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AUDIT COMMITTEE

Wednesday, 25th September, 2013

7.00 pm

Town Hall, Watford

Publication date: 17 September 2013

CONTACT
If you require further information or you would like a copy of this agenda in another format, e.g. large print, please contact Sandra Hancock in Democracy and Governance on 01923 278377 or by email to legalanddemocratic@watford.gov.uk .

Welcome to this meeting. We hope you find these notes useful.

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COMMITTEE MEMBERSHIP

Councillor I Brown (Chair)
Councillor P Taylor (Vice-Chair)
Councillors I Brandon, A Khan and T Williams

AGENDA

PART A - OPEN TO THE PUBLIC

1. **APOLOGIES FOR ABSENCE/COMMITTEE MEMBERSHIP**

2. **DISCLOSURE OF INTERESTS (IF ANY)**

3. **MINUTES**

   The minutes of the meeting held on 26 June 2013 to be submitted and signed.
   (All minutes are available on the Council's website – www.watford.gov.uk/meetings)

4. **EXTERNAL AUDITOR'S REPORT TO THOSE CHARGED WITH GOVERNANCE ISA260 (SEPTEMBER 2013) AND THE APPROVAL OF THE STATEMENT OF ACCOUNTS 2012/13** (Pages 1 - 112)

   Report of the Finance Manager Shared Services

   This report provides the Committee with an opportunity to ask questions of the external auditor concerning his 'Report to those charged with Governance (ISA260)' and to approve the Statement of Accounts for 2012/13.

   Appendix 1 has been circulated separately.

5. **INTERNAL AUDIT ANNUAL REPORT 2012/13** (Pages 113 - 132)

   Report of the Head of Finance Shared Services

   This report presents the Shared Internal Audit Service's Annual Report for 2012/13.

6. **INTERNAL AUDIT RECOMMENDATIONS** (Pages 133 - 182)

   Report of the Head of Finance Shared Services and Shared Internal Audit Service

   This report gives details of the progress made in implementing the recommendations of the internal auditor.

7. **TREASURY MANAGEMENT** (Pages 183 - 198)

Report of the Finance Manager Shared Services

This report presents to members a mid year review of the Treasury Management function 2013/14.

8. **FUTURE WORK PROGRAMME** (Pages 199 - 204)

Report of the Head of Finance Shared Services

This report asks Members to consider a range of discussion topics and updates for consideration at future meetings of the Audit Committee.

Agenda Item 4

Report to:	Audit Committee
Date of meeting:	25 September 2013
Report of:	Dot Reynolds – Finance Manager Shared Services
Title:	External Auditor's Report to Those Charged With Governance – ISA260 (September 2013) and the Approval of the Statement of Accounts 2012/13

1.0 SUMMARY

1.1 This report allows the Committee to ask questions of the external auditor concerning his 'Report to those charged with Governance (ISA260)' and to approve the Statement of Accounts for 2012/13.

2.0 RECOMMENDATIONS

2.1 That the Committee notes the external auditor's 'Report to those charged with Governance,

2.2 That the Committee seeks any clarification it needs concerning the Statement of Accounts for 2012/13,

2.3 That the Committee confirms that it is satisfied that the accounting policies adopted are the most appropriate, and,

2.4 That the Statement of Accounts for 2012/13 be approved.

Contact Officer:
For further information on this report please contact: -
Dot Reynolds, Finance Manager, Shared Services
telephone extension: 7219
email: dot.reynolds@threerivers.gov.uk

Report approved by: Alan Power, Head of Finance Shared Services

3.0 DETAILS

3.1 The Audit Committee at its meeting on the 26 June received the draft Statement of Accounts for 2012/13.The Accounts have since been audited by Grant Thornton UK LLP.

3.2 The Auditor's 'Report to those charged with Governance' is attached at Appendix 1. It is issued in accordance with ISA260 and incorporates a conclusion on final accounts work and a value for money judgment. Grant Thornton will attend the meeting to present the report and answer questions.

3.3 Attached at Appendix 2 is a draft letter of representation which should be signed at the meeting.

3.4 The Council's Statement of Accounts for 2012/2013 is attached at Appendix 3.

3.5 The accounts must be signed by the Chief Finance Officer before they are approved by the Committee and, subject to approval, the Chairman of the Committee shall sign and date them at the meeting.

3.6 Financial Reporting Standard 18 requires the Committee to confirm that it is satisfied that the accounting policies adopted are the most appropriate.

4.0 KEY ISSUES AND INTERPRETATION OF THE ACCOUNTING STATEMENTS

4.1 The purpose of the Statement of Accounts is to give interested parties an understanding of the Council's financial position. It also provides an opportunity to compare how the Council performed financially against its original plan published when setting the budgets in February 2012. Members are referred to the Foreword to the Statement of Accounts.

4.2 The Financial Statements have been prepared under International Financial Reporting Standards (IFRS), a statutory accounting framework which has replaced the United Kingdom Generally Accepted Accounting Principles (UK GAAP). The Chartered Institute of Public Finance and Accountancy produces a Code of Practice on Local Authority Accounting which reflects the statutory requirements and has been followed in preparing the financial statements.

4.3 A draft Annual Governance Statement (AGS) was presented to the Committee and approved on 26 June 2013. It is now included in the Statement of Accounts before the Committee, and has been signed by the Leader of the Council and the Chief Executive as required by proper practice.

4.4 *Summary of Financial Position*

4.5 The Council's medium-term financial planning has aimed to achieve a balanced budget and a prudent level of balances. With the reductions in government grant, however, this means that significant savings have had to be identified. The Council is aiming to continue to achieve efficiency savings rather than cut levels of service. Tight financial control will need to be exercised to ensure that the savings identified are achieved.

4.6 In the longer term the Council will also have to address the impact on the revenue account of reduced interest income as capital receipts are used to fund capital expenditure.

5.0 **IMPLICATIONS**

5.1 **Financial**

5.1.1 Contained in the Statement of Accounts.

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 None specific.

5.3 **Equalities**

None specific.

5.4 **Potential Risks**

There are no risks associated with the decisions members are being asked to make.

APPENDICES

1. Report to those charged with Governance (ISO260) – Grant Thornton – September 2013
2. Draft Letter of Representation
3. Statement of Accounts 2012/13

BACKGROUND PAPERS

The Accounts and Audit (England) Regulations 2011

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Watford Borough Council
Town Hall • Watford • Hertfordshire • WD17 3EX
Tel 01923 226400 Fax 01923 278100
DX 51529 Watford 2
Website www.watford.gov.uk Email enquiries@watford.gov.uk

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Enquiries to: Joanne Wagstaffe
Phone no: 01923 278189
Our reference: JW/DMAR
Your reference:
Date: 25 September 2013

Dear Sirs,

Watford Borough Council – financial statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Watford Borough Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.
We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iv Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

v We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vi We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).

vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code would require adjustment or disclosure have been adjusted or disclosed.

ix We have not adjusted the misstatements brought to our attention in the Audit Findings report, which are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

x We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xi We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xii We have provided you with:

a. 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;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xiii We have communicated to you all deficiencies in internal control of which management is aware.

xiv All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv 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.

xvi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xvii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xviii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xix We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

Annual Governance Statement

xx We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 25 September 2013

Signed on behalf of the committee

……………………………………………		…………………………………………	
Name:	Ian Brown	Name:	Joanne Wagstaffe, CPFA
Position:	Chairman Audit Committee	Position:	Director of Finance and section 151 officer
Date:	25 September 2013	Date:	25 September 2013

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STATEMENT OF ACCOUNTS

2012/2013

CONTENTS

	PAGE
INTRODUCTION	**2**
STATEMENT OF RESPONSIBILITIES	**3**
EXPLANATORY FOREWORD	**4**
ANNUAL GOVERNANCE STATEMENT	**14**
CORE FINANCIAL STATEMENTS	
STATEMENT OF MOVEMENT IN RESERVES	**26**
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	**30**
BALANCE SHEET	**31**
CASH FLOW STATEMENT	**33**
NOTES TO THE CORE FINANCIAL STATEMENTS	
ACCOUNTING POLICIES	**34**
OTHER NOTES	**48**
SUPPLEMENTARY FINANCIAL STATEMENTS	
COLLECTION FUND	**91**
NOTES TO THE COLLECTION FUND	**92**
GLOSSARY OF TERMS AND ABBREVIATIONS	**95**
INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE	**98**
INDEX OF NOTES TO THE CORE FINANCIAL STATEMENTS	**101**

INTRODUCTION

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31[st] March 2013.

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

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

Joanne Wagstaffe CPFA
Director of Finance

Watford Borough Council
Town Hall
Watford
Hertfordshire
WD17 3EX

STATEMENT OF RESPONSIBILITIES

The *Code of Practice on Local Authority Accounting in The United Kingdom* reflects the requirements of the *Accounts and Audit Regulations 2011.* The Council must provide a Statement of Responsibilities for the Statement of Accounts which sets out the responsibilities of the Council and the Chief Financial Officer for the Accounts.

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council the Chief Financial Officer is the Director of Finance.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The 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 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

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

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

The Director of Finance has also:

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

The Statement of Accounts presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Signed ………..………………………….. **Date: 25 September 2013**
Joanne Wagstaffe CPFA
Director of Finance

Signed ………..………………………….. **Date: 25 September 2013**
Ian Brown
Chairman of Audit Committee

EXPLANATORY FOREWORD

1.0 Introduction

1.1 The purpose of this Foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the Statement of Accounts.

1.2 It also however attempts to provide a national context, and the effect upon Watford, as a background to the Council's financial statements.

1.3 Finally it also highlights the major outcomes achieved by the Council during 2012/2013 against which our expenditure and income can be judged.

1.4 It is hoped that the Foreword is of interest and helps to demonstrate whether our communities' money has been spent wisely.

1.5 This Foreword was prepared by the former Head of Strategic Finance, Bernard Clarke CPFA. He was replaced by Joanne Wagstaffe on 22 July 2013.

2.0 Economic Background

2.1 The global economic background has been dreadful since the 'financial crash' in 2008. The main causes have been well documented but have included:

- A situation where financial institutions borrowed far too much money which was then loaned at extremely cheap rates to developers/speculators who constructed projects that were not sustainable. This typically occurred within the housing market in Spain and Ireland where a glut of property has been built which now lies empty.

- Accompanying this, there was also a series of company takeovers where the purchasers paid inflated prices for the assets (again backed by cheap funding from financial institutions). The consequence being that banks and building societies were left with massive bad debts in their balance sheets.

- At the same time, the banks themselves sought to buy out competitors at inflated prices and without carrying out proper 'due diligence'. In the UK for example, RBS took over a Dutch bank, ABN Amro, at an overvalued price. Similarly the Co-operative bank swallowed up the Britannia Building Society and inherited some commercial bad debts.

- Cheap rates of borrowing also affected the average household in the UK where money was borrowed to finance everyday expenditure such as holidays, new cars, clothing, cosmetics etc. This money was borrowed largely on the back of the increased value of their homes. A correction in values has led to the return of negative equity. In some cases banks and building societies were loaning money to borrowers well in excess of the values of the properties being purchased.

- Central Government was not immune to this 'credit frenzy' and in the UK for example, public expenditure far outstripped the ability to pay for it and therefore was funded by increased borrowing. To some extent local authorities were caught up in this frenzy with increased funding from central government encouraging increased expenditure to the general public. At the same time council tax increased significantly over the decade.

2.2 Central Banks such as the Bank of England were not in sufficient control of the situation and should have forced interest rates to increase or taken some of the 'cash liquidity' out of circulation. The former Governor of the Bank of England, Mervyn King, once observed the job of a Central Bank is to take away the punchbowl just as a party is getting started. In reality that is exactly what they didn't do.

2.3 The consequence when it arrived was extremely painful and has resulted in financial institutions having a massive overhang of commercial and residential debt where liabilities far exceed assets. National Governments have also found that they have borrowed too much and need to reduce public expenditure. Households have not been immune and there has been a need to reduce debt. In many cases however total household disposable income has diminished due to no annual pay increases, inflation running at circa 4% annually since 2008, and an increase in part time and reduced hours working due to industry producing less goods for sale. Whilst savers far exceed borrowers, the current low level of interest rates means that the real value of investments has plummeted and has again affected purchasing power.

2.4 For the immediate future this scenario will continue with low interest rates necessary to ensure the most heavily indebted companies and households stay afloat.

3.0 Effect upon Watford Borough Council

3.1 The effect upon the Council has been significant and varied and has included:

- Central Government has reduced its support to all local authorities. For Watford a 28% reduction in central government general funding has occurred in the period 2011-2014. In reality once the effect of inflation is taken into account then the reduction is significantly more. It is anticipated that further cuts of another 20% will be imposed in the period up to 2018.

- Our community has been affected with disposable income having fallen significantly. At the same time, the numbers of families claiming welfare benefits has increased and has placed more pressures on our budgets. The Council has attempted to soften this situation by freezing levels of council tax (after central government funding, our other main source of income); it has also sought to impose minimal increases in its charges for services provided (but this is not always possible where, for example, increased fuel costs has meant trade refuse charges have had to increase).

- The increasing number of vacant shops has also affected the Council's levels of income as it received £7.312m of rent income in 2012/13, which is a 4.2% reduction compared to the £7.635m of rental income received in 2011/12.

- Finally, the low levels of investment returns has affected the income we receive. In the past our portfolio of investments were earning 4% rates of interest but that has now fallen to an average 1%. So this has put more strain on the Council finances. These low returns also affect the value of the Council's pension fund whereby we are paying out more to our pensioners than we are getting in from pensions contributions and investment interest. This pensions deficit will need to be addressed over the coming years.

3.2 So, with all this depressing news, the Council has had to chart a course which seeks to ensure our financial health is good and we will be in a position to meet further expenditure cuts from central government whilst also meeting our strategic objectives for our community. The next section of this Foreword briefly details how we performed in 2012/2013 and is extracted from the Annual Report that went to all households in April 2013.

4.0 Achievement of Objectives During 2012/2013

4.1 An examination of the use of the financial resources of the Council would be incomplete unless it also measured this funding against the Council's strategic objectives during the same period. Subsequent paragraphs of this section of the Foreword attempts to provide the 'reader' with a flavour of achievement during the year.

4.2 Some of the highlights of the year include:

- approved designs that will significantly improve the Parade end of the High Street and make it more welcoming and attractive to the wider community
- with our Watford Health Campus partners secured a private sector partner (Kier Property) who will work with us to progress the scheme and develop a masterplan that will deliver a new sustainable community in West Watford
- negotiated an exciting way forward for Charter Place that will see Intu Watford (formerly Capital Shopping Centres) build on their commitment to Watford and re-develop the Centre as a retail, leisure and entertainment destination in the heart of the town
- supported the Croxley Rail Link project that is now on target to open in 2016 and provide the town with an excellent new transport link
- achieved a Round 1 HLF Award for Cassiobury Park to develop a Round 2 submission
- achieved approval for our Core Strategy – the key planning documents that will underpin development across the borough and shape the future of the town
- met our targets for recycling and reducing waste sent to landfill
- met our targets for keeping our streets clean and free of litter, graffiti and fly posting
- maintained our three green flags for our parks and open spaces
- achieved purple flag status for the 'top of the town' with our police and business partners and used the success to build on the work we do with them to make our night-time economy both vibrant and safe
- agreed a new Commissioning Framework that supports our relationship with the voluntary and community sector within the borough, recognising the role it plays in delivering services for our residents
- continued to advise and assist residents, including those who are more vulnerable, towards meeting their housing needs

- engaged with our community through a number of channels including a Community Survey and dedicated groups that we established to work with local people on specific issues of importance to them

- continued to achieve significant savings through year 2 of our service prioritisation programme and through year 1 of the Future Council : Roadmap programme

- introduced voice recognition telephony to speed up and improve the experience of contacting us by telephone

- developed a local council tax scheme that will continue to support those residents who need help in paying their bill

- revised our organisational structure as part of our Future Council programme to ensure it reflects our priorities and the challenges and opportunities we face going forward

5.0 Prospects for the Future

5.1 The Statement of Accounts is very much an historic, backwards looking document which indicates how the Council's finances have changed during 2012/2013. Of interest to the reader will be what is the prognosis for the future when measured against the inevitable reductions in public expenditure forecast for the next five years?

5.2 In that respect there are four main component parts:

i) the Council's own expenditure and income projections. In this regard the Council has been carrying out a systematic review of the way it delivers services. It has reduced back office and management costs and resolved to outsource some services to the private sector. The ultimate aim is to deliver circa £4.5m of expenditure reductions without significantly affecting service delivery. It recognises households are suffering and will seek to avoid large increases in its charges.

ii) the support it receives from central government. Significant reductions have already been taken into account and it is hoped that the expenditure proposals already identified will be sufficient to compensate for this loss of government support.

iii) the levels of council tax that is levied upon households is also a major source of income to the council. Over the past four years council tax for Watford Borough Council services has not increased. It would be unrealistic to provide a blanket guarantee that this would continue indefinitely (inflation continues to run at circa 3% currently) but every effort will be made to keep any increase below levels of future inflation.

iv) finally a key component is the 'financial resilience' of the Council which leads us back to this detailed statement of accounts. In that respect subsequent sections of this Foreword will highlight how the Council fares in the resilience test. A short phrase that would summarise the Council is ''being in a very good financial shape'' to meet the challenges ahead. I hope you reach the same conclusion.

6.0 The Core Financial Statements

6.1 The accounts that follow this foreword contain four core financial statements:

6.2 **Statement of Movements in Reserves**

6.3 The Statement of Movements in Reserves is a summary of the changes that have taken place in the bottom half of the Balance Sheet. It analyses the increase or decrease in the net worth of the Council as a result of incurring expenses and generating income and in the movements in the fair value of its assets. It also shows movements in reserves brought about by statutory provisions that, due to accounting requirements, are excluded from the Comprehensive Income and Expenditure Account.

6.4 **Comprehensive Income and Expenditure Account**

6.5 The Comprehensive Income and Expenditure Statement (CIES) consolidates the gains and losses experienced by the Council during the financial year. These are reconciled to the changes in net worth in the Statement of Movements in Reserves. The CIES has two sections. The first details income and expenditure on services, and the second shows other income and expenditure such as movements in capital values and gains or losses on pension assets and liabilities.

6.6 **Balance Sheet**

6.7 The Balance Sheet summarises the Council's position at 31 March each year. In its top half it contains the assets it holds or liabilities it has accrued with other parties. As the Council does not have equity, i.e. shareholders, the bottom half shows usable and unusable reserves representing the Council's net worth. Changes in the net worth during the year are reconciled in the Statement of Movements in Reserves.

6.8 **Cash Flow Statement**

The Cash Flow Statement summarises the flows of cash that have taken place into and out of the Council's bank accounts during the financial year.

7.0 Changes to the Statement of Accounts

7.1 **Accounting Policies**

7.2 The Financial Statements have been prepared under International Financial Reporting Standards (IFRS). In addition, the Chartered Institute of Public Finance and Accountancy produces a Code of Practice on Local Authority Accounting which reflects the statutory requirements and has been followed in preparing the financial statements.

7.3 There were no major changes to accounting policies in the year.

7.4 The Council is required to prepare ‘group accounts’ where there are significant interests in other organisations. It has carried out a review and determined that no other organisations exist that would require group accounts to be prepared.

7.5 **Changes in Functions**

7.6 No changes in function occurred in 2012/13.

7.7 The Council continued to share Revenues and Benefits, Finance, Human Resources and ICT functions with Three Rivers District Council under the governance of a Joint Committee. Separate accounts are published for these activities and the impact on Watford Borough Council included in this Statement of Accounts.

8.0 Contingent Assets and Liabilities

8.1 Note 32 to the Core Financial Statements gives details of contingent assets and liabilities. No exceptional or unusual items of income or expenditure have occurred. No material events affecting the accounts occurred after the year end up to 25 September 2013.

9.0 Revenue Activities

9.1 **Revenue Out-turn 2012/2013**

9.2 For accounting purposes, the Council distinguishes between 'revenue' and 'capital' activities. (Capital activities are covered in Section 10). Revenue activities are included in the Comprehensive Income and Expenditure Statement and cover the day to day income and expenditure involved in providing services to the public. The Council holds a General Fund Balance and specific Reserves, shown in the Statement of Movement in Reserves and on the Balance Sheet, which are available to support revenue expenditure if necessary.

