair of the Audit Committee)

Appendix E

Regulatory update

There have been a number of regulatory developments for 2020/21. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Watford Borough Council
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO has updated the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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