9.3 The net cost of revenue activities is met by central government grant and by the council tax charge made to residents. This is set each February prior to the start of the financial year and takes into account the General Fund balance, levels of reserves and detailed estimates of income and expenditure. A comparison of outturn figures to budgets, therefore, often provides a good indication of financial stewardship.

9.4 It was estimated that there would be a surplus for the year of nil (2011/12: deficit of £0.013m). The actual outturn showed a surplus of £0.573m (2011/12: £0.493m), a variance in the year of £0.573m (2011/12: £0.506m).

9.5 The table below compares the original budget for the year against the out-turn:

2011/12 Original Net Budget £000	2011/12 Net Outturn £000		2012/13 Original Net Budget £000	2012/13 Net Outturn £000
		Service Area		
473	654	Corporate Services	0	0
8,701	8,277	Community Services	8,200	6,752
6,199	5,734	Environmental Services	6,346	5,926
2,305	2,855	Planning	2,162	3,324
1,360	1,764	Corporate Management	1,492	1,360
(3,576)	(3,211)	Legal and Property Services	(2,721)	(1,091)
30	31	Shared Services Implementation	30	0
5,184	21,791	Strategic Finance	3,352	3,965
(6,095)	(23,063)	Capital, IAS19 and Other Adjustments	(3,964)	(3,388)
14,581	**14,832**	**Net General Fund**	**14,897**	**16,848**
		Funding		
(8,188)	(8,367)	Council Tax	(8,258)	(8,258)
(205)	(205)	Council Tax Freeze Grant	(411)	(206)
(1,429)	(1,429)	Revenue Support Grant	(1,429)	(103)
(179)	177	Collection Fund surplus	0	(30)
(4,622)	(4,622)	NNDR	(3,785)	(5,316)
0	(1,448)	Capital Adjustments	0	(1,968)
(95)	(95)	Homelessness Grant	0	0
0	(542)	New Homes Bonus	(1,517)	(1,393)
(14,718)	**(16,531)**	**Total Funding**	**(15,400)**	**(17,274)**
(137)	(1,699)	Net General Fund less total funding	(503)	(426)
(13)	493	Surplus / (Deficit) for year	0	573
150	1,206	Transfers To / (From) Reserves	503	(147)
0	**0**	**Change To General Fund Balance**	**0**	**0**
1,350	**1,350**	**General Fund Balance**	**1,350**	**1,350**

9.6 The General Fund balance of £1.350m (2011/12: £1.350m) will remain unchanged for the foreseeable future as it is the ultimate 'bail out' fund in the unlikely event that the Council were to get into financial difficulties.

9.7 The level of the Council's Reserves has however increased by the above £0.426m (2011/12: £1.699m).

9.8 The major variances are:

Favourable:

- additional income of £377k was achieved from a variety of areas, such as hostel and bed and breakfast income and recycling.
- additional commercial rent of £305k. Whilst the Harlequin / Intu showed a shortfall in income, all other parts of the portfolio exceeded estimates.
- additional investment interest of £104k due to the amount available to invest being higher than anticipated.
- less building maintenance costs of £390k as more work was capitalised and financed from capital receipts.
- procurement savings of £357k largely as a result of the rationalisation of gas and electricity contracts.
- salaries and agency costs were under spent by £304k, partly due to there being no pay award in 2012/2013.

Adverse:

- additional revenues and benefits costs of £1,078k due to a number of adverse movements combining to produce a disappointing result. This included additional business rate relief awards, reduced income from court costs due to fewer summons days, an increase in staffing costs and an increase in the level of benefit claimants.
- additional voluntary payment to the Pension Fund of £750k just before the year end. As the overall outturn was favourable, it was determined to make a voluntary payment into the Pension Fund in order to start to reduce the current shortfall in funding.

9.9 **Future Revenue Expenditure and Funding**

9.10 The Council ensures that its corporate, service and financial planning is closely linked so that resources are properly allocated to its priorities. The Council's aims and objectives are included within its Corporate Plan and reflected within the resource allocation process incorporated within the Medium Term Financial Strategy. The Corporate Plan is supported by individual Service Plans and there is a performance management framework which measures how the Council is performing against these plans. This information is available on the Council's website.

9.11 The Medium-Term four year Financial Strategy (MTFS) is reviewed at key times during the year and is informed by the monthly Finance Digest monitoring process. The Strategy assumes reductions in government grant and business rate redistribution of 12% (£0.653m) for 2013/2014 and further percentage reductions thereafter. This may well prove to be optimistic when the MTFS is reviewed in July 2013 with larger cuts expected. Council tax has not increased for Watford Borough Council services for the past three years and the MTFS currently assumes a 2.5% year on year increase for the two years 2015/2017.

10.0 Capital Activities

10.1 **Capital Out-turn 2012/13**

10.2 Capital expenditure is incurred on assets that benefit the community over a number of years. Capital expenditure for 2012/13 is shown below:-

2011/12			2012/13		
Current Budget £000	Actual Out-turn £000		Current Budget £000	Actual Out-turn £000	Variance (under) / overspend £000
4,937	5,144	Key Projects	1,271	1,479	208
321	267	Environmental Services	542	204	(338)
269	279	Community & Leisure Services	31	36	5
779	779	Housing Services	406	406	0
48	48	Parking Services	13	8	(5)
1,603	1,556	Asset Management	674	802	128
102	102	Information, Communication & Technology (ICT)	56	23	(33)
164	196	Shared Services - ICT	132	193	61
413	413	Corporate / Service Project Management	552	552	0
1,331	1,282	Section 106 Funded Schemes	1,227	1,253	26
9,967	**10,066**	**Total**	**4,904**	**4,956**	**52**

10.3 Key capital projects include the Cardiff Road Health Campus, contribution to Croxley Rail Link, Charter Place redevelopment, Cultural Quarter and a Green Spaces Strategy. In addition to the above the Council also spent £1.253m (2011/12: £1.282m) on improvements to green areas which have been funded from Section 106 developer contributions. Investment within Watford is seen as a key priority if the Council is to move forward and has been totally financed from internal resources (mainly capital receipts) and government grant as at 31st March 2013.

10.4 From 2013/14, up to £10m of external borrowing may occur in order to progress the Health Campus development project.

10.5 **Future Capital Expenditure and its Funding**

10.6 The Council plans to spend £34.8m on future capital schemes up to 31 March 2016. The majority of this funding will be derived from current and future holdings of capital receipts. The Council has an active asset disposal programme to ensure funding will be available.

10.7 **Borrowing Facilities and Capital Borrowing**

10.8 The Council on 21st March 2012 approved the ability to borrow up to £10m to facilitate the total regeneration of the Health Campus project, the repayment of such loans being made from development receipts. Other than this project all past and future capital expenditure has / will use internal resources without recourse to borrowing.

10.9 The Council applies the 'Prudential Code for Capital Finance'. The Code is designed to ensure that all external borrowing is within prudent and sustainable levels, that capital expenditure plans are affordable, that treasury management decisions are taken in accordance with good practice and that the Council is accountable by providing a clear and transparent framework. The Council takes into account all sources of future income and the potential calls on the use of that income.

11.0 Pensions

11.1 The Council has disclosed its full liabilities to the Hertfordshire Pension Fund and this is covered within note 31 to the Statement of Accounts and is in accordance with International Accounting Standard 19. The balance sheet shows a net liability to the Fund at 31 March 2013 of £66.347m and has increased from £57.499m at 31 March 2012 and reflects actuarial losses due largely to reduced investments returns. There are statutory arrangements for funding the deficit that protect the Council's financial position and which should improve due to changes announced to local government pensions arrangements and a hoped for increase in the wider investment market.

12.0 Conclusion

12.1 **The Council's Overall Financial Position**

12.2 The Council's Medium Term Financial Strategy has a primary focus to produce a sustainable budget (where expenditure and income are in balance) over a four year timescale. This includes council tax increases at or below the rate of inflation and a prudent level of reserves and balances. Reductions in government grant means that significant savings have had to be identified. The Council is aiming to continue to achieve efficiency savings rather than cut levels of service.

12.3 In the current financial climate, the Council monitors on a regular basis the financial and budgetary risks that it faces. At the date of issue of this Statement of Accounts, no significant impairment has been made to assets although provisions for bad debts have been increased to reflect the increased probability that debtors may default.

12.4 In the longer term the Council will also have to address the impact on the revenue account of reduced interest income as capital receipts are used to fund capital expenditure.

12.5 In the meantime, reserves & balances are healthy. The General Fund balance & available usable earmarked reserves totalled £15,125m (2011/12: £14.656m) representing 102% (2011/12: 101%) of the 2012/13 budget requirement. The Council held £12,246m (2011/12: £12,872m) in capital receipts available to meet its capital programme aspirations.

12.6 The Council is constantly looking to improve its financial management and internal control. The Annual Governance Statement shows the steps the Council is taking to achieve this and to address the challenges brought about by changes to business rates, the local support to council tax and the introduction of benefit caps and universal credit.

13.0 Further Information

13.1 This Statement of Accounts is one way in which the Council tries to demonstrate that it is making good use of public funds and providing value for money. Further information is included within the Medium Term Financial Strategy and monthly Finance Digest, both of which are available on the Council's website or in hard copy by request.

Joanne Wagstaffe CPFA
Director of Finance
25 September 2013

1.0 Scope of Responsibility

1.1 Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. 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. A key aspect of this responsibility is the identification and management of risk.

1.2 Further, Watford 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) Regulations 2011.

1.3 This Governance Statement explains how Watford Borough Council has recognised key challenges and the processes it has put in place to maintain services with considerably less money. It also explains how the Council is attempting, through considerable financial investment, to safeguard the future prosperity of its area.

1.4 Underpinning the Governance Statement is a framework which ensures corporate ownership at the very highest levels of management and is dynamic in responding to all governance issues as they occur. A key component of the Governance framework is the underlying system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.0 Strategic Aims and Objectives

2.1 The governance framework enables the Council's key objectives to be met and these can be summarised as follows:

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

OUR OBJECTIVES:
- Making Watford a better place to live in
- To provide the strategic lead for Watford's sustainable economic growth
- Promoting an active, cohesive and well informed town
- Operating the Council efficiently and effectively

2.2 Underpinning these over arching 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, Police and Crime Commissioner for Hertfordshire, Herts Valleys Clinical Commissioning Group, the Chamber of Commerce, Watford and Three Rivers Trust, Watford Community Housing Trust, and John Lewis plc.

3.0 Decision Making Structures

3.1 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 has a portfolio for which they are responsible and can make decisions within their area of responsibility.

3.2 The major check upon executive decisions taken by the Mayor and Cabinet is the Council and key decisions such as setting the annual budget and establishing the Constitutional Framework can only be approved by Council. Prior to Council approval, a detailed scrutiny process through a Budget Panel ensures all proposals are given rigorous challenge.

3.3 In addition the Council has an overarching Overview and Scrutiny Committee which, amongst other responsibilities, oversees the work of Budget Panel and any task groups set up to scrutinise a particular service area. There are also five further committees covering development control, licensing, audit, functions and standards.

3.4 At an officer level, the senior management (with effect from July 2013) will comprise the Managing Director and Heads of Service. Financial control will primarily be the responsibility of a shared Director of Finance with neighbouring Three Rivers District Council. This combined management will comprise the Leadership Team who meets fortnightly to review and progress the key objectives of the council.

3.5 Overall financial control is monitored on a monthly basis by Leadership Team and the Budget Scrutiny Panel, and quarterly by Cabinet. Budget preparation is influenced by the Council's Medium Term Financial Strategy which forecasts budget pressures and available resources over a four year period. This MTFS is reported quarterly to Cabinet and Budget Panel 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 Budget Panel).

4.0 The Governance Framework

4.1 The Council has approved a Code of Corporate Governance which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct and is detailed within the Council's Constitution. This sets out how the council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens.

4.2 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.

4.3 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 a quarterly magazine, About Watford, and includes an 'annual report' on the Council's achievements compared to its initial targets.

4.4 Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from members include comments on financial, legal, equalities, sustainability, community safety and other appropriate issues such as potential risks to non achievement, all of which ensures that comprehensive advice is provided prior to decisions being taken.

4.5 The scrutiny function within a local authority provides a necessary check upon the role of the Executive and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance, the Council has recently set up an Outsourced Services Task Group as a standing scrutiny panel to scrutinise the activities of functions undertaken by external providers on the council's behalf. In addition the Standards Committee considers member conduct and the Budget Panel considers financial issues in a non political forum. 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, and the Ombudsman's annual report as well as annual accounts and treasury management (investment) policies.

4.6 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.

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

- Members Code of Conduct
- Code of Conduct for staff
- Anti fraud and corruption policy (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

4.8 The Head of Democracy and Governance (from July 2013) is the Council's Monitoring Officer and her duties include: maintaining the council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.

4.9 The Shared Director of Finance (from July 2013) is the statutory Chief Finance Officer. Her duties include: overall responsibility for financial administration; reporting on any actual or potential instances of illegality in expenditure, including unlawful loss or deficiency or illegal items of account; and giving advice to the council on financial planning.

5.0 Performance Management

5.1 Performance management follows very much a 'cascade' principle. The Council approves its Corporate Plan annually (although it covers a rolling four year perspective) 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 services delivery plans, which in turn translates into team and individual work plans. Performance is monitored on a quarterly basis through Heads of Service, Leadership, Cabinet Members and Overview and Scrutiny Committee. Performance reviews also include consideration of complaints and progress against the Council's equalities agenda.

5.2 The Council keeps residents and stakeholders informed of its progress through a quarterly publication called 'About Watford' which is delivered to every household and covers key issues, events and challenges. At the end of every financial year the March edition includes an Annual Report which informs the community of progress in the achievement of the Corporate Plan.

6.0 Data Quality and Risk Management

6.1 The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the Council has a senior member of staff who acts as the Senior Information Risk Officer. There is also a council wide Data Quality Champions Group which meets periodically and adopts a risk based approach to data quality. 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.

6.2 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 Leadership Team and the Audit Committee. This Strategy underpins the Strategic Risk Register which was planned to be updated in June 2013 (now July 2013) and covers major issues that will affect the achievement of the council's key objectives. This Risk Register is at a strategic/high level and is complemented by detailed project and service area registers. This process is overseen by the Risk Management and Business Continuity Steering Group which meets four times a year and ensures a consistent approach to risk management across the Council.

6.3 Business continuity and emergency planning are other key aspects within the corporate governance framework and again falls within the remit of the Risk Management corporate group. There is however a need to review the current disaster recovery procedures to establish if they continue to be fit for purpose and this is scheduled to be carried out in 2013/2014.

6.4 The risk management section within the Partnership Framework has been revised and all committee reports contain a 'risk implications' section as an aid to decision taking. There is however a need to ensure an effective risk identification process occurs where the Council has outsourced the provision of services to a private sector partner.

7.0 Shared Services with Three Rivers District Council

7.1 Watford Borough Council has been a leading authority in developing a shared service for revenues, benefits, ICT, financial services, and human resources with the neighbouring district council. In order to monitor and control this arrangement a Shared Services Joint Committee has been formed and comprises members from both Councils.

7.2 The Joint Committee is required to produce its own statutory Statement of Accounts which are subject to audit by Watford Borough Council's external auditors. This process clearly provides a degree of comfort to both constituent authorities that good governance practices are being followed. The internal audit service (provided through the Shared Internal Audit Service, a local internal audit partnership) also allocates a significant number of audit days to the validation of the control environment.

7.3 Reliance upon external and internal audit scrutiny is insufficient however and the constituent bodies have put in place:

- a detailed joint agreement which includes all aspects of best practice, financial administration and risk management.
- detailed estimates to be approved by the constituent authorities prior to each financial year and budget monitoring information provided to the constituent authorities on a regular basis.
- the Joint Committee to receive detailed quarterly performance management monitoring reports.
- the draft Statutory Statement of Accounts to be considered and approved by the Joint Committee.
- consideration of all audit reports affecting shared services.

8.0 Community Engagement

8.1 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, Dorothy Thornhill MBE, 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 developed the Sustainable Community Strategy through extensive consultation and engagement and which is communicated through its own website and that of the Council.

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

8.3 The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the Council magazine 'About Watford'.

8.4 A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the borough's Citizens' Panel, which incorporates the Council's annual budget survey. The Citizens Panel has been completely refreshed to ensure it is representative of the Watford community. Local residents are also invited to attend the Mayor's annual information seminars, which help build understanding about 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. All signatories to this document adhere to the national Compact standards.

9.0 The Role of Audit and the Audit Committee

9.1 The governance framework and its compliance mechanisms must be distinguished from the role of audit which is to review the effectiveness of the compliance framework, not to be a substitute for it.

9.2 The internal audit function is carried out, from 1st April 2013, by the Shared Internal Audit Service (SIAS), a local internal audit partnership hosted by Hertfordshire County Council. This will provide greater independence and resilience and should be considered 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. 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 the Leadership Team.

9.3 External auditors, Grant Thornton, appointed by the Audit Commission, provide an external review function through the audit of the annual accounts, assessment of value for money, certification of grant claims and the periodic inspection of services such as revenues and benefits. The Annual Audit and Inspection Letter is circulated to all Members and formally reported to Cabinet and the Audit Committee.

9.4 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 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.

10.0 Key Challenges/Risks

10.1 The key challenges/risks facing the Council can be summarised as follows:

- continued reductions in central government funding
- the outsourcing of services to the private sector and other local authority bodies
- the transfer of risk to local authorities for business rates and council tax benefit
- planning for the introduction of universal credit with the part transfer of responsibility to central government
- the continued reduction in the level of senior management which could affect governance controls
- ensuring the investment strategies of the Council deliver future prosperity and financial returns
- the effect of demographic changes upon future service delivery
- the cost of future pensions liabilities increases due to reduced investment returns and people living longer

The Council's approach to dealing with these challenges are set out in succeeding paragraphs of this Governance Statement.

10.2 Central government is compelled to reduce public expenditure in order to balance its books. Local authorities have suffered significant losses of central funding and this is anticipated to continue until 2018. The scale of such funding (after the effects of inflation) is likely to approach a 50% cumulative reduction in external support. Council tax increases will be constrained and cannot cover this shortfall in government funding and it will, therefore, be necessary to reduce the council's cost base. The Council is committed to delivering value for money and has developed a financial planning process to identify service efficiencies. This has resulted in £2.6m of efficiencies over the three year period 2011/2014 and has been achieved in part through reducing management costs.

10.3 This work has been further developed with the production of a 'Roadmap' to identify what the Council will look like in the future and which seeks to anticipate and manage change. Service reviews have commenced and will be used to identify a further £2m of efficiencies which includes exposing some services to external providers. As a consequence, the ICT shared service (with Three Rivers District Council) has been outsourced to Capita Secure Information Solutions; also the waste, street cleansing, recycling, parks and open spaces services has been outsourced to Veolia Environmental Services UK. The combined saving in future years to Watford from outsourcing these two services is likely to provide an annual saving of circa £900k.

10.4 This level of saving is encouraging but exposes the council to a second key risk/challenge namely how to monitor both the achievement of these financial savings and the effect upon day to day service delivery. Key performance indicators are included within both contracts and will be monitored by client teams which in turn will be accountable to Leadership Team / Cabinet Members / the Overview and Scrutiny Committee / Outsourced Services Scrutiny Panel and the Shared Services Joint Committee.

10.5 Further, in its search for public expenditure savings, central government has been transferring risk to local authorities. Business rates collected by councils had formerly been paid over to central government and subsequently received back according to need. This has now changed whereby changes to the business rates base will affect local authorities and central government on an equal basis. For some authorities this may provide increased income, but for others the reverse will happen and the risk of a shortfall in funding has increased. Similarly, central government has imposed a 10% cut on council tax benefit payments and has transferred that shortfall in funding to local authorities to try and make good. In both instances, Watford will need to monitor the implications and to seek to minimise the impact for its finances and its client base.

10.6 The need for further expenditure reductions will be required and the council seeks to ensure continuous improvement through:

- work carried out as part of the annual budget process
- project appraisal and formal project management for all improvement projects and major investment programmes
- undertaking best value/ value for money and managerial reviews
- implementing the recommendations of Internal Audit
- implementing the recommendations of external auditors and inspectors
- the adoption of best practice where cost-effective
- increasing use of technology to deliver services that customers want
- market testing of services where appropriate
- consultation with the public and staff
- partnership working with companies and other public bodies
- setting challenging targets for improvement

10.7 Further strategies to reduce the council’s cost base have included reducing the levels of senior management and has resulted in the deletion of the two executive director posts, the sharing of the Director of Finance role (with neighbouring Three Rivers District Council), and the deletion of the Executive Director, Services post. This has cascaded down and resulted in further management and support officer reductions. From a governance perspective it is important that the ‘control environment’ and levels of risk do not increase as a consequence and will need to be monitored closely during 2013/2014.

10.8 The Council has an ambitious programme of capital investment which involves significant partnership working with the private sector. The regeneration of Charter Place has resulted in Intu PLC taking control and financing its future redevelopment and will involve the management of the centre and the Market facility in the short term. In return the council has obtained funding for future improvements and guarantees for improved levels of commercial rent income. The monitoring of this project will require vigilance in the years ahead. The council has entered into a partnership with Kier Construction (through a Local Asset Backed Vehicle) and a simultaneous agreement with the West Hertfordshire Hospitals NHS Trust to deliver the Health Campus project.

This includes the opportunity to deliver new Hospital facilities, improved access by way of a new road, increased parking provision, around 560 residential units, office space and an increased retail offer. The project is not without risk and involves significant up front financial investment by the Council. A key governance issue for the future will be to ensure that the Council is not disadvantaged in comparison with its private sector partner.

10.9 The Council needs to anticipate the effect of demographic changes and the Census 2011 shows that Watford's population has increase by 13.3% (to 90,301 persons) during the 10 year period 2001 to 2011. This will affect the provision of services and will include the effect upon housing, education, social care, transport and volumes of welfare claimants. Both Watford and Hertfordshire County Council constantly evaluate the impact that demographic changes will necessitate.

10.10 Demographic and employment changes will also impact upon Watford Council's Pensions Fund as it is adversely affected by the fact that former (and current) employees are living longer and will continue to drawdown pensions far longer than previously occurred. Combined with this, investment returns have not been favourable whilst interest rates remain depressed. An actuarial review of the value of the Pension Fund will be known in December 2013 and will probably present the Council with a key challenge in funding any pensions shortfall. The council's Medium Term Financial Strategy which covers the period 2013/2017 will need to factor in any financial effects arising out of the actuarial review.

11.0 Review of effectiveness

11.1 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 then that is because current governance arrangements have proved fit for purpose.

11.2 The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Shared Internal Audit Services annual report and also by comments made by the external auditors and other review agencies and inspectorates. The Mayor and Portfolio Holders maintain a continuous review of the Council's policies, activities and performance of officers both through quarterly reviews and on a day to day basis.

11.3 The governance of special projects has raised a number of issues relating to procurement and evaluation of financial and service offers. In these cases external specialist advice has been sought in order to protect the Council's interests. These projects include the Watford Health Campus, Charter Place re-development, and market testing of waste, refuse, street cleansing, parks and open spaces. The ICT service for Watford and Three Rivers has recently been outsourced to Capita SIS with effect from 21st May 2013.

11.4 The increasing threat of cyber crime presents Watford with one of its greatest challenges and this has been evaluated through a comprehensive report to the Audit Committee (and Joint Shared Services Committee) upon ICT security/vulnerabilities. This report was also provided to Capita SIS as part of its due diligence process and a detailed progress plan has been produced to correct potential weaknesses within ICT security. Progress on this plan is reported to Watford's Audit Committee at every meeting.

11.5 The Annual Report of the Head of Shared Internal Audit Services has been reported to the Audit Committee at its meeting on 26th June 2013 and included the following statement….''Audit Opinion: Based on the internal audit work undertaken we give satisfactory assurance on the adequacy and effectiveness of the internal control environment''. The Annual Report continues: '' there have been no significant new concerns arising from the majority of the audits undertaken in 2012/2013 that necessitate an adverse overall opinion. However updates on some of the concerns reported in the previous Annual Report have been included in 2012/2013, in Section 3 of this report''. The majority of these concerns relate to the ICT environment where a significant number of improvements have been made and the ICT outsourced contract has included financial resources to programme all outstanding issues.

11.6 For the future, there is however a need to organise training for the Audit Committee in 2013/2014 to ensure it has the expertise to properly supervise and challenge the governance arrangements across the Council. A training session for members of Watford and Three Rivers Audit Committees is to be held in the autumn of 2013/2014.

11.7 The 'Key Challenges/Risks' section of the Governance Statement identifies a number of major issues faced by Watford over the immediate future and will require a systematic strategy to review how existing governance effectiveness will be maintained and has been summarised within the next section of this Statement.

12.0 Significant Governance Issues

The 'normal' running of Council business has and can be controlled through the governance framework detailed at sections 4 to 9 of this report. Specific issues identified within the 2011/2012 Governance Statement have largely been resolved and are updated at the end of this Governance Statement.

The Annual Governance Statement for 2012/2013 does however identify additional risks that the Council needs to address by way of individual action plans with measurable milestones and timescales and include:

No.	Issue	Action	Lead	Update
1	Continued reductions in Central Government funding will place pressures upon the delivery of services	The MTFS will be updated quarterly and planned efficiencies through the Council's Road Map will be monitored	Shared Director of Finance and Leadership Team	Quarterly updates have been planned
2	The outsourcing of ICT and waste, street cleansing, recycling, parks and open spaces can result in an unacceptable fall in levels of service	Detailed key performance indicators have been included within contract documentation and need to be rigorously monitored	Head of Cultural and Client Services	Monthly monitoring in place Outsourced Scrutiny Panel to receive performance reports
3	Welfare Benefit changes and the preparation for Universal Credit needs to ensure no unacceptable impact upon benefit recipients	Monitoring of existing client base needs to identify where distortions occur. Testing of current ICT systems need to ensure a seamless transfer of caseloads to central government	Head of Shared Services Revenues and Benefits	Quarterly monitoring and reporting to the Shared Services Joint Committee will occur Monthly updates to be provided to Leadership Team
4	Deletion of senior management posts may result in a breakdown in governance processes	Transfer of responsibilities to named officers should ensure future accountability	Managing Director and Leadership Team	Quarterly monitoring through Leadership, Portfolio Holders and internal audit reports to Audit Committee Extensive work undertaken to review delegations / responsibilities where appropriate to ensure effective management of highlighted areas is identified and actioned

No.	Issue	Action	Lead	Update
5	Ensuring investment partnerships at the Health Campus and Charter Place achieve planned objectives	Detailed development agreements are in place and will be monitored through Partnership Boards	Managing Director and Elected Mayor	Quarterly monitoring through the Major Projects Board should occur
6	The effect of demographic changes need to be identified at an early stage	The composition of the Council's client base is kept under continuous review. Pressures upon services such as housing and welfare entitlement will be known	Leadership Team	Quarterly monitoring will consider any implication upon existing service provision
7	The Council's Pension Fund needs to be adequately funded in order to meet current and future liabilities	In December 2013 the triennial review of the Pension Fund will be reported by the Actuary. The Council will need to respond to the main features of that report	Shared Director of Finance	The Medium Term Financial Strategy will need to factor in making additional annual provision if necessary. The use of ad hoc payments into the Fund should also be considered

13.0 Statement from the Elected Mayor and Managing Director

13.1 We propose over the coming year to keep a close focus upon the key governance issues identified as part of the 2012/2013 review and are satisfied that the identified actions and reporting mechanisms will ensure no adverse outcomes will occur. We will monitor their implementation and operation periodically during the year will a formal review as part of the 2013/2014 Annual Governance Statement.

Signed ……….………………………….. **Date: 25 September 2013**
Mayor

Signed ……….………………………….. **Date: 25 September 2013**
Managing Director

STATEMENT OF MOVEMENT IN RESERVES

Restated

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 1 April 2011	**(1,350)**	**(11,655)**	**(19,413)**	**(32,418)**	**(115,818)**	**(148,236)**
Movement in Reserves during 2011/12						
(Surplus) or deficit on provision of services	9,401	0	0	**9,401**	0	**9,401**
Other Comprehensive Expenditure and Income	11,853	0	0	**11,853**	0	**11,853**
Total Comprehensive Expenditure and Income (CI&E)	**21,254**	**0**	**0**	**21,254**	**0**	**21,254**
Adjustments between accounting basis & funding basis under regulations						
Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:						
Charges for depreciation of long-term assets	(2,248)	0	0	**(2,248)**	2,248	**0**
Revaluation losses on long-term assets	(9,322)	0	0	**(9,322)**	9,322	**0**
(Surplus) / Deficit on revaluation of long-term assets	1,112	0	0	**1,112**	(1,112)	**0**
Capital grants & contributions applied	1,634	0	0	**1,634**	(1,634)	**0**
Revenue expenditure funded from capital under statute	(2,170)	0	0	**(2,170)**	2,170	**0**
Lease mitigation	154	0	0	**154**	(154)	**0**
Adjustments primarily involving the Capital Receipts Reserve						
Use of capital receipts reserve to finance new capital expenditure	0	0	8,384	**8,384**	(8,384)	**0**
Unattached capital receipts	1,640	0	(1,843)	**(203)**	203	**0**
Adjustments primarily involving the Collection Fund Adjustment Account:						
Collection Fund adjustment in accordance with statutory requirements	(177)	0	0	**(177)**	177	**0**
Adjustments primarily involving the Accumulated Absences Reserve:						
Accrued employee benefits adjustment in accordance with statutory requirements	15	0	0	**15**	(15)	**0**
Adjustments primarily involving the Pensions Reserve:						
Employer's pension contributions and direct payments to pensioners payable in the year	2,877	0	0	**2,877**	(2,877)	**0**
Actuarial (gains) / losses on pension fund assets / liabilities	(12,965)	0	0	**(12,965)**	12,965	**0**
Reversal of items relating to retirement benefits debited or credited to the CI&E	(3,507)	0	0	**(3,507)**	3,507	**0**
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	**1**	(1)	**0**
Net increase / decrease before transfers to earmarked reserves	**(1,702)**	**0**	**6,541**	**4,839**	**16,415**	**21,254**

STATEMENT OF MOVEMENT IN RESERVES

-continued
Restated

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Transfers to/from earmarked reserves						
Budget Carry Forward Reserve	(49)	49	0	**0**	0	**0**
Car Parking Zones Reserve	219	(171)	0	**48**	(48)	**0**
Charter Place Tenants Reserve	(197)	197	0	**0**	0	**0**
Climate Change Reserve	(19)	19	0	**0**	0	**0**
Economic Impact Reserve	289	(289)	0	**0**	0	**0**
Housing Benefit Subsidy Reserve	629	(629)	0	**0**	0	**0**
Invest to Save Reserve	(74)	74	0	**0**	0	**0**
LA Business Growth Incentive Reserve	(54)	56	0	**2**	(2)	**0**
Le Marie Centre Repairs Reserve	(1)	1	0	**0**	0	**0**
New Homes Bonus Reserve	542	(542)	0	**0**	0	**0**
Pension Funding Reserve	75	(75)	0	**0**	0	**0**
Performance Reward Grant	72	(72)	0	**0**	0	**0**
Recycling Reserve	(6)	6	0	**0**	0	**0**
Vehicle Replacement Reserve	275	(275)	0	**0**	0	**0**
Transfers to/from earmarked reserves	**1,701**	**(1,651)**	**0**	**50**	**(50)**	**0**
Increase / Decrease in 2011/12	**(0)**	**(1,651)**	**6,541**	**4,890**	**16,365**	**21,255**
Balance as at 31 March 2012	**(1,350)**	**(13,306)**	**(12,872)**	**(27,528)**	**(99,453)**	**(126,981)**

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 1 April 2012	**(1,350)**	**(13,306)**	**(12,872)**	**(27,528)**	**(99,453)**	**(126,981)**
Movement in Reserves during 2012/13						
(Surplus) or deficit on provision of services	(4,609)	0	0	**(4,609)**	0	**(4,609)**
Other Comprehensive Expenditure and Income	7,699	0	0	**7,699**	0	**7,699**
Total Comprehensive Expenditure and Income (CI&E)	**3,090**	**0**	**0**	**3,090**	**0**	**3,090**
Adjustments between accounting basis & funding basis under regulations						
Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:						
Charges for depreciation of long-term assets	(2,220)	0	0	**(2,220)**	2,220	**0**
Revaluation gains / (losses) on long-term assets	5,317	0	0	**5,317**	(5,317)	**0**
Finance Lease Vehicle Additions	52	0	0	**52**	(52)	**0**
(Gains) / Losses on disposal of long-term assets	445	0	0	**445**	(445)	**0**
(Surplus) / Deficit on revaluation of long-term assets	320	0	0	**320**	(320)	**0**
Capital grants & contributions applied	1,798	0	0	**1,798**	(1,798)	**0**
Revenue expenditure funded from capital under statute	(1,587)	0	0	**(1,587)**	1,587	**0**
Minimum Revenue Provision	218	0	0	**218**	(218)	**0**
Voluntary Contributions to Reduce the Capital Finance Requirement	160	0	0	**160**	(160)	**0**
Adjustments primarily involving the Capital Receipts Reserve						
Use of capital receipts reserve to finance new capital expenditure	0	0	2,787	**2,787**	(2,787)	**0**
Proceeds from sale of long-term assets	0	0	(1,384)	**(1,384)**	1,384	**0**
Unattached capital receipts	1,147	0	(1,147)	**0**	0	**0**
Adjustments primarily involving the Collection Fund Adjustment Account:						
Collection Fund adjustment in accordance with statutory requirements	29	0	0	**29**	(29)	**0**
Adjustments primarily involving the Accumulated Absences Reserve:						
Accrued employee benefits adjustment in accordance with statutory requirements	22	0	0	**22**	(22)	**0**
Adjustments primarily involving the Pensions Reserve:						
Employer's pension contributions and direct payments to pensioners payable in the year	3,509	0	0	**3,509**	(3,509)	**0**
Actuarial (gains) / losses on pension fund assets / liabilities	(8,019)	0	0	**(8,019)**	8,019	**0**
Reversal of items relating to retirement benefits debited or credited to the CI&E	(4,338)	0	0	**(4,338)**	4,338	**0**
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	**1**	(1)	**0**
Net increase / decrease before transfers to earmarked reserves	**(56)**	**0**	**256**	**200**	**2,890**	**3,090**

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Transfers to/from earmarked reserves						
Budget Carry Forward Reserve	(67)	67	0	**0**	0	**0**
Capital Fund Reserve	(83)	83	0	**0**	0	**0**
Car Parking Zones Reserve	22	(22)	0	**0**	0	**0**
Charter Place Tenants Reserve	(96)	96	0	**0**	0	**0**
Climate Change Reserve	(12)	12	0	**0**	0	**0**
High Street Innovation	100	(100)	0	**0**	0	**0**
Economic Impact Reserve	286	(286)	0	**0**	0	**0**
Insurance Fund Reserve	(100)	100	0	**0**	0	**0**
Invest to Save Reserve	(165)	165	0	**0**	0	**0**
LA Business Growth Incentive Reserve	(28)	28	0	**0**	0	**0**
Local Development Framework Reserve	(80)	80	0	**0**	0	**0**
Multi-Storey Car Park Repair Reserve	(2)	2	0	**0**	0	**0**
Performance Reward Grant Reserve (capital)	191	(191)	0	**0**	0	**0**
Performance Reward Grant Reserve (revenue)	(60)	60	0	**0**	0	**0**
Vehicle Replacement Reserve	150	(150)	0	**0**	0	**0**
Transfers to/from earmarked reserves	**56**	**(56)**	**0**	**0**	**0**	**0**
Increase / Decrease in 2012/13	**0**	**(56)**	**256**	**200**	**2,890**	**3,090**
Balance as at 31 March 2013	**(1,350)**	**(13,362)**	**(12,616)**	**(27,328)**	**(96,563)**	**(123,891)**

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. For usable reserves it shows an end of year position of £27.328m compared to an opening position of £27.528m. The surplus or (deficit) on the Provision of Services line shows the true economic 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

Restated 2011/12 GROSS EXPEND-ITURE £000	Restated 2011/12 GROSS INCOME £000	Restated 2011/12 NET EXPEND-ITURE £000		Note	2012/13 GROSS EXPEND-ITURE £000	2012/13 GROSS INCOME £000	2012/13 NET EXPEND-ITURE £000
			Central Services to the Public:				
1,347	(309)	1,038	Local Taxation Collection		1,323	(218)	1,105
935	(363)	572	Other Central Services		1,017	(299)	718
			Cultural and Related Services:				
5,056	(376)	4,680	Leisure Services		4,427	(384)	4,043
1,537	(22)	1,515	Other Services		1,137	(33)	1,104
			Environmental and Regulatory Services:				
614	(230)	384	Cemeteries and Crematoria		588	(241)	347
3,097	(455)	2,642	Environmental Health		3,102	(486)	2,616
4,831	(1,489)	3,342	Waste Collection and Disposal		4,979	(1,510)	3,469
3,894	(696)	3,198	Planning and Economic Development		4,546	(1,059)	3,487
2,469	(2,461)	8	Highways and Transport Services		2,545	(2,545)	0
43,101	(41,675)	1,426	Other Housing Services		46,851	(44,136)	2,715
4,194	(190)	4,004	Corporate and Democratic Core		3,487	(84)	3,403
162	(162)	0	Central Support Services		232	(232)	0
125	0	125	Non-distributed Costs		138	0	138
71,362	**(48,428)**	**22,934**	**Cost of Services**		**74,372**	**(51,227)**	**23,145**
			Other Operating (Income) & Expenditure				
		0	(Gains) / Losses on disposal of long-term assets				(445)
		(1,640)	Unattached capital receipts				(1,147)
			Financing & Investment (Income) & Expenditure				
		63	Interest payable and similar charges				93
		1,314	Pension interest costs & expected return on assets				2,164
		(436)	Interest receivable and similar income				(412)
		(5,205)	(Surplus) or deficit on trading undertakings not included in Net Cost of Services	9			(4,746)
		8,833	Changes in the fair value of Investment Properties				(6,086)
		69	Other Investment (Income) / Expenditure				100
			Taxation & Non-Specific Grant Income				
		(8,189)	Council Tax Income				(8,288)
		(4,622)	Non-domestic Rates Redistribution	8			(5,316)
		(2,066)	Non-ringfenced Government Grants	8			(1,496)
		(1,654)	Capital Grants and Contributions	8			(2,175)
		9,401	**(Surplus) / Deficit on Provision of Services**	7			**(4,609)**
		(1,112)	(Surplus)/Deficit on revaluation of non-current assets				(320)
		12,965	Actuarial (gain)/loss on pension fund assets/liabilities	31			8,019
		11,853	**Other Comprehensive (Income) and Expenditure**				**7,699**
		21,254	**Total Comprehensive (Income) and Expenditure**				**3,090**

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

BALANCE SHEET

Restated 31 Mar 12 £000	£000		Note	31 Mar 13 £000	£000
		Property, Plant and Equipment			
40,840		Land and Buildings	17	40,236	
5,383		Vehicles, Plant and Equipment	17	5,966	
2,238		Infrastructure Assets	17	2,130	
2,045		Heritage Assets	18	2,045	
	50,506				**50,377**
		Other Long-Term Assets			
106,529		Investment Properties	19	113,309	
1,160		Surplus Assets	19	900	
1,168		Long-Term Debtors	22	1,190	
	108,857				**115,399**
	159,363	**LONG-TERM ASSETS**			**165,776**
		CURRENT ASSETS			
885		Assets Held for Sale	23	0	
28		Inventories	24	36	
7,532		Short Term Debtors	25	8,511	
29,112		Short Term Investments	35	28,111	
722		Cash and Cash Equivalents	26	381	
	38,279				37,039
	197,642	**TOTAL ASSETS**			**202,815**
		CURRENT LIABILITIES			
(5,218)		Short Term Creditors	28	(6,364)	
(1,500)		Short Term Borrowing	26	(479)	
	(6,718)				(6,843)
	190,924	**TOTAL ASSETS LESS CURRENT LIABILITIES**			**195,972**
		LONG-TERM LIABILITIES			
(6,094)		Government Grants & Other Contributions in Advance	29	(5,138)	
(350)		Deferred Liabilities	29	(166)	
0		Provisions	30	(430)	
(57,499)		Liability related to Defined Benefit Pension Scheme	31	(66,347)	
	(63,943)				(72,081)
	126,981	**NET ASSETS**			**123,891**

BALANCE SHEET

-continued

Restated 31 Mar 12 £000	Restated 31 Mar 12 £000		Note	31 Mar 13 £000	31 Mar 13 £000
		FINANCED BY:			
		USABLE RESERVES			
12,872		Capital Receipts Reserve	33b	12,616	
13,306		Earmarked Reserves	33c	13,362	
1,350		General Fund Balance	33d	1,350	
	27,528				27,328
		UNUSABLE RESERVES			
(111)		Accumulated Absences Reserve	34b	(89)	
144,644		Capital Adjustment Account	34c	151,477	
2		Collection Fund Adjustment Account	34d	31	
(450)		Deferred Capital Payments	34e	(294)	
2,367		Deferred Capital Receipts	34f	1,265	
(76)		Financial Instruments Adjustment Account	34g	(75)	
(57,499)		Pensions Reserve	31	(66,347)	
10,576		Revaluation Reserve	34i	10,595	
	99,453				96,563
	126,981	**TOTAL RESERVES**			**123,891**

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. 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'.

Signed ……….………………………….. **Date: 25 September 2013**

Joanne Wagstaffe CPFA
Director of Finance

Signed ……….………………………….. **Date: 25 September 2013**

Ian Brown
Chairman of Audit Committee

CASH FLOW STATEMENT

2011/12 £000	2011/12 £000		Note	2012/13 £000	2012/13 £000
(9,401)		**Net (surplus) or deficit on the provision of services**		**4,609**	
12,190		Adjustments to net surplus or deficit on the provision of services for non cash movements	27	(2,570)	
(374)		Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities	27	(320)	
	2,415				**1,719**
(63)		Interest element of finance lease payments		(93)	
436		Interest received		412	
	373				**319**
	2,788	**Net cash flows from Operating Activities**			**2,038**
		Investing and Financing Activities			
(3,377)		Purchase of Long Term Assets	20	(2,577)	
(6,689)		Other payments for investing activities	20	(2,008)	
1,632		Grants and Contributions Applied to Capital Expenditure	20	1,798	
(174,355)		Purchase of short term and long term investments		(167,934)	
177,117		Proceeds from the sale of investments		168,935	
203		Proceeds from the sale of Long Term Assets		1,384	
2,708		Movement in Grants and Contributions Unapplied		(956)	
	(2,761)				**(1,358)**
	27	**Net increase/(decrease) in cash and cash equivalents**			**680**
	(805)	**Cash and Cash equivalents at the beginning of the reporting period**			**(778)**
	(778)	**Cash and Cash equivalents at the end of the reporting period**	26		**(98)**

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 (i.e. borrowing) to the Council.

1 Accounting Policies

1.01 General Principles

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP), supported by International Financial Reporting Standards (IFRS) [and statutory guidance issued under section 12 of the 2003 Act]. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

1.02 Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the 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

1.03 Cash and Cash Equivalents

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

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

1.04 Exceptional Items

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

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

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

1.06 Charges to Revenue for Non-Current Assets

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

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

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

1.07 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (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, eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the 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 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 4.8% (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. The assets are:
  - Equities
  - Bonds
  - Property
  - Cash

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

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

- current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- 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 — debited to the Pensions Reserve
- contributions paid to the HCC pension fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the 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 Events After the Balance Sheet Date

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

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

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

1.09 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the 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

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market.

They 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. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the 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.

1.11 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.

1.12 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.

1.13 Investment Property

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

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

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

1.14 Leases

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

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

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

The 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, if lower). 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 benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (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.

1.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

1.16 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the 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.

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

- Infrastructure, community assets and assets under construction — depreciated historical cost
- Dwellings — fair value, determined using the basis of existing use value for social housing (EUV-SH)
- All other assets — fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value — EUV)

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

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

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

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:

- Land and buildings — straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles — straight-line over the estimated life of the vehicle
- Plant, furniture and equipment — 25% on a reducing balance basis
- Infrastructure — straight-line allocation over 25 years.
- Finance leases — straight-line over the term of the lease

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.

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

Disposals and Non-current Assets Held for Sale

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

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (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. Capital receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for either new capital investment or set aside to reduce the Council’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.17 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 are relaxed 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.

1.18 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.

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.

1.19 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.

1.20 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.

1.21 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.

2 Accounting Standards that Have Been Issued but Have Not Yet Been Adopted

The following accounting policy changes have not yet been adopted but are expected to be included within Appendix C to the 2013/14 Code of Practice:

- Amendments to IAS 1 Presentation of Financial Statements (other comprehensive income, June 2011)
- Amendments to IFRS 7 Financial Instruments: Disclosures (offsetting financial assets and liabilities, December 2011)
- Amendments to IAS 12 Income Taxes (deferred tax: recovery of underlying assets, December 2010)
- Amendments to IAS 19 Employee Benefits (June 2011)
- IFRS 13 Fair Value Measurements (May 2011)

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 that there is a high level of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet 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.

4 Prior Period Adjustments

There was a prior period adjustment of £203,650 relating to properties leased out under finance leases. This reduced Long-Term Debtors and the Deferred Capital Receipts Reserve within Unusable Reserves.

5 Events After the Reporting Period

The Statement of Accounts was authorised for issue by the Director of Finance on 25 September 2013. 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 2013, the figures in the financial statement and notes have been adjusted in all material respects to reflect the impact of this information.

Non-adjusting Event - Non Domestic Rates Appeals

When new arrangements for the retention of business rates came into effect on 1 April 2013, local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list, including amounts paid over to central government in 2012/13 and prior years.

Watford Borough Council's share of these liabilities is estimated to be £1.424m.

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 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it 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.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in the retirement ages, mortality rates and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects of these individual assumptions can have a major impact on the pension liability calculation. During 2012/13, The Council's actuaries advised that the net pensions liability had increased by £8.848m as a result of estimates and assumptions being updated.
Arrears	At 31 March 2013, the Council had a short term sundry debtor balance of £5.933m. A review of significant balances suggested a provision of £4.079m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increasing level of doubtful debts would require an additional amount to be set aside as a bad debt provision or additional bad debt write offs.

7 Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2012/13 (SERCOP). However decisions about resource allocation are taken by the Council's Cabinet on the basis of Finance Digest budget reports analysed across directorates. These reports are produced several times a year to inform senior management and members about the current and forecasted financial position of the Council. They are prepared on a different basis from the accounting policies used in the financial statement. In particular:

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

Finance Digest - Actuals

2011/12 Finance Digest £000		2012/13 Finance Digest £000
	Service Area	
654	Corporate Services	0
8,277	Community Services	6,752
5,734	Environmental Services	5,926
2,855	Planning	3,324
1,764	Corporate Management	1,360
(3,211)	Legal and Property Services	(1,091)
31	Shared Services	4,107
21,791	Strategic Finance	(141)
(23,063)	Capital, IAS19 and Other Adjustments	(3,388)
14,832	**Net General Fund**	**16,849**
	Funding	
(8,367)	Council Tax	(8,258)
(205)	Council Tax Freeze Grant	(206)
(1,429)	Revenue Support Grant	(103)
(1,448)	Non-Specific Grant To Fund Capital	(744)
177	Collection Fund surplus movement	(30)
(4,622)	NNDR	(5,316)
(95)	Homelessness Grant	0
(542)	New Homes Bonus	(1,394)
0	S106 Contributions	(1,224)
(16,531)	**Total Funding**	**(17,275)**
(1,699)	Net General Fund less total funding	(426)
1,699	Transfers To / (From) Reserves	426
0	**Change To General Fund Balance**	**0**

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

This reconciliation shows how the figures in the analysis of directorate income and expenditure within the Finance Digest (FD) relate to the amounts included in the Comprehensive Income and Expenditure Statement (CI&E).

2011/12				2012/13		
Finance Digest £000	Not Inc. In FD £000	CI&E £000	Subjective Analysis	Finance Digest £000	Not Inc. In FD £000	CI&E £000
(15,384)	0	(15,384)	Fees, Charges and Other Service Income	(15,928)	0	(15,928)
(436)	0	(436)	Interest and Investment Income	(411)	(1)	(412)
(8,366)	0	(8,366)	Income From Council Tax	(8,258)	0	(8,258)
(49,185)	0	(49,185)	Government Grants and Contributions	(50,303)	(1,998)	(52,301)
(735)	735	0	Transfer from reserves	(788)	788	0
(74,106)	**735**	**(73,371)**	**Total Income**	**(75,688)**	**(1,211)**	**(76,899)**
19,106	0	19,106	Employee Expenses	19,426	(25)	19,401
(684)	0	(684)	IAS19 Adjustments	0	(1,332)	(1,332)
51,473	0	51,473	Other Service Expenses	55,443	0	55,443
(408)	0	(408)	Support Service Recharges	(552)	0	(552)
2,460	0	2,460	Depreciation, Amortisation and Impairment	0	2,242	2,242
63	0	63	Interest Payments	98	0	98
(338)	11,100	10,762	Other Items in Budget Monitoring	265	(3,275)	(3,010)
2,434	(2,434)	0	Transfer to reserves	391	(391)	0
74,106	**8,666**	**82,772**	**Total Expenditure**	**75,071**	**(2,781)**	**72,290**
0	**9,401**	**9,401**	**(Surplus)/Deficit on Provision of Services / General Fund Movement**	**(617)**	**(3,992)**	**(4,609)**

8 Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13:

2011/12 £000		2012/13 £000
	Credited To Taxation and Non-Specific Grant Income	
205	Council Tax Freeze Grant	206
67	Events Market	0
0	High Street Innovation Fund	100
95	Homelessness Grant	0
0	Housing Planning Delivery Grant	160
150	Leisure Grant	280
542	New Homes Bonus	1,393
4,622	Non-domestic Rates redistribution	5,316
127	Other Local Authorities	14
72	Performance Reward Grant	191
2	Recycling	0
1,429	Revenue Support Grant	103
1,031	Section 106 Contributions	1,224
8,342		8,987
	Credited To Services	
0	Arts Council - Lottery	40
80	Building Safer Communities	42
0	Capital Funding	60
15	CCTV	15
22	Cemeteries	23
712	Council Tax Benefit Administration Grant	680
0	Disabled Facility Grant	279
39,999	DWP Housing Benefit Grant	42,161
93	Elections	10
24	Housing - Homelessness	297
43	Housing and Planning Delivery Grant	0
124	Housing Private Sector	0
59	Miscellaneous Highways	67
0	New Burdens	120
21	Other Grants	50
15	Parks Development	30
47	Performance and Engagement	14
85	Play Rangers	0
0	Police & Crime Commissioner	76
29	Sports Development	17
51	Street Cleansing	55
28	Taxi Marshall Scheme	40
416	Waste Management	433
41,863		44,509
50,205	**Total**	**53,496**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver if the conditions are not met. The balances at the year end are as follows:

2011/12 £000		2012/13 £000
582	Other Government Grants	262
5,512	Section 106	4,875
6,094	**Total**	**5,137**

9 Trading Operations

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

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

2011/12 Income £000	2011/12 Expend-iture £000	2011/12 Net Income £000		2012/13 Income £000	2012/13 Expend-iture £000	2012/13 Net Income £000
7,137	(1,912)	5,225	Property	6,935	(2,100)	4,835
498	(518)	(20)	Market	377	(466)	(89)
7,635	**(2,430)**	**5,205**	**Total**	**7,312**	**(2,566)**	**4,746**

10 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.

2011/12 £000		2012/13 £000
114	Fees payable to the audit commission with regard to external audit services carried out by the appointed auditor for the year, Grant Thornton	68
22	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	16
136	**Total**	**84**

11 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 £442,000 (2011/12: £434,000).

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

12 Officers' Remuneration

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

2011/12 No. of employees	Remuneration Band			2012/13 No. of employees
7	£50,000	-	£54,999	9
1	£55,000	-	£59,999	2
0	£60,000	-	£64,999	0
5	£65,000	-	£69,999	5
1	£70,000	-	£74,999	2
0	£75,000	-	£79,999	0
1	£80,000	-	£84,999	0
0	£85,000	-	£89,999	0
0	£90,000	-	£94,999	0
2	£95,000	-	£99,999	0
0	£100,000	-	£104,999	1
0	£105,000	-	£109,999	0
0	£110,000	-	£114,999	0
0	£115,000	-	£119,999	0
0	£120,000	-	£124,999	0
0	£125,000	-	£129,999	0
0	£130,000	-	£134,999	0
1	£135,000	-	£139,999	1
0	£140,000	-	£214,999	0
0	£215,000	-	£219,999	1
18	**Total**			**21**

The number of officers whose total remuneration exceeded £50,000 has remained the same in 2012/13.

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

2011/12 **Post**	Salary Including Fees and Allowances **£**	Compens-ation For Loss of Office **£**	Total Remun'n excluding Pension Contrib'n **£**	Pension Contrib-ution **£**	Total Remuner-ation **£**
Managing Director	135,105	0	135,105	36,208	**171,313**
Executive Director - Services	98,941	0	98,941	26,507	**125,448**
Executive Director - Resources	98,906	77,435	176,341	26,507	**202,848**
Head of Legal & Property Services	72,456	0	72,456	19,366	**91,822**
Head of Strategic Finance	80,905	0	80,905	0	**80,905**
Head of Environmental Services	67,051	0	67,051	17,916	**84,967**
Head of Human Resources	66,915	0	66,915	17,916	**84,831**
Head of Planning & Transportation	66,895	0	66,895	17,916	**84,811**
Head of Community Services	66,858	0	66,858	17,918	**84,776**
Head of Information, Communication & Technology	65,948	0	65,948	0	**65,948**
Total	**819,980**	**77,435**	**897,415**	**180,254**	**1,077,669**

2012/13 **Post**	Salary Including Fees and Allowances **£**	Compens-ation For Loss of Office **£**	Total Remun'n excluding Pension Contrib'n **£**	Pension Contrib-ution **£**	Total Remuner-ation **£**
Managing Director	135,105	0	135,105	36,208	**171,313**
Executive Director - Services	98,906	119,291	218,197	26,507	**244,704**
Executive Director - Resources	0	0	0	0	**0**
Head of Legal & Property Services	72,256	0	72,256	19,365	**91,621**
Head of Strategic Finance	82,256	20,899	103,155	0	**103,155**
Head of Environmental Services	66,851	0	66,851	17,916	**84,767**
Head of Human Resources	66,858	0	66,858	17,918	**84,776**
Head of Planning & Transportation	66,871	0	66,871	17,916	**84,787**
Head of Community Services	66,857	0	66,857	17,918	**84,775**
Head of Information, Communication & Technology	66,930	0	66,930	0	**66,930**
Total	**722,890**	**140,190**	**863,080**	**153,748**	**1,016,828**

13 Termination Benefits

The Council terminated the contracts of a number of employees in 2012/13, incurring liabilities of £381,329 (2011/12: £559,415). Of this total, £262,593 (2011/12: £489,797) was payable in the form of compensation for loss of office and £118,736 (2011/12: £69,618) in enhanced pension benefits as part of the Council's rationalisation of Services.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

2011/12 Total number of exit packages	2011/12 Total cost of exit packages	Cost Band			2012/13 Total number of exit packages	2012/13 Total cost of exit packages
11	71,862	£0	-	£20,000	8	35,783
9	232,906	£20,001	-	£40,000	2	53,104
2	94,168	£40,001	-	£60,000	1	58,608
1	77,435	£60,001	-	£80,000	0	0
1	83,044	£80,001	-	£100,000	1	82,374
0	0	£100,001	-	£150,000	0	0
0	0	£150,001	-	£200,000	1	151,460
24	**559,415**	**Total**			**13**	**381,329**

14 Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

a) Central Government & Other Local Bodies

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

Details of grant funding transactions with Government Departments and Agencies are set out in Note 8 to the Core Financial Statements.

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

b) Members and Chief Officers

The Council is one of five Districts (the others being Dacorum, Hertsmere, St Albans, and Three Rivers) that oversee the operation of the West Hertfordshire Crematorium. Watford provides the Honorary Clerk to the Joint Committee (the Managing Director, Manny Lewis, undertakes this role). Councillor Ian Brown is the Council's Member representative on the Joint Committee. In 2012/13, as in 2011/12, no contribution towards the running of the Crematorium was required from the Council. The Crematorium's practice is to meet all running costs from its own income, and build up reserves to meet future capital improvement costs. Should a deficiency contribution from Watford Borough be necessary, the contribution would be calculated in proportion to its population. The net assets of the Joint Committee as at 31 March 2013 were £5.26m (31 March 2012: £5.14m). However, Watford's share of the net assets excludes property acquired or constructed for the purpose of Cremation which belong to and are vested in the Authority where the Crematorium is sited.

Councillors Kareen Hastrick and Derek Scudder are members of the Citizens Advice Bureau (CAB) Management Board and Council representatives. Councillor George Derbyshire is also a member of the CAB. The board was paid an amount of £174,222 in grant and £39,095 in rent support during 2012/13 (£174,192 and £47,891 for grant and rent respectively in 2011/12). Councillor Derek Scudder is on the management board of the Watford Sheltered Workshop who lease a premises from Watford rent free and also on the Board of the Milton Keynes Sustainable Energy Agency.

Councillor George Derbyshire is a Director and Council representative on the Watford Palace Theatre Trust. The Trust received £257,728 in grant aid and £32,500 in rent support from the Council in 2012/13 (£257,728 and £32,500 respectively in 2011/12).

Following the transfer of the housing stock, Councillor Kareen Hastrick is a Council representative on the Board of the Watford Community Housing Trust. Also, Councillors Ian Brown and Jan Brown are Directors of the Watford Charity Centre Limited (The Le Marie Centre) who lease a property from the Council.

Mayor Dorothy Thornhill is the Council's representative on the National LGA, on the LGA Environment Board, on the Inter Authorities Health Partnership Board, Herts Anti Poverty Partnership and Chair of LSP One Watford. She is also General Assembly Member of Safer Watford, Vice President of Watford Football Club and Patron of WFC Educational Trust which is negotiating a lease for the Meriden Community Centre.

Councillor Mark Watkin, Councillor Jackie Connal and Councillor Nasreen Shah are on the Board of the Watford Multi-Cultural Community Centre as Council representatives . The Head of Community Services has a relative who is a senior officer for Hightown Praetorian Housing Association which is one of Watford Borough Council's Housing and Regeneration Initiative (HARI) partners.

Councillors Nigel Bell and Mo Mills are trustees of the West Watford Community Association who received a grant from the Council.

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

c) Hertfordshire Pension Fund

The details of the transactions with the Council's pension fund are provided in Note 31 to the Core Financial Statements.

15 Partnership Working

Since April 2009, Watford Borough Council and Three Rivers District Council have been participating in Joint Services, provided by the Joint Shared Services Committee. During 2012/13 the services that have been provided jointly are Human Resources, Finance, Revenue and Benefits, and the ICT function. These services are jointly provided with an aim to making efficiencies for both Authorities.

The net expenditure of the shared services is apportioned between the Councils based on the Shared Service Agreement. The table below shows the total expenditure and income of the Joint Committee of which Watford Borough Council's share is £4.113million.

2011/12				2012/13		
Gross Expend-iture £000	**Gross Income £000**	**Net Cost £000**	**Services**	**Gross Expend-iture £000**	**Gross Income £000**	**Net Cost £000**
1,400	(1)	1,399	Local Tax Collection	1,436	0	1,436
1,567	0	1,567	Housing Benefits	1,724	0	1,724
3,703	(5)	3,698	Central Support Services	3,583	(7)	3,576
6,670	**(6)**	**6,664**	**Net Cost of Services / Operating Expenditure**	**6,743**	**(7)**	**6,736**
		(2,597)	Income from Three Rivers District Council			(2,623)
		(4,067)	Income from Watford Borough Council			(4,113)
		0	**(Surplus) / Deficit for the year**			**0**

16 Intangible Assets

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

During 2012/13 no capital expenditure was recorded in this category.

17 Property, Plant and Equipment

a) Information on Assets Held

The Property of the Council comprises:

31 Mar 12 No. / area		31 Mar 13 No. / area
	Property, Plant and Equipment	
1	Museum	1
5	Community Centres	5
1	Assembly Hall	1
2	Play Facilities	2
2	Theatres	2
3	Council Offices	3
2	Depot	2
4	Car Parks	4
2	Cemeteries	2
2	Leisure Pools	2
	Community Assets (see note below)	
915 acres	Parks and Open Spaces	915 acres
9	Allotments	9

Community Assets are held for the community in perpetuity. They are often assets that have been in the community for a long period, and little if any record exists of their original cost. The assets are not expected to be sold and have a nominal value in the accounts of £1 per asset, giving a total value of £93 for the 93 assets held by the Council (2011/12: £93).

b) Movement of Property, Plant and Equipment

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure £000	Total £000
Cost or valuation				
At 1 April 2011	45,427	13,175	2,655	61,257
Additions - Capital Programme	1,630	1,491	244	3,365
Additions - Finance Leases	0	154	0	154
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(430)	0	0	(430)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	(955)	0	0	(955)
Derecognition - Disposals	0	0	0	0
Derecognition - Other	(2,226)	(1,972)	(286)	(4,484)
Assets reclassified (to) / from Held for Sale	(194)	0	0	(194)
Other movements in cost or valuation	0	0	0	0
At 31 March 2012	**43,252**	**12,848**	**2,613**	**58,713**
Accumulated Depreciation & Impairment				
At 1 April 2011	(4,407)	(8,278)	(543)	(13,228)
Depreciation Charge	(969)	(1,159)	(118)	(2,246)
Depreciation written out to the Revaluation Reserve	0	0	0	0
Depreciation written out to the surplus / deficit on the provision of services	0	0	0	0
Impairment losses / (reversals) recognised in the Revaluation Reserve	283	0	0	283
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	455	0	0	455
Derecognition - Disposals	0	0	0	0
Derecognition - Other	2,226	1,972	286	4,484
Other movements in depreciation and impairment	0	0	0	0
At 31 March 2012	**(2,412)**	**(7,465)**	**(375)**	**(10,252)**
Balance Sheet Value at 31 March 2012	**40,840**	**5,383**	**2,238**	**48,461**
Balance Sheet Value at 1 April 2011	**41,020**	**4,897**	**2,112**	**48,029**

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure £000	Total £000
Cost or valuation				
At 1 April 2012	43,252	12,848	2,613	58,713
Additions - Capital Programme	789	1,765	23	2,577
Additions - Finance Leases	0	52	0	52
Revaluation increases / (decreases) recognised in the Revaluation Reserve	205	0	0	205
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	(780)	0	0	(780)
Derecognition - Disposals	0	0	0	0
Derecognition - Other	0	(650)	0	(650)
Assets reclassified (to) / from Held for Sale	0	0	0	0
Other movements in cost or valuation	0	82	0	82
At 31 March 2013	**43,466**	**14,097**	**2,636**	**60,199**
Accumulated Depreciation & Impairment				
At 1 April 2012	(2,412)	(7,465)	(375)	(10,252)
Depreciation Charge	(855)	(1,234)	(131)	(2,220)
Depreciation written out to the Revaluation Reserve	0	0	0	0
Depreciation written out to the surplus / deficit on the provision of services	0	0	0	0
Impairment losses / (reversals) recognised in the Revaluation Reserve	37	0	0	37
Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services	0	0	0	0
Derecognition - Disposals	0	0	0	0
Derecognition - Other	0	650	0	650
Other movements in depreciation and impairment	0	(82)	0	(82)
At 31 March 2013	**(3,230)**	**(8,131)**	**(506)**	**(11,867)**
Balance Sheet Value at 31 March 2013	**40,236**	**5,966**	**2,130**	**48,332**
Balance Sheet Value at 1 April 2012	**40,840**	**5,383**	**2,238**	**48,461**

c) 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. The Council undertakes an impairment review at the year end and any asset which has had a material gain or loss in value during the year is adjusted. Therefore, the Council believes that the prior year valuations are still appropriate.

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure £000	Total £000
Carried at historical cost	0	14,097	2,636	16,733
Valued at current value as at:				
31/03/2013	2,679	0	0	2,679
31/03/2012	12,078	0	0	12,078
31/03/2011	25,796	0	0	25,796
31/03/2010	2,226	0	0	2,226
31/03/2009	687	0	0	687
Total Cost or Valuation	**43,466**	**14,097**	**2,636**	**60,199**

d) **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. Depreciation commences in the year following acquisition. Freehold land, investment properties, Surplus Assets and Heritage Assets are not depreciated. On all other assets where depreciation has been provided, assets have been depreciated on the following basis:

Buildings	Straight-line over the useful life of the property as estimated by the valuer
Vehicles	Straight-line over the estimated life of the vehicle
Plant, Furniture & Equipment	25% on a reducing balance basis
Infrastructure	Straight-line over 25 years
Finance Leases	Straight-line over the term of the lease

18 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 annually. The Council has a rolling programme of repair of its 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.

	Musical Instrument £000	Statues, Sculptures & War Memorials £000	Works of Art £000	Civic Regalia £000	Total £000
Cost or valuation					
At 1 April 2011	400	368	700	200	1,668
Additions	0	12	0	0	12
Disposals	0	0	0	0	0
Revaluations increases / (decreases)	0	365	0	0	365
At 31 March 2012	**400**	**745**	**700**	**200**	**2,045**

	Musical Instrument £000	Statues, Sculptures & War Memorials £000	Works of Art £000	Civic Regalia £000	Total £000
Cost or valuation					
At 1 April 2012	400	745	700	200	2,045
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations increases / (decreases)	0	0	0	0	0
At 31 March 2013	**400**	**745**	**700**	**200**	**2,045**

19 Investment Properties and Surplus Assets

a) Information on Assets Held

The Investment Properties and Surplus Assets of the Council comprise:

31 Mar 12 No. / area		31 Mar 13 No. / area
209	Commercial Properties	209
1	Old Woolworths Store	1
1	Business Park	1
250,000 sq.ft	Charter Place Shopping Area	250,000 sq.ft
1	Market	1
7% of net profit	Share in Harlequin Shopping Centre	7% of net profit
1	Cardiff Road Industrial Estate	1
2	Surplus Assets	2

b) Movement of Investment Properties and Surplus Assets

	Investment Properties £000	Surplus Assets £000	Total £000
Cost or valuation			
At 1 April 2011	109,873	2,045	111,918
Additions	4,520	0	4,520
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	(7,864)	0	(7,864)
Derecognition - Disposals	0	0	0
Derecognition - Other	0	0	0
Assets reclassified (to) / from Held for Sale	0	(885)	(885)
Other movements in cost or valuation	0	0	0
At 31 March 2012	**106,529**	**1,160**	**107,689**
Balance Sheet Value at 31 March 2012	**106,529**	**1,160**	**107,689**
Balance Sheet Value at 1 April 2011	**109,873**	**2,045**	**111,918**

	Investment Properties £000	Surplus Assets £000	Total £000
Cost or valuation			
At 1 April 2012	106,529	1,160	107,689
Additions	421	0	421
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services	6,359	(260)	6,099
Derecognition - Disposals	0	0	0
Derecognition - Other	0	0	0
Assets reclassified (to) / from Held for Sale	0	0	0
Other movements in cost or valuation	0	0	0
At 31 March 2013	**113,309**	**900**	**114,209**
Balance Sheet Value at 31 March 2013	**113,309**	**900**	**114,209**
Balance Sheet Value at 1 April 2012	**106,529**	**1,160**	**107,689**

During the year, the major revaluation increases included Charter Place (£6.2m) and the Land at Ascot Road (£4.5m). There were also several revaluation decreases, including the Harlequin (-£2.6m).

c) Accounted for in Comprehensive Income and Expenditure Statement

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

2011/12 £000		2012/13 £000
7,635	Rental income from Investment Property	7,312
(2,430)	Direct operating expenses arising from Investment properties	(2,566)
5,205	**Net income**	**4,746**

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.

d) Revaluations

The following table illustrates the scope of the revaluation work undertaken and demonstrates the Council's rolling revaluation programme. The Council undertakes an impairment review at the year end and any asset which has had a material gain or loss in value during the year is adjusted. Therefore, the Council believes that the prior year valuations are still appropriate.

	Investment Properties £000	Surplus Assets £000	Total £000
Valued at current value as at:			
31/03/2013	74,185	900	75,085
31/03/2012	13,578	0	13,578
31/03/2011	10,569	0	10,569
31/03/2010	12,561	0	12,561
31/03/2009	2,416	0	2,416
Total Cost or Valuation	**113,309**	**900**	**114,209**

20 Capital Expenditure & Financing, Commitments and Changes in Estimates

a) Capital Expenditure and Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the 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.

2011/12 £000		2012/13 £000
3,340	Opening Capital Financing Requirement	2,974
	Capital Investment	
3,377	Property, Plant and Equipment	2,577
4,519	Investment Properties	421
2,170	Revenue Expenditure Funded from Capital Under Statute	1,587
10,066		4,585
	Sources of Finance	
(8,384)	Capital receipts	(2,787)
(1,632)	Government grants and other contributions	(1,798)
(50)	Reserves	0
(10,066)		(4,585)
(366)	Minimum Revenue Provision	(61)
0	Voluntary Contributions to Reduce the Capital Financing Requirements	(397)
0	Other Movements	(2)
2,974	**Closing Capital Financing Requirement**	**2,514**

b) Commitments Under Capital Contracts

At 31 March 2013 the Council had contractual commitments totalling £1.124 million (31 March 2012: £1.415 million) relating to the following capital schemes for which the Council has in place the necessary funding. The major commitments are:

Commit-ments 31 Mar 12 £000		Period over which expenditure will take place	Commit-ments 31 Mar 13 £000
607	Playing Fields and open spaces (Land & Buildings)	2013-14	298
149	Repairs to Council Buildings (Land & Buildings)	2013-14	300
0	Watford Cultural Quarter (Land & Buildings)	2013-14	217
125	Renovation Grants (Land & Buildings)	2013-14	0
379	Other Capital Projects (Investment Properties)	2013-14	186
155	Cardiff Road Health Campus (Investment Properties)	2013-14	123
1,415	**Total**		**1,124**

21 Leases

a) Council as Lessee

i) Operating Lease

The Council entered into a number of operating leases with three significant lease arrangements relating to operational land and buildings, vehicles and plant and equipment. The total amount paid under these arrangements in 2012/13 was £106,149 (2011/12: £104,632) as follows:

2011/12 £000		2012/13 £000
30	Operational Land and Buildings	30
75	Vehicles, Plant and Equipment	76
105	**Total**	**106**

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

2011/12 Land & Buildings £000	2011/12 Vehicles, Plant & Equipment £000	2011/12 Total £000		2012/13 Land & Buildings £000	2012/13 Vehicles, Plant & Equipment £000	2012/13 Total £000
0	19	19	Not later than one year	0	35	35
0	47	47	Later than one year and not later than five years	30	39	69
30	0	30	Later than five years	0	0	0
30	**66**	**96**	**Total Liability**	**30**	**74**	**104**

ii) Finance Leases

Vehicle Plant and Equipment includes vehicles and machinery that have been acquired in 2012/13 under finance leases for delivery of services at a fair value of £50,000 (2011/12: £154,000). The following table shows the values of assets held under finance by the Council accounted for under Long-Term Assets:

2011/12 Total £000		2012/13 Land & Buildings £000	2012/13 Investment Properties £000	2012/13 Vehicles, Plant & Equipment £000	2012/13 Total £000
527	Book value at 1 April	368	98	321	787
154	Additions	0	0	50	50
(360)	Depreciation	(3)	0	(92)	(95)
0	Impairment	0	(98)	0	(98)
321	**Book value at 31 March**	**365**	**0**	**279**	**644**

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

31 Mar 12 £000		31 Mar 13 £000
	Finance lease liabilities (net present value of minimum lease payments):	
284	Annual Payments	181
70	Finance costs payable in future years	39
354	**Minimum lease payments**	**220**

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

31 Mar 12 £000		31 Mar 13 £000
	Vehicles, Plant and Equipment	
4	Not later than one year	32
350	Later than one year and not later than five years	188
354	**Total**	**220**

The aggregate finance charges made under these finance leases during the year amounted to £32,890 (2011/12: £35,600). This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

b) Council as Lessor

i) Operating Leases

The Council leases out various investment property under operating leases. The gross value of assets which were held under operating leases was £111.731 million (31 March 2012: £105.381 million). The total rental received under these lease agreements and credited to services was £7.312 million (2011/12: £7.635 million).

ii) Finance Leases

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

2011/12 £000		2012/13 £000
340	Finance Lease Debtor - Long Term	425
340	**Gross Investment in the Lease**	**425**

22 Debtors - Long Term

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

Restated 31 Mar 12 £000		31 Mar 13 £000
237	Watford Irish Association	0
12	Loan to YMCA	11
1,021	Rent to Mortgage	1,044
135	Finance Leases as Lessor	135
1,405		1,190
(237)	less: provision for bad debts / impairment	0
1,168	**Total**	**1,190**

23 Assets Held For Sale

Current Assets Held For Sale are those being actively marketed where there is an expectation that they will be sold within one year of the balance sheet date.

2011/12		2012/13		
Total £000		Current £000	Long-Term £000	Total £000
	Cost or valuation			
0	At 1 April	885	0	885
194	Assets reclassified from operational land and buildings	0	0	0
885	Assets reclassified from surplus assets	0	0	0
(194)	Disposals	(885)	0	(885)
885	**At 31 March**	**0**	**0**	**0**

During the year, the two Assets Held For Sale, which were Callowland and Gammons Farm, were disposed of.

24 Inventories

The following inventories were held as at 31st March 2013:

31 Mar 12 £000		31 Mar 13 £000
5	Watford Museum (Saleable Items)	20
9	Printing Section (Paper, inks, etc.)	11
14	Fuel Stock	5
28	**Total**	**36**

There was no work-in-progress as at 31st March 2013.

25 Debtors - Short Term

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

31 Mar 12 £000		31 Mar 13 £000
1,990	Government Departments	3,396
2,937	Local Authorities	3,010
0	Public Corporations	1
6,691	Sundry Debtors	5,933
223	Payments in Advance	250
11,841		12,590
(4,309)	less: provision for bad debts / impairment	(4,079)
7,532	**Total**	**8,511**

26 Cash, Cash Equivalents and Short Term Borrowing

The balance of cash, cash equivalents and short term borrowing is made up of the following elements:

31 Mar 12 £000		31 Mar 13 £000
	Current Assets	
3	Cash held by the Council	4
719	Bank current accounts	377
722		381
	Current Liabilities	
(1,500)	Short term borrowing	(479)
(778)	**Total**	**(98)**

27 Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements and Investing and Financing Activities

2011/12 £000	2011/12 £000		2012/13 £000	2012/13 £000
		Adjustments for non-cash transactions		
(11,952)		Adjustments involving the Capital Adjustment Account and Revaluation Reserve	4,183	
(100)		Adjustments involving Finance Leases	(246)	
(177)		Adjustments involving the Collection Fund Adjustment Account	29	
15		Adjustments involving the Accumulated Absences Reserve	22	
(630)		Net charges made for retirement benefits in accordance with IAS19	(829)	
	(12,844)			**3,159**
		Items on an accruals basis		
(12)		Increase / (Decrease) in Inventories	8	
(4,770)		Increase / (Decrease) in Debtors and Payments in Advance	979	
5,436		(Increase) / Decrease in Creditors and Receipts in Advance	(1,146)	
0		Movement in Provisions	(430)	
	654			**(589)**
		Investing and Financing Activities		
(63)		Interest payable and similar charges	(93)	
436		Interest receivable	412	
1		Adjustments to the Financial Instruments Reserve	1	
	374			**320**
	(11,816)	**Total**		**2,890**

28 Creditors - Short Term

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

31 Mar 12 £000		31 Mar 13 £000
383	Government Departments	617
782	Local Authorities	1,739
0	Public Corporations	15
3,612	Sundry Creditors	3,740
441	Receipts in Advance	253
5,218	**Total**	**6,364**

29 Creditors - Long Term

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

31 Mar 12 £000		31 Mar 13 £000
350	Deferred Liabilities (obligations under finance leases)	166
6,094	Government Grants and Other Contributions Unapplied	5,138
6,444	**Total**	**5,304**

30 Provisions

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

31 Mar 12 £000		31 Mar 13 £000
0	Property Searches	100
0	Municipal Mutual Insurance	100
0	Commercial Rents	230
0	**Total**	**430**

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. In the current litigation the Council faces a maximum claim of £130k plus interest and costs. A second group of Property Search Companies are also seeking to claim refunds although no proceedings have yet been issued. The second group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none has been intimated at present. The Council believes the provision of £100k is prudent.

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. At 31 March 2013 the Council was informed by MMI's administrators that the maximum potential repayment stood at £52,000. This figure represents 15% of the total amount of claims paid by MMI to 31 March 2013, less the first £50,000 which is excluded from any levy. The Council believes the provision of £100k is prudent.

Commercial Rents

The Council faces a claim to repay some commercial rents paid by a lessee in prior years and the Council believes the provision of £230k is prudent.

31 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 that need to be disclosed 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.

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:

2011/12 £000		2012/13 £000
	Comprehensive Income and Expenditure Statement (CI&E)	
	Cost of Services:	
1,998	current service cost	2,158
22	past service costs	16
94	settlements and curtailments	0
	Financing and Investment Income and Expenditure	
7,001	interest cost	6,740
(5,687)	expected return on assets in the scheme	(4,576)
3,428	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**4,338**
	Other Post Employment Benefit Charged to the CI&E	
12,965	actuarial gains and losses	8,019
16,393	**Total Post Employment Benefit Charged to the CI&E**	**12,357**
	Movement in Reserves Statement	
(16,393)	reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(12,357)
2,877	employers' contributions payable to the scheme	3,509
2,877	**Actual amount charged against the General Fund Balance for pensions in the year**	**3,509**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £51.596 million (2011/12: £43.577 million).

Assets and Liabilities in relation to Post-employment Benefits

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

2011/12 £000		2012/13 £000
128,931	Opening balance at 1 April	141,612
1,998	Current service costs	2,158
7,001	Interest cost	6,740
702	Contributions by scheme participants	687
9,002	Actuarial gains and losses	15,761
(6,138)	Benefits paid	(5,261)
22	Past service costs	16
94	Curtailments	0
141,612	**Closing Balance at 31 March**	**161,713**

Reconciliation of fair value of the scheme assets:

2011/12 £000		2012/13 £000
84,947	Opening balance at 1 April	84,113
5,690	Expected rate of return	4,576
(3,965)	Actuarial gains and losses	7,742
2,877	Employer Contributions	3,509
702	Contributions by scheme participants	687
(6,138)	Benefits paid	(5,261)
84,113	**Closing Balance at 31 March**	**95,366**

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

The actual return on scheme assets in the year was £12.330 million (2011/12: £1.738 million).

Scheme History

31 Mar 09 £000	31 Mar 10 £000	31 Mar 11 £000	31 Mar 12 £000		31 Mar 13 £000
(102,500)	(160,963)	(128,930)	(141,612)	Present value of liabilities in the Local Government Pension Scheme	(161,713)
64,262	82,269	84,947	84,113	Fair value of assets in the Local Government Pension Scheme	95,366
(38,238)	**(78,694)**	**(43,983)**	**(57,499)**	**Surplus / (deficit) in the scheme**	**(66,347)**

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £66.347 million (2011/12: £57.499 million) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payment fall due), as assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2014 is £2.721 million.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary were:

31 Mar 12		31 Mar 13
4.8%	Rate of increase in salaries	5.1%
2.5%	Rate of increase in pensions	2.8%
4.8%	Rate for discounting scheme liabilities	4.5%
5.5%	Expected Return on Assets	4.5%
50%	Take-up option to convert annual pension into retirement lump sum	50%
	Mortality Assumptions	
	Longevity at 65 for current pensioners	
21.0	• Men	21.0
23.8	• Women	23.8
	Longevity at 65 for future pensioners	
22.9	• Men	22.9
25.7	• Women	25.7

31 Mar 12 %		31 Mar 13 %
	Long-term expected rate of return on assets	
6.2	Equity investments	4.5
4.0	Bonds	4.5
4.4	Property	4.5
3.5	Cash	4.5

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

31 Mar 12 %		31 Mar 13 %
69	Investments	71
18	Bonds	18
6	Property	5
7	Other Assets	6
100		**100**

History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

31 Mar 09 %	31 Mar 10 %	31 Mar 11 %	31 Mar 12 %		31 Mar 13 %
(39.7)	13.4	1.8	7.8	Difference between the expected and actual returns on assets	(8.1)
(16.2)	(33.6)	17.5	(6.4)	Experience gains and losses on liabilities	(9.7)

32 Contingent Assets and Liabilities

Contingent Asset - VAT Shelter Agreement with Watford Community Housing Trust

Watford Borough Council employed a VAT structure scheme when the Council’s housing stock was transferred to the Watford Community Housing Trust (WCHT). The scheme involves the Council contracting with WCHT for the Trust to deliver works and this enabled the WCHT to recover VAT on those future major works. Both the WCHT and the Council gain by these arrangements. The recovery of VAT on major works will amount to an estimated £18 million, of which the first £1.1 million was paid to Watford Borough Council along with 50% of the remaining £16.9 million. The rate at which this sum is received will depend on the WCHT work programme. However, £0.515 million was received during 2012/13 (2011/12: £1.456 million) leaving a contingent asset of approximately £4.309 million (2011/12: £4.824 million) which will be received in the future.

33 Usable Reserves

a) Movement in Usable Reserves

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

Balance at 31 Mar 12 £000	Reserve	Net Movement in year £000	Balance at 31 Mar 13 £000	Further Detail Note
12,872	Capital Receipts Reserve	(256)	12,616	33b
13,306	Earmarked Reserves	56	13,362	33c
1,350	General Fund Balance	0	1,350	33d
27,528	**Total Net Worth**	**(200)**	**27,328**	

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.

2011/12 £000		2012/13 £000
19,413	Balance brought forward at 1 April	12,872
	Received in year	
6	Loan repayments	5
194	Proceeds from sale of long-term assets	1,384
1,643	Receipts not related to asset sales	1,142
1,843		2,531
	Applied in year	
(8,384)	Transferred to Capital Adjustment Account to finance new capital expenditure	(2,787)
12,872	**Balance carried forward at 31 March**	**12,616**

c) Earmarked Reserves

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

For each Reserve established the Council identifies:
- the reason/purpose of the reserve
- how and when the reserve can be used
- procedures for the management and control of the reserve
- a process and timescale for review to ensure continuing relevance and adequacy

Balance at 31 Mar 12 £000		Appropriations to Reserve £000	Appropriations from Reserve £000	Balance at 31 Mar 13 £000
85	Area Based Grant Reserve	0	0	85
301	Budget Carry Forward Reserve	235	(302)	234
1,896	Capital Fund Reserve	287	(370)	1,813
575	Car Parking Zones Reserve	58	(36)	597
476	Charter Place Tenants Reserve	6	(102)	380
49	Climate Change Reserve	0	(12)	37
1,310	Development Sites Decontamination Reserve	0	0	1,310
1,537	Economic Impact Reserve	573	(287)	1,823
0	High Street Innovation	100	0	100
113	Homelessness Prevention Reserve	0	0	113
996	Housing Benefit Subsidy Reserve	0	0	996
301	Housing Planning Delivery Grant Reserve	0	0	301
100	Insurance Fund Reserve	0	(100)	0
1,420	Invest to Save Reserve	0	(165)	1,255
641	LA Business Growth Incentive Reserve	0	(28)	613
12	Le Marie Centre Repairs Reserve	0	0	12
423	Leisure Structured Maintenance Reserve	0	0	423
313	Local Development Framework Reserve	0	(80)	233
183	Multi-Storey Car Park Repair Reserve	0	(2)	181
542	New Homes Bonus Reserve	0	0	542
1,375	Pension Funding Reserve	0	0	1,375
0	Performance Reward Grant Reserve (Capital)	191	0	191
120	Performance Reward Grant Reserve (Revenue)	0	(60)	60
13	Recycling Reserve	0	0	13
100	Rent Deposit Guarantee Scheme Reserve	0	0	100
425	Vehicle Replacement Reserve	150	0	575
13,306	**Total**	**1,600**	**(1,544)**	**13,362**

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.
Development Sites Decontamination Reserve	To 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.
High Street Innovation	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.
Insurance Fund Reserve	To provide for unforeseen uninsured losses.
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.
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.
Recycling Reserve	This reserve will help to 'smooth out' fluctuations in recycling income in future years.
Rent Deposit Guarantee Scheme Reserve	To assist in the provision of homelessness accommodation.
Vehicle Replacement Reserve	To provide for the replacement of the Council's refuse freighters.

d) General Fund Balance

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

2011/12 £000		2012/13 £000
1,350	Balance brought forward at 1 April	1,350
1,702	Net increase/(decrease) before transfers to earmarked reserves	56
(1,702)	Transfer (to)/from earmarked reserves	(56)
1,350	**Balance carried forward at 31 March**	**1,350**

34 Unusable Reserves

a) Movement in Unusable Reserves

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

Restated Balance at 31 Mar 12 £000	Reserve	Net Movement in year £000	Balance at 31 Mar 13 £000	Further Detail Note
(111)	Accumulated Absences Reserve	22	(89)	34b
144,644	Capital Adjustment Account	6,833	151,477	34c
2	Collection Fund Account	29	31	34d
(450)	Deferred Capital Payments	156	(294)	34e
2,367	Deferred Capital Receipts	(1,102)	1,265	34f
(76)	Financial Instruments Account	1	(75)	34g
(57,499)	Pensions Reserve	(8,848)	(66,347)	31
10,576	Revaluation Reserve	19	10,595	34i
99,453	**Total Net Worth**	**(2,890)**	**96,563**	

b) Accumulated Absences Reserve

The Accumulated Absences Reserve absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from this Reserve.

2011/12 £000		2012/13 £000
(126)	Balance brought forward at 1 April	(111)
15	Employee costs accrued	22
(111)	**Balance carried forward at 31 March**	**(89)**

c) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from different arrangements for accounting for the consumption of long-term assets and for financing the acquisition, construction or enhancements of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement of property, plant and equipment and credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement of these assets.

2011/12 £000		2012/13 £000
149,139	Balance brought forward at 1 April	144,644
	Reversal of items relating to capital expenditure debited or credited to the CI&E Statement:	
(2,102)	Charges for depreciation and impairment of long-term assets	(2,220)
0	Charges for depreciation against Revaluation Reserve	223
(9,770)	Revaluation gains / (losses) on Long-term Assets	5,322
0	Finance Lease Vehicle Additions	52
(2,170)	Revenue Expenditure Funded from Capital under Statute	(1,587)
(14,042)		1,790
	Capital financing applied in the year:	
8,384	Capital Receipts Reserve	2,787
1,632	Government Grants and Other Contributions	1,798
50	Reserves	0
154	Minimum Revenue Provision	61
212	Voluntary Contributions to Reduce the Capital Finance Requirement	160
0	Transfer from Deferred Capital Receipts to Reduce the CFR	237
10,432		5,043
(885)	Transfer to Deferred Capital Receipts relating to Assets Held For Sale	0
144,644	**Balance carried forward at 31 March**	**151,477**

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

d) Collection Fund Adjustment Account

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

2011/12 £000		2012/13 £000
178	Balance brought forward at 1 April	2
(176)	Amount by which council tax income credited to CI&E is different from the council tax income calculated for the year in accordance with statutory requirements	29
2	**Balance carried forward at 31 March**	**31**

e) 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.

2011/12 £000		2012/13 £000
(187)	Balance brought forward at 1 April	(450)
(313)	Deferred capital payments adjustment	0
50	Deferred capital payments relating to finance lease payments	156
(450)	**Balance carried forward at 31 March**	**(294)**

f) Deferred Capital Receipts

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 mortgage advances to community groups including the Watford and District Irish Association, which forms part of the mortgages under long term debtors. In addition, equity interest in the rent to mortgage scheme is included in the total deferred credit and amounts to £1.044 million (2011/12: £1.021 million).

Restated 2011/12 £000		2012/13 £000
1,738	Balance Brought Forward at 1 April	2,367
0	Transfer to the Capital Adjustment Account to Reduce the CFR	(237)
0	Disposal of Assets Held for Sale	(885)
885	Transfer from the Capital Adjustment Account relating to Assets Held For Sale	0
(256)	Other Deferred Capital Receipts Adjustments (Rent to Mortgage)	20
2,367	**Balance carried forward at 31 March**	**1,265**

g) Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2011/12 £000		2012/13 £000
(77)	Balance brought forward at 1 April	(76)
1	Financing costs written out	1
(76)	**Balance carried forward at 31 March**	**(75)**

h) Pension Reserve

The Pension 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. For further details see Note 31.

i) 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.

2011/12 £000		2012/13 £000
9,136	Balance brought forward at 1 April	10,576
1,287	Gains / (Losses) on revaluation of long-term assets	242
(212)	Historical Cost depreciation adjustment	(223)
365	Heritage Asset Revaluations	0
10,576	**Balance carried forward at 31 March**	**10,595**

35 Disclosure of Nature and Extent of Risk Arising from Financial Instruments

Financial Instruments - Balances

The Balance Sheet includes the following financial instruments:

Restated 31 Mar 12 £000		31 Mar 13 £000
	Other Financial Liabilities	
(350)	Deferred Liabilities	(166)
(4,777)	Short Term Creditors	(6,111)
(1,500)	Short Term Borrowing	(479)
	Loans and Receivables	
1,168	Long Term Debtors	1,190
7,309	Short Term Debtors	8,261
29,112	Short Term Investments	28,111
722	Cash and Cash Equivalents	381
31,684	**Total**	**31,187**

Fair Value

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

The Council has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £717 (2011/12: £766) 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 annual treasury management strategy which incorporates the prudential indicators was approved by the Audit Committee on 20th March 2012 and is available on the Council website. The key issues within the strategy were:

- the Authorised Limit for 2012/13 was set at £10 million (2011/12: £7 million). This is the maximum limit of external borrowings or other long term liabilities
- the Operational Boundary was expected to be £7 million (2011/12: £5 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 & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. One long-standing investment for £3m, 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. Details of the Investment Strategy for 2012/13, which was approved by the Audit Committee on 14 March 2012, can be found on the Council's website.

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 2013 that this was likely to crystallise.

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

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

Liquidity risk

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

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

The Council does not generally allow credit for its trade debtors, such that £0.412 million (2011/12: £0.420 million) of the £5.933 million (2011/12: £6.691 million) balance is past its due date for payment. The past due amount can be analysed by age as follows:

31 Mar 12 £000		31 Mar 13 £000
250	Less than 3 months	113
10	More than 3 months, less than 1 year	110
160	More than 1 year	189
420	**Total**	**412**

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 2013 is as follows:-

31 Mar 12 £000		31 Mar 13 £000
29,112	Less than 1 year	28,111
29,112	**Total**	**28,111**

Market Risk

Interest Rate Risk

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

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

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

2011/12 £000		2012/13 £000
305	Increase in interest receivable on investments with consequential change in Income and Expenditure Account	286

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

Price Risk

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

Foreign Exchange Risk

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

COLLECTION FUND

2011/12 £000			Note	2012/13 £000	£000
		Income			
44,361		Council Tax Payers	*CF1*	45,144	
6,450		Transfers from the General Fund - Council Tax Benefit	*CF1*	6,132	
62,504		Business Rate Payers	*CF2*	63,648	
	113,315	**Total Income**			**114,924**
		Expenditure			
49,697		Precepts and Demands	*CF3*	50,128	
		Business Rates			
62,336		Payments to National Pool	*CF2*	63,481	
168		Cost of Collection		167	
		Bad and Doubtful Debts	*CF4*		
316		Write-offs		19	
788		Increase in Provision		950	
1,082		Distribution of Previous Year's Surplus		0	
	114,387	**Total Expenditure**			**114,745**
	1,072	**(Increase) / Decrease in Collection Fund Balance**			**(179)**
	(1,082)	Fund Balance - (Surplus) / Deficit at 1 April			(10)
	(10)	**Fund Balance - (Surplus) / Deficit at 31 March**	*CF4*		**(189)**

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

CF1 Council Tax Payers

The charge for council tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts, exemptions or disabled relief applies and is converted into an "equivalent number of Band D dwellings" where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection. The table below sets out the calculation of the Council Tax Base for 2012/13.

2011/12 Equivalent Number of Band D Dwellings	Valuation Band	Total Number of Dwellings in Band	Discounts, Exemptions & Disabled Relief	Total Chargeable Dwellings	Conversion Faction (Proportion)	2012/13 Equivalent Number of Band D Dwellings
153.80	A	279	(48.25)	230.75	6/9	153.80
2,473.10	B	3,834	(663.75)	3,170.25	7/9	2,481.30
10,450.70	C	13,472	(1,559.50)	11,912.50	8/9	10,588.90
10,863.00	D	11,998	(1,028.25)	10,969.75	9/9	10,969.80
3,915.40	E	3,460	(250.25)	3,209.75	11/9	3,923.00
2,788.90	F	2,076	(128.25)	1,947.75	13/9	2,813.40
2,827.50	G	1,810	(104.75)	1,705.25	15/9	2,842.10
139.00	H	77	(11.50)	65.50	18/9	131.00
33,611.40		**37,006**	**(3,794.50)**	**33,231.50**		**33,903.30**
(840.00)	Less: Allowance for losses on collection					(847.60)
32,771.40	Tax Base for Calculation of Council Tax					33,054.70
734.00	Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons'					758.00
33,505.40	**Council Tax Base for the Year**					**33,812.70**

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 £1,516.49 (2011/12: £1,516.49, no change).

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

2011/12 £000		2012/13 £000
50,811	Gross Council Tax Charge	51,276
(6,450)	Less: Council Tax Benefits	(6,132)
44,361	**Income from Council Tax Payers**	**45,144**

CF2 Business Rate Payers

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

The Council 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.

The relevant rateable value and multiplier data is shown below:

2011/12 £ / p		2012/13 £ / p
£164,469,825	Total Non-domestic Rateable Value at 31 March	£161,536,315
43.3	National Non-domestic Rate Multiplier - Standard	45.8
42.6	National Non-domestic Rate Multiplier - Small Business	45.0

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.

CF3 Precepts and Demands

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

2011/12 £000		2012/13 £000
	Precepts:	
36,665	Hertfordshire County Council	36,983
4,844	Hertfordshire Police	4,887
	Demand:	
8,188	Watford Borough Council	8,258
49,697	**Total**	**50,128**

CF4 Distribution of Balances

Based on the precepts and demands made in 2012/13, balances relating to the collection fund have been apportioned between the local authorities and are reflected on their balance sheets as follows:

2011/12 Total £000		Herts County Council £000	Herts Police £000	Watford Borough Council £000	2012/13 Total £000
4,564	Gross Arrears	3,781	499	844	5,124
(836)	Less: Prepayments	(532)	(70)	(119)	(721)
3,728	Net Arrears	3,249	429	725	4,403
2,588	Provision for Doubtful Debts	2,610	345	583	3,538
(10)	**Collection Fund Balance (Surplus)**	**(140)**	**(18)**	**(31)**	**(189)**

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

GLOSSARY OF TERMS AND ABBREVIATIONS

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

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

Amortisation
The term used to refer to the charging of the value of a transaction or asset (usually related to intangible 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.

GLOSSARY OF TERMS AND ABBREVIATIONS

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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WATFORD BOROUGH COUNCIL

Opinion on the authority's financial statements

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Director of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the authority and the auditor

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the 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.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the authority has proper arrangements for:

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

INDEPENDENT AUDITOR'S REPORT AND CERTIFICATE

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Watford Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul Dossett CPFA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP

Date

INDEX OF NOTES TO THE CORE FINANCIAL STATEMENT

Note Description	Note	Page
Accounting Policies	1	34
Accounting Standards that Have Been Issued but Have Not Yet Been Adopted	2	48
Adjustments to Net Surplus or Deficit on the Provision of Services for Non Cash Movements and Investing and Financing Activities	27	72
Amounts Reported for Resource Allocation Decisions	7	49
Assets Held For Sale	23	70
Assumptions Made About the Future and Other Major Sources of Uncertainty	6	48
Capital Expenditure & Financing, Commitments and Changes in Estimates	20	66
Cash, Cash Equivalents and Short Term Borrowing	26	72
Contingent Assets and Liabilities	32	78
Creditors - Long Term	29	73
Creditors - Short Term	28	73
Critical Judgements in Applying Accounting Policies	3	48
Debtors - Long Term	22	70
Debtors - Short Term	25	71
Defined Benefit Pension Scheme	31	74
Disclosure of Nature and Extent of Risk Arising from Financial Instruments	35	86
Events After the Reporting Period	5	48
External Audit Costs	10	53
Grant Income	8	52
Heritage Assets	18	63
Intangible Assets	16	58
Inventories	24	71
Investment Properties and Surplus Assets	19	64
Leases	21	67
Members' Allowances	11	54
Officers' Remuneration	12	54
Partnership Working	15	58
Prior Period Adjustments	4	48
Property, Plant and Equipment	17	59
Provisions	30	73
Related Party Transactions	14	56
Termination Benefits	13	56
Trading Operations	9	53
Unusable Reserves	34	82
Usable Reserves	33	79

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Agenda Item 5

Report to:	Audit Committee
Date of meeting:	25 September 2013
Report of:	Alan Power – Head of Finance Shared Services
Title:	Internal Audit Annual Report 2012/13

1.0 SUMMARY

1.1 This report introduces the Shared Internal Audit Services (SIAS) annual report for 2012/13

2.0 RECOMMENDATIONS

2.1 That Shared Internal Audit Service Annual Report for 2012/13 is noted.

Contact Officer:
For further information on this report please contact: -
Alan Power, Head of Finance, Shared Services
telephone extension: 7196
email: alan.power@watford.gov.uk

Report approved by: Joanne Wagstaffe, Director of Finance

3.0 **DETAILS**

3.1 The SIAS Annual Report for 2012/13 is attached at Appendix 1. The report highlights key areas of success in the year before describing the performance of the partnership during 2012/13. It looks ahead to the future and the developments SIAS plan to deliver the partners' vision.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 None Specific.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 None Specific.

4.3 **Equalities**

None Specific.

4.4 **Potential Risks**

There are no risks associated with the decisions members are being asked to make.

APPENDICES

Appendix 1 Shared Internal Audit Services (SIAS) Annual Report for 2012/13

BACKGROUND PAPERS

None

Watford Borough Council
Audit Committee

SIAS Annual Report 2012/13

25 September 2013

Recommendation

Members are recommended to note the Shared Internal Audit Service Annual Report 2012/13

Shared Internal Audit Service

Annual Report

2012/13

Annual Report Contents

	Page
Introduction & Highlights	1-5
Performance	6-9
Future Developments	10-11
Our Board Members	12
Appendix A: SIAS Balanced Scorecard 2012/2013	13
Appendix B: SIAS Trading Account 2012/2013	14
Appendix C: Definitions	15

Introduction

Helen Maneuf
Head of Assurance for the Shared Internal Audit Service

I am delighted to set out this second SIAS annual report which looks back at the first full year of operation since creation of the partnership in July 2011.

The report begins by highlighting key areas of success in the year before describing the performance of the partnership during 2012/13. We then look ahead to the future and the developments we plan so that we continue to deliver the partners' vision.

That vision is to create a core assurance service which provides for resilience, efficiency, access to specialisms, high standards of customer service and career development opportunities for its employees. By delivering across these business objectives in year SIAS has continued to build on the strong foundations established by the partners.

Growth and development has always formed part of the ambition for SIAS and we were thrilled to welcome Watford Borough Council and Three Rivers District Council into SIAS on 1 April 2013; we see this as great endorsement of the partnership approach.

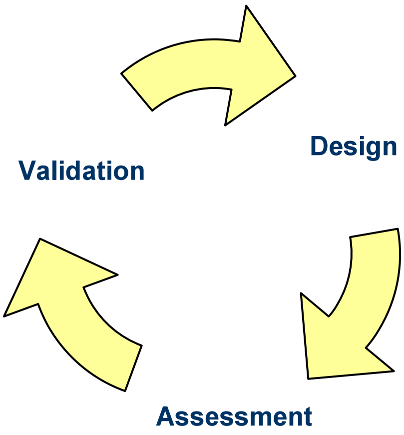
The Shared Internal Audit Service is, again, very grateful for the enthusiastic and active support it has received from all stakeholders during the period. This has helped the service make significant steps forward and demonstrate the benefits of real collaboration and partnership working. I look forward to celebrating the ongoing success of SIAS with you in future.

Helen Maneuf

Head of Assurance for the Shared Internal Audit Service

May 2013

SIAS
Shared Internal Audit Service
Hertfordshire in Partnership



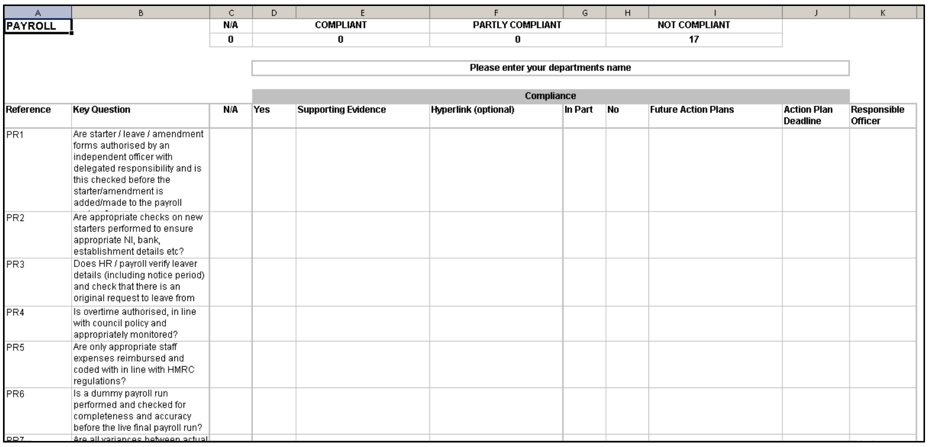
A smarter, leaner way of working

We continue our leading edge work to emphasise LEAN and efficient principles such as:

- prioritisation of risk, so that the most important areas are looked at, rather than those that can be done most easily
- pro-actively assessing throughout the assignment to clarify or validate whether further detailed testing is necessary. It should be no surprise that LEAN internal audit avoids auditors continuing with detailed work simply to utilise the budgeted number of days
- dialogue about appropriate practical remediation which adds value in the customer's eyes, fits with existing processes and systems wherever possible, and reinforces management accountability for addressing the issues.

Continuing to innovate, in 2012-13, we have introduced Control Risk Self-Assessment (CRSA). This technique adds value and contributes to embedding risk management. It achieves this by increasing an operating unit's involvement in designing and maintaining risk management and control systems, as well as identifying risk exposures and determining corrective action.

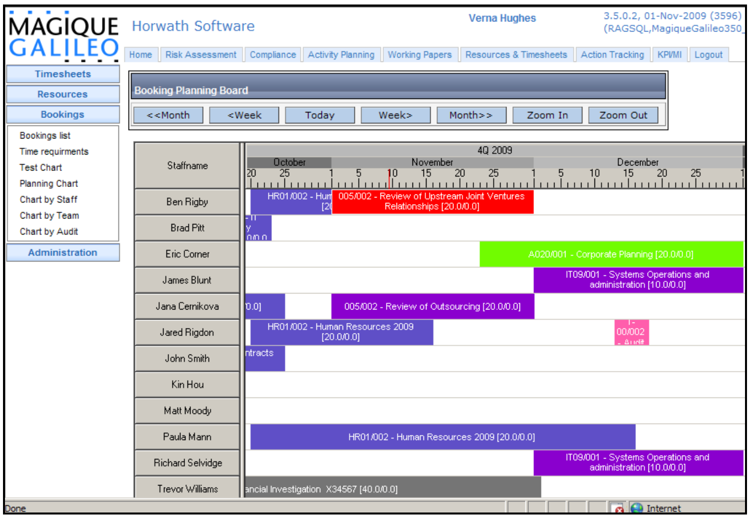
Figure 1: Example CRSA Template



A	B	C	D	E	F	G	H	I	J	K
PAYROLL		N/A	COMPLIANT		PARTLY COMPLIANT		NOT COMPLIANT			
		0	0		0		17			
			Please enter your departments name							
			Compliance							
Reference	Key Question	N/A	Yes	Supporting Evidence	Hyperlink (optional)	In Part	No	Future Action Plans	Action Plan Deadline	Responsible Officer
PR1	Are starter / leave / amendment forms authorised by an independent officer with delegated responsibility and is this checked before the starter/amendment is added/made to the payroll									
PR2	Are appropriate checks on new starters performed to ensure appropriate NI, bank, establishment details etc?									
PR3	Does HR / payroll verify leaver details (including notice period) and check that there is an original request to leave from									
PR4	Is overtime authorised, in line with council policy and appropriately monitored?									
PR5	Are only appropriate staff expenses reimbursed and coded with in line with HMRC regulations?									
PR6	Is a dummy payroll run performed and checked for completeness and accuracy before the live final payroll run?									
PR7	Are all variances between actual									

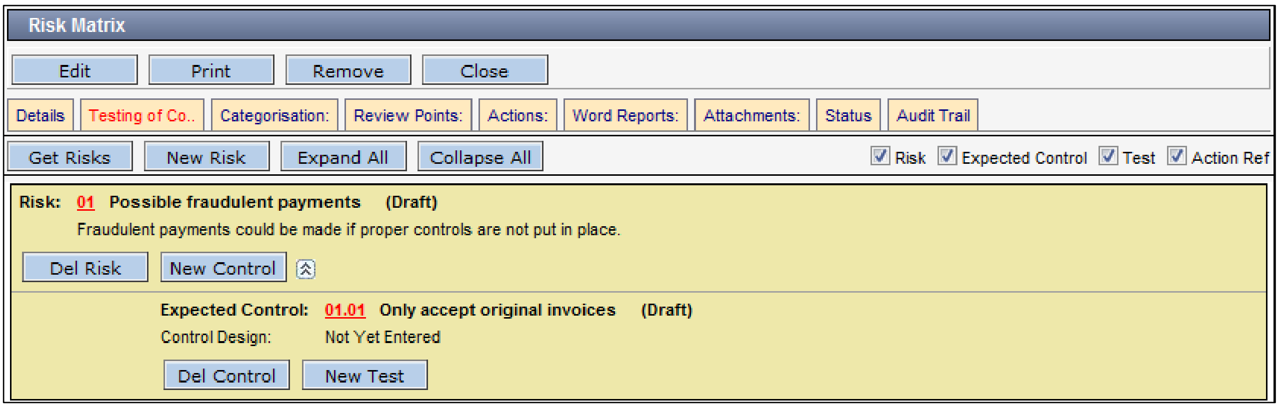
We are able to reduce audit time on areas where we can use a CRSA approach, offering our partners the opportunity to realise efficiencies, or to deploy audit resources into other areas.

Figure 2: Galileo Audit Management System



We have re-designed our Galileo Audit Management system to ensure our working papers fully reflect our LEAN approach. Further efficiencies will be achieved by utilising the Library system in Galileo where standard working papers will be stored to generate working papers for an audit.

Figure 3: Galileo Working Papers



Solid Business Performance

With ever increasing financial pressures facing Local Government, the SIAS business model has contributed efficiency savings in order of £350k for its partner organisations. The SIAS risk focused approach has delivered high quality value added assurance work with less resource.

Commentary on our financial performance can be found in Appendix B.

Investing in our team

We are committed to the development of our team and set out the arrangements we have to support this important area:

Investing in our talented staff

Table 1: SIAS Development Activities

Professional Training & Development	Supporting the team in obtaining qualifications from the Chartered Institute of Internal Auditors. In addition, trainees from HCC's CIPFA scheme are now routinely placed in our service. The team participate in Hertfordshire County Council's Performance Management and Development Scheme which underpins the Council's Investors in People accreditation. Team members with full professional qualifications participate in the continuing professional development requirements of their respective institutes.
Technical	A technical update is given at every SIAS team meeting. We can source technical training through both our partnership with PwC and our excellent professional networks.
Relationship Skills	We have identified five core attributes that we believe form the basis of effective internal audit relationships: ○ communication ○ relationship building ○ persuasion ○ negotiation ○ influencing We have designed training activity to support our staff in developing these skills and monitor individual performance through feedback questionnaires.
Management and Development	Four of the team have participated in 'LEAP', a management development programme. In addition, all Audit Managers have completed a set of recommended management courses. Three of the team are nominated for the county council's 'Talent Pool' which is intended to retain and facilitate the career development of the very best performing employees in the organisation. We have built commercial skills within the team in partnership with PwC.

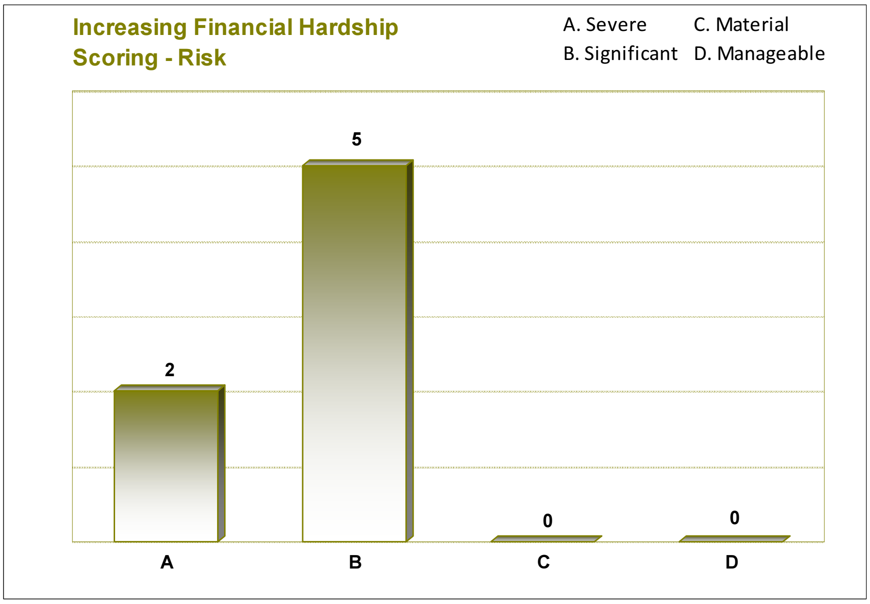
A vision for sharing across the partnership

Greater synergies across partners

Our partners have always seen the potential for a shared service to be a force for sharing learning and ideas. During the year, we issued our first combined benchmarking report which looked at opportunities for greater synergy across partners in relation to financial regulations.

We were pleased to be able to facilitate a workshop on emerging risk and assurance requirements with our Chief Financial Officers. This event set the foundations for audit planning by identifying shared concerns and opportunities for joint assurance work.

Figure 3: Emerging Risks Workshop Risk Scoring



Later in the year we designed a seminar day for Audit Committee Members aimed at updating these key stakeholders on the issues of the day.

First Class Customer Service

In order to monitor our effectiveness and improve our service, at end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that we have received 99% satisfactory or higher feedback rating from our customers.

'I found the audit process helpful and together with my colleagues I found working with the auditor a positive and enjoyable experience'

'The auditor quickly gained a good understanding of how we operate and took time to properly familiarise himself with our systems. The working discussions were helpful and constructively challenging. The findings were fair and the resolutions realistic'

'…willingness to participate in a dynamic audit during the development of a process'

Performance

Context

SIAS worked on more than 393 assurance and other projects during the year, giving assurance opinions and recommendations as demonstrated in the charts below.

More than 393 assurance and other projects identifying 954 recommendations

Figure 4: Distribution of Audit Opinion 2012/13

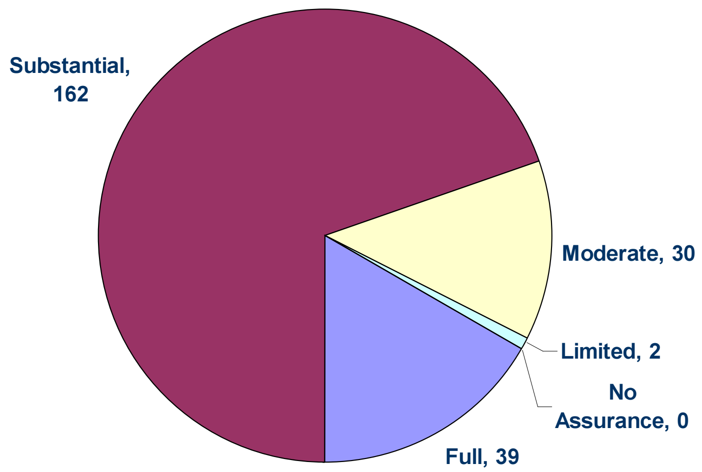
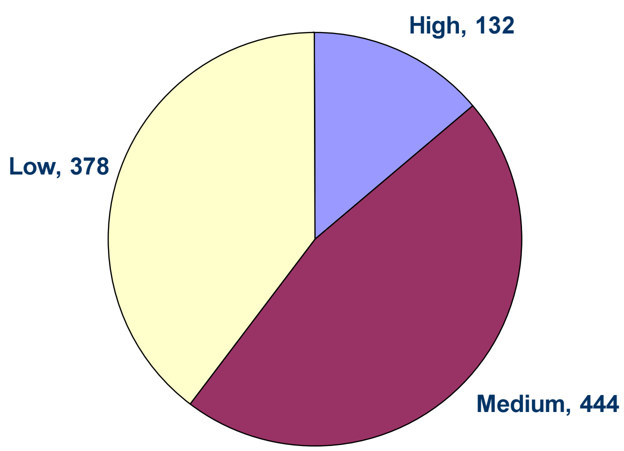


Figure 5: Prioritisation of Recommendations 2012/13



Business Performance of SIAS

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The full balanced scorecard for 2012/13 is provided in Appendix A to this report, and the headlines are summarised in the table below.

Table 2: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2012	Actual as at 31 March 2013	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	88%	98%	3,695 billable days were delivered by 31 March 2013.
Progress against plan: audits issued in draft by 31 March 2012	NA	84%	91%	359 audits were delivered to at least draft stage by 31 March 2013.
Client satisfaction	Satisfactory and above	100%	99%	All but one audit met the minimum target; 32% rated as very good; 67% rated as excellent.
Financials: income recovered	NA	£430,560	£1,119,015	No target was set for this indicator.

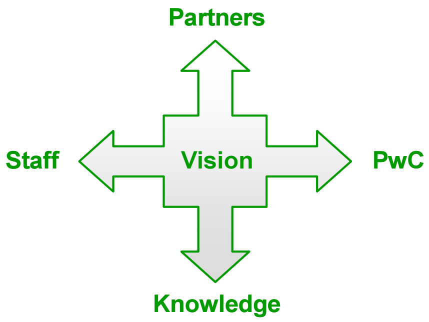
Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13; Appendix B sets out the summary financial position at 31 March 2013. In our first year as a fully-traded unit, we showed a deficit outturn; this was because a number of one-off costs were funded in year.

Professional Performance

Professional standards are fundamental to the effectiveness and credibility of internal audit, and are therefore taken extremely seriously by the SIAS Board.

In our last annual report, we highlighted peer review of our services undertaken by the Director of Veritau, a well-established local authority internal audit company owned by North Yorkshire County Council and York City Council.



The assessor concluded that SIAS had built a good reputation and profile, especially amongst senior client officers. Equally, the assessor recognised that the service had begun to deliver additional value as business case objectives were realised.

The assessors made a number of recommendations and the progress we have made this year against these is summarised below.

Working seamlessly with PWC

We reviewed the lessons learned from the first year of operation with PWC and took action to review work allocations in order to facilitate the building of effective relationships. We have monitored performance closely and carefully planned activity. Although there is still work to do, there has been much greater progress towards a 'seamless' approach as a result of these steps.

Communicating our new approach to managers

This has been regularly reviewed at audit champion meetings during the year and various activities were identified and delivered such as articles in office newsletters and presentations to managers, according to the individual needs of each partner.

Engaging our team in developing and delivering our vision

Significant work to enhance communications and build engagement within the team has taken place. The Head of Assurance has held a series of regular meetings with staff members to listen to views and opportunities and suggestions. Team meetings have been used to ensure all team members are briefed on the next steps for the shared service and the role we all play in creating success. We have worked to improve commercial awareness within the whole team so we are well placed to match our competitors.

Building skills and competencies

We have carried out a wide range of development activity across SIAS, including supporting professional, technical and managerial training and building customer relationship management skills within the service.

Using IT effectively

Significant work has been done to implement Galileo working papers, with a training day held in early April and roll out in progress.

A new SIAS Lap Top is being rolled out and all the team will be on this by June 2013. Those who have been using the lap top so far have been delighted with the improvement in performance.

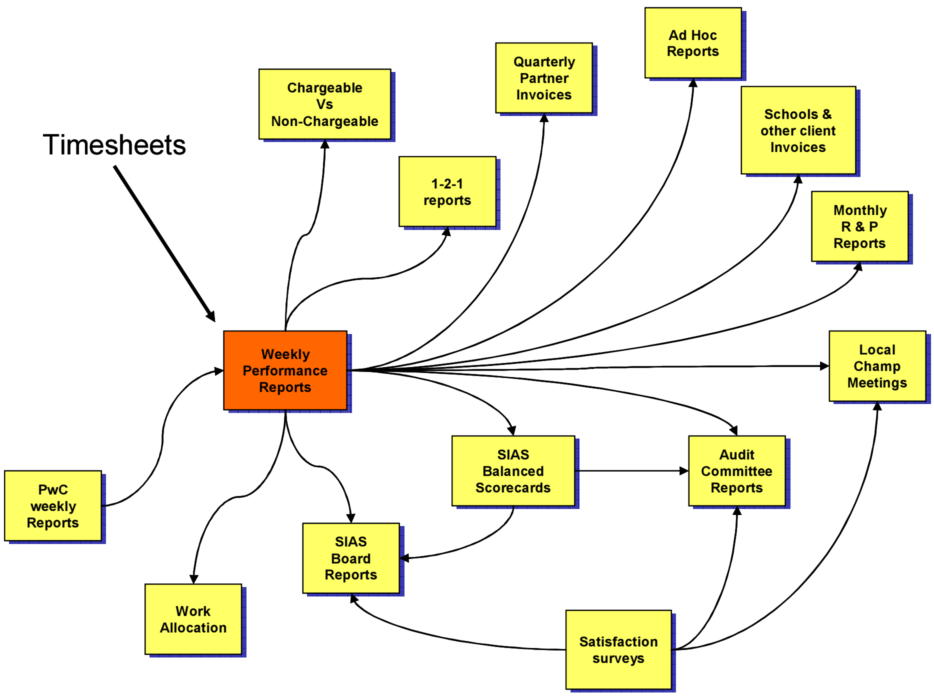
Sharing Learning

Highlights during the year included a development day for Audit Committee Members and a joint risk and assurance identification workshop for Chief Financial Officers. The current focus of this activity is in the development of benchmark reports for IT, Procurement and Fraud across the partnership.

Enhancing performance information

Performance information is in continual review and refinement and the focus at present is on developing reports which facilitate the management of the business.

The SIAS post audit questionnaire has been amended to include reference to how the service can add value.



Future Development

The final section of this Annual Report looks forward to the future. The partnership has signed off this vision for SIAS:

> ***'SIAS aims to operate at industry-standard levels of productivity and output and to demonstrate best practice by being at the leading edge of audit service delivery. The service aims to operate as an exemplar shared service and provide a return on investment for the partner councils by identifying opportunities to grow the business'.***

Four priority areas have been identified for development activity in the year ahead:

1. Establish a leading reputation in respect of governance, risk assurance and internal control services – ensuring SIAS delivers a good quality service
2. Be at leading edge of audit service delivery –ensuring SIAS delivers an efficient, resilient, cost-effective service
3. Build a team ready to meet the challenges of the future – ensuring SIAS has the right skills to deliver in the changing public sector environment
4. Be an exemplar shared service with a 'return on investment' for partners and first choice public sector internal audit provider in the region with a growing client base.

The detailed development actions which feed into each of these priority areas were agreed by the Board in March 2013 and are monitored regularly by the SIAS Management Team. The table below sets out the mission-critical activities

Table 3: SIAS Mission Critical Activities

Priority	Activity
Leading reputation in governance, risk and control	• Compliance with Public Sector Internal Audit Standards • Joint reviews and seminars • Control Risk Self-Assessment roll-out
Leading edge of service delivery	• Full implementation of Galileo Working Papers • Roll out of new IT • Continued work on efficiency of audit delivery • Improved work allocation process
Team are ambassadors with the right skills	• Individual and team development plans agreed and maintained • Team development day on customer relationship management skills
Exemplar shared service	• Smooth expansion of the service to

Priority	Activity
	include Watford Borough Council and Three Rivers District Council • Review of management structure to ensure continued effectiveness

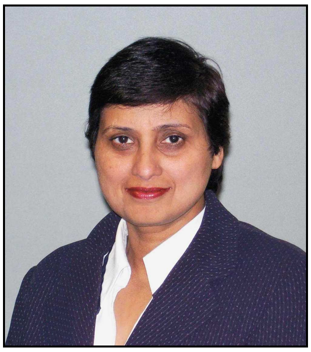
Building on the strong foundations already in place, these activities will take SIAS forward in the year ahead in a way that we believe will be to the benefit of all the partnership stakeholders.

Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.

Scott Crudgington, SBC

Director of Resources



Sajida Bijle, HBC

Director of Resources

Sarah Pickup, Herts CC

Deputy Chief Executive

Norma Atlay, NHDC

Director Finance, Policy & Governance

Pam Kettle, WHBC

Director of Finance & Operations

Adele Taylor, EHDC

Director of Finance & Support Services

Helen Maneuf, SIAS

Head of Assurance

SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

SIAS Rolling Audit Balance Scorecard 31st March 2013

Progress Against Plan

*Total Plan Days**	3768
Billable Days to Date	3695
Percentage progress	98%
**ex-unused contingency*	
Targets	
2012/13	95%

Audit Progress

Allocated	0
In Planning	0
ToR Issued	5
In Field Work	24
Drafting Report	1
Quality Review	4
Draft Report Issued	33
Final Report Issued	262
Audit Closed	64
Cancelled	19
Percentage Progress	91%
Targets	
2012/13 - To Draft	95%

Level of Assurance

Full	39
Substantial	162
Moderate	30
Limited	2
No Assurance	0
Not Assessed	67
No Targets	

Recommendations

High	132
Medium	444
Low	378

Client Satisfaction

Excellent	67%
Very Good	32%
Satisfactory	0%
Potential for Improvement	1%
Unsatisfactory	0%
No score	0%
Targets	
Min satisfactory and 39/65	60%

Please note that for the purpose of producing information on performance against in-year targets, figures represent the position at the cut-off point of 31 March 2013. Work to complete the 2012/13 activity was undertaken after year-end.

SIAS cost centre: budget against outturn 2012/13

	Budget £	Outturn
Salaries & Salary Related	1,072,465	1,021,164
Partner / consultancy costs	111,326	135,599
Transport	17,870	16,050
Supplies	36,812	31,247
Office Accommodation cost	23,274	23,274
Total expenditure	1,261,747	1,227,334
Less income from Districts, Police and HCC Trading Units	(628,606)	(606,465)
Less income / contribution from HCC	(633,141)	(636,406)
	0	**(15,537)**

Notes:

1. Figures exclude recharges (except for note 2 below), IAS19 and capital charges.
2. Office accommodation costs figure is represented by Admin Buildings Recharge.

3 Deficit includes funding of one-off costs of £33,180 associated with implementation

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

Agenda Item 6

Report to: Audit Committee

Date of meeting: 25 September 2013

Report of: Alan Power - Head of Finance Shared Services

Title: Internal Audit Recommendations

1.0 SUMMARY

1.1 This report gives details of the progress made in implementing the recommendations of the internal auditor.

2.0 RECOMMENDATIONS

2.1 That progress in completion of the audit plans is noted.

2.2 That progress in implementing the internal auditor's recommendations is noted.

Contact Officer:
For further information on this report please contact: -
Alan Power, Head of Finance, Shared Services
telephone extension: 7196
email: alan.power@watford.gov.uk

Report approved by: Joanne Wagstaffe, Director of Finance

3.0 **DETAILS**

3.1 Details of progress against the Internal Audit Plans for 2013/14 are attached at Appendix 1. The status of completion of audits from the 2012/13 Audit Plan has been reported in the body of the SIAS Progress Report.

3.2 Appendices 2 to 5 provide information on recommendations which remain outstanding from audits carried out in 2010/11, 2011/12, 2012/13 and 2013/14 and detail only those recommendations which were not resolved at the time of the last report together with new audit reports issued since that time. New reports and new comments are shown in bold italics.

3.3 The table below summarises progress in implementation of the recommendations:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & Request made for Extended Time	Percentage implemented %
2010/11	213	208	3	2	98
2011/12	114	108	3	3	95
2012/13	49	29	6	14	59
2013/14	3	3	0	0	100

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 None Specific.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 None Specific.

4.3 **Equalities**

None Specific.

4.4 **Potential Risks**

There are no risks associated with the decisions members are being asked to make.

APPENDICES

Appendix 1 Shared Internal Audit Service Progress Report
Appendix 2 Progress on recommendations 2010-11
Appendix 3 Progress on recommendations 2011-12
Appendix 4 Progress on recommendations 2012-13
Appendix 5 Progress on recommendations 2013-14

SIAS
Shared Internal Audit Service
Hertfordshire in Partnership

Watford Borough Council
Audit Committee Progress Report
25 September 2013

Recommendation

Members are recommended to: • Note the Internal Audit Progress Report Against the 2013/14 Audit Plan • Approve amendments to the Audit Plan as at 30 August 2013 • Agree removal of implemented recommendations (see Appendix B) • Agree the changes to the implementation date for 19 recommendations (paragraph 2.7) for the reasons set out in Appendix B.

Contents

1 Introduction and Background
1.1 Purpose
1.2 Background

2 Audit Plan Update
2.1 Delivery of Audit Plan and Key Audit Findings
2.4 Status of Audit Recommendations
2.8 Proposed Audit Plan amendments
2.9 Performance Management

Appendices

A Progress against the 2013/14 Audit Plan
B Progress against outstanding internal audit recommendations

1. Introduction and Background

Purpose of Report

1.1 This report details:

a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2013/14 as at 30 August 2013.
b) Proposed amendments to the approved 2013/14 Annual Audit Plan.
c) Implementation status of all outstanding previously agreed audit recommendations from 2010/11 onwards.
d) An update on performance management information as at 30 August 2013.

Background

1.2 The work of internal audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

1.3 The Internal audit service has been transferred to the Shared Internal Audit Service (SIAS) partnership since April 2013. The 2013/14 Annual Audit Plan was approved by Audit Committee on 13 March 2013.

1.4 The Audit Committee receives periodic updates on progress against the Annual Audit Plan from SIAS, the most recent of which was brought to this Committee on 27 June 2013.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

2.1 The following 2012/13 report has been finalised since the June 2013 Audit Committee and represents closure of the 2012/13 Audit Plan:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Benefits Administration	Aug '13	Substantial	One high, four medium and two merits attention

2.2 As at 30 August 2013, 31% of the 2013/14 Audit Plan days had been delivered (calculation excludes contingency). Appendix A provides a status update on each individual deliverable within the audit plan.

2.3 The following 2013/14 report has been finalised:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Recruitment and vetting follow up - shared	Jul '13	Moderate	Three high priority

Status of Audit Recommendations

2.4 Members will be aware that a Final Audit Report is issued when it has been agreed by management and includes an agreement to implement the recommendations made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations. It is the responsibility of Officers to implement recommendations by the agreed date.

2.5 The table below summarises progress in implementation of all outstanding internal audit recommendations, with full details given in Appendix B**:**

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & request made for extended time	Percentage implemented %
2010/11	213	208	3	2	98%
2011/12	114	108	3	3	95%
2012/13	49	29	6	14	59%
2013/14	3	3	0	0	100%

2.6 The Committee will be aware that the ICT service was outsourced to Capita Secure Information Solutions with effect from 20 May 2013 and that the outstanding ICT recommendations were prioritised to be completed during transition (up to 20 May 2013) or transformation (after 20 May 2013).

2.7 Extension to implementation dates have been requested for 19 recommendations, as detailed in Appendix B. The recommendations relate to the following audits:

a) One for Asset Management
b) One for IT Remote Working
c) One for IT Project Management
d) Two for IT Back-Up & Disaster Recovery
e) Two for Data Transparency
f) Three for Data Protection
g) Four for Carbon Management
h) Two for Partnerships
i) Three for Risk Management

<u>Proposed Audit Plan Amendments</u>

2.8 No amendments to the Audit Plan have been made since the date of the June Audit Committee.

Performance Management

2.9 Annual performance indicators and associated targets were approved by the SIAS Board in March 2013. Actual performance for Watford Borough Council against the targets that can be monitored for 2013/14 is shown the table below.

Performance Indicator	Annual Target	Profiled Target to 30 August 2013	Actual to 30 August 2013
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	35%	31%
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects (excludes 12-13 completion and 'ongoing' pieces)	95%	10%	9%
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (based on one received)
4. Number of High Priority Audit Recommendations agreed	95%	100%	100%

2.10 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2013-14 Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External

Auditors are able to rely upon the range and the quality of SIAS' work.

- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the civic year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

2013-14 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Key Financial Systems								
Benefits (shared)					15	No		Planned for Q3/4
Council Tax (shared)					12	Yes	0.5	Planned for Q3/4
Creditors (shared)					11	No		Planned for Q3/4
Debtors (shared)					11	Yes	0.5	Planned for Q3/4
Main Accounting (shared)					19	No		Planned for Q3/4
NNDR (shared)					12	Yes	0.5	Planned for Q3/4
Payroll (shared)					14	No		Planned for Q3/4
Treasury Management					5	No		Planned for Q3/4
Budgetary Control					8	No		Planned for Q3/4
Asset Management					8	Yes	4	ToR issued
Operational Audits								
Recruitment and vetting – follow-up (Shared)	Substantial	3	0	0	5	Yes	5	Final report issued
Health & Safety (Shared)					10	PwC		Planned for Q2
Project and change management					10	Yes	6	In planning
Housing re-design (advisory support)					10	Yes	7	Report being drafted
Review of Corporate Spatial					10	Yes	4	In planning

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Data								
Health Campus					10	Yes	7	In planning
Commercial rent					6	Yes	4	In fieldwork
Data Protection - follow-up					6	Yes		Planned for Q3
Procurement								
New IT contract management review (shared)					10	PwC		Planned for Q4
Procurement and contract management baseline review					10	Yes	4	In fieldwork
Outsourcing arrangements					10	Yes	1	In planning
Counter Fraud								
Review of counter fraud arrangements Shared Service Benefit Fraud Team (shared)					5	Yes		In planning
Anti-Fraud and Corruption Baseline Review					10	Yes	3	In planning
Risk Management and Governance								
Risk Management					5	No		Quarter tbc
Corporate Governance					5	No		Quarter tbc
IT Audits								

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
IT vulnerabilities- extended follow-up (shared)					10	PwC	0.5	In planning
Cyber Risk (Shared)					10	PwC		In planning
SIAS Joint Work								
New ways working seminar (Shared)					1			Quarter tbc
Comparative review of budget setting and monitoring arrangements (Shared)					1			Quarter tbc
Herts waste partnership					1			Quarter tbc
Contingency								
Investigation					2	Yes	7	Draft report issued
Boundary way insulation project	N/A	0	0	0	0	Yes	1	Audit closed
Strategic Support								
Head of Internal Audit Opinion 2012-13					2		2	Complete
Introduction to Public Sector Internal Audit Standards	N/A				1		1	Complete
Audit committee	N/A				8		4	On-going
Monitoring & Client Liaison	N/A				5		1	On-going

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
2014-15 Audit Planning	N/A				3			On-going
SIAS Development	N/A				3		3	On-going
Follow-up recommendations	N/A				10		3	On-going
Completion of 2012-13 audits								
Time required to complete work commenced in 2012/13	Various				24		30	Complete
WBC TOTAL					**148**		**62**	
SHARED SERVICES TOTAL					**170**		**37**	
COMBINED TOTAL					**318**		**99**	

Key:
H = High priority recommendation
M = Medium priority recommendation
MA= Merits attention priority recommendation
N/A = Not applicable

Note:
For the purposes of the performance indicator on planned projects:
Number of deliverables = 34 pieces (does not include on-going pieces or completion of 12-13 activity)

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APPENDIX 2

Audit Plan 2010/11

IT Service Desk and Change Management 2010/11 **Final report issued March 2011**							
Ref No.	**Recommendation**	**Priority**	**Action to Date**	**Responsibility**	**Deadline**	**Resolved ✗ or ✓**	**Revised Deadline**
01	The Service Catalogue should be updated and finalised to ensure it contains a listing of all the current services being provided by ICT. Once finalised, the Service Desk contact details and fault reporting procedures should be made available to all Watford and Three Rivers staff on the intranet.	Important	Position – August 2011 This work has been placed on hold and priority has been given to other work streams and projects. ICT is currently conducting an options appraisal of alternative models of service delivery, which may mean that staff interact with the service desk differently from 1 Oct 2012. Position – February 2012 As at August 2011 above. Position - June 2012 Update regarding IT Tender is that any potential transition to an outsourced provider would be early 2013. Position - August 2012 No change from June update Position - November 2012 The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting. Position - January 2013 Provision of a Service Request Catalogue is part of the Capita proposal. This will define services and items that can be ordered by the Councils users. The interface to Service Desk will be	ICT Client Manager	June 2011	✓	On hold May 2013 Sept 2013

IT Service Desk and Change Management 2010/11

Final report issued March 2011

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			documented and published during Transition, and strictly adhered following Service Commencement. Position - May 2013 As above **Position - August 2013** **A list of Capita services is available on the Intranet, included within this are details of how to report a fault, what customers can expect from the ICT service, what the ICT service expects of customers, information regarding call priorities and how the call will be handled. At service commencement in May 2013 staff received ICT service cards and mouse mats detailing service hours, contact details and SLA's. There are pop up banner boards physically located at WBC within the amenities area again reminding staff of the contact details and service hours.**				

Asset Management 2010/11

Final report issued March 2011

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
5.4.7	There should be detailed procedures in place for administering the fixed asset registers.	Essential	Agreed The procedures will be compiled to take account of the IFRS standard. The IFRS compliant module was installed late in the closing of accounts process. Existing assets have been updated on the system, but no new assets have yet been added New assets acquired during 2010/11 will be added to the register during the 2011/12 financial year. Procedures will be written as the asset register is updated. Position - February 2012 This is the first full year with a fully operational integrated fixed asset module. Fixed asset / capital procedure notes will be prepared during the 2012 closing period as the work is undertaken. Proposed Revised Deadline July 2012 Position - May 2012 Closing of accounts in progress. Deadline remains July 2012. Position - August 2012 General procedures can be documented, but detailed procedures relate to the screens in the Financial Management System (FMS). The FMS is being upgraded, going live with version 4.1 on 20 August. Detailed procedures will be written with reference to the upgraded version. Position - November 2012 A bug in the fixed asset module has further delayed the implementation of this recommendation. It was has fixed in October 2012, and procedures will be written by the end of November.	Finance Manager	June 2011	× **(Part Resolved)**	July 2012 October 2012 November 2012 July 2013 **September 2013**

Asset Management 2010/11

Final report issued March 2011

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Position - January 2013 Changes to the Asset Register are infrequent and mostly confined to year end accounting entries. Testing has been done on the new version and notes written for those procedures that required testing. The remainder will be written at the year end, with appropriate screen shots, as the accounting entries are carried out. Position - May 2013 Changes to the Asset Register are infrequent and mostly confined to year end accounting entries. Testing has been done on the new version and notes written for those procedures that required testing. The remainder will be written at the year end, with appropriate screen shots, as the accounting entries are carried out. **Position – August 2013** **Additions have been delayed due to a software problem.**				

IT Remote Working 2010/11

Final report issued January 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
01	A remote working policy and procedures should be developed. This should include all areas pertaining to remote working.	Important	To be included within the IT Security Policy and Handbook for both WBC and TRDC. Position - June 2012 This has been delayed due to staff workload relating to the IT tender. Position - August 2012 No change from June update Position - November 2012 No change from August update Position - January 2013 Capita can help with advice on this but the responsibility for this lies with the Council's Head of ICT or ICT Client Managers. Position - May 2013 No change from January update. **Position - August 2013** **No change. It should be noted that this policy will need to reflect the most recent changes to the requirements for connection to the PSN (Public Services Network). Relevant network and associated policy changes for accreditation with the PSN is required by the cabinet office for Nov 2013.**	ICT Client Manager	March 2012	✗	December 2012 May 2013 December 2013
02	All remote users should be issued with Terms and Conditions of Use for any laptops and mobile phone devices and should be required to confirm that they have read, understood and agree to comply with the stated policies.	Minor	ICT will define the terms and conditions of use for laptops and mobile phone devices. Mobile phones are not within the remit of the ICT Shared Service, this will need to be managed by the relevant officer within each council. Position - February 2012 • WBC T&C for mobile phone usage has been completed and sent out to all mobile phone users.	ICT Client Manager Helen Smith (WBC Mobile phones	March 2012	✗ **(Part resolved)**	December 2012 May 2013 July 2013 **December 2013**

IT Remote Working 2010/11 **Final report issued January 2012**							
Ref No.	**Recommendation**	**Priority**	**Action to Date**	**Responsibility**	**Deadline**	**Resolved ✗ or ✓**	**Revised Deadline**
			• T&C for all laptops and TRDC Mobile phones is pending. Position - June 2012 This has been delayed due to staff workload relating to the IT tender. Position - November 2012 No change from August update Position - January 2013 Capita can help with advice on this but the responsibility for this lies with the Council's Head of ICT or ICT Client Managers for the laptops and Helen Smith\Phil King for mobile phones. Position - May 2013 ICT Client Managers will liaise with Capita and draw up a policy document to detail the remote working policy to coincide with the Information Security Policy. **Position - August 2013** **No change. It should be noted that this policy will need to reflect the most recent changes to the requirements for connection to the PSN (Public Services Network). Relevant network and associated policy changes for accreditation with the PSN is required by the cabinet office for Nov 2013.**	Phil King (TRDC mobiles)			
05	The ICT Shared Service should ensure the two-factor user authentication solution is enabled for remote users to gain remote access to the Council networks.	Important	Agreed Position - June 2012 This has been installed and we are in the process of testing this functionality Position - August 2012 Rollout of this functionality is being planned	ICT Client Manager	June 2012	✗	December 2012 May 2013 December 2013

IT Remote Working 2010/11

Final report issued January 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✓	Revised Deadline
			and intended to be in place within the deadline. Position - November 2012 No change from August update Position - January 2013 Two factor authentication has not been rolled out but is planned to be completed before service commencement with Capita. Position - May 2013 Dual Factor Authentication on current equipment will not be compliant with PSN CoCo standards. This will be reviewed during transformation. **Position - August 2013** **Review of the technology required in order to meet PSN standards is underway. This is being completed in conjunction with a number of other work streams related to PSN compliance. Dual factor authentication is essential for accreditation with the PSN and is required by the cabinet office for Nov 2013.**				
09	Management should ensure that security settings on mobile device handsets such as iPhones enforce the following settings: • Devices should be required to be protected by a power on password or PIN. Any default passwords or PIN codes need to be changed on first use, these should not be removed unless authorised in writing by ICT; • Devices should be set to	Important	Agreed. Government Code of Connection stipulates that they have only approved Blackberry's for use as mobile devices. There are currently more critical priorities to address within ICT and this is where the focus will lie. The implementation of a Blackberry Enterprise Server will address the above recommendation and will be identified as a future project for the ICT Service. Position - August 2012 Due to the large resource and investment required with this, it will be assigned a priority	ICT Client Manager	March 2013	✘	March 2014

IT Remote Working 2010/11

Final report issued January 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
	‘Non-discoverable’ or ‘Hidden’ to help prevent information disclosure by short distance data transfer; and • Users should be restricted from reconfiguring the security settings on devices. The remote wipe solution should be investigated to ensure all the data stored on the mobile phone can be wiped either remotely or by exceeding the login threshold. Management should ensure that only ICT approved mobile devices should are procured and issued and all confidential and sensitive data held on mobile device handsets such as iPhones is adequately encrypted according to the sensitivity of the data		once the future of the ICT Shared Service is known. Position - November 2012 The councils are currently conducting due diligence with the preferred supplier for the ICT Service. Outstanding audit recommendations will be discussed during due diligence and reported to the next Audit committee meeting. Position - January 2013 Mobile telephony is outside the proposal. Implementation of a Blackberry solution which can provide all of these requirements has been included as part of 13/14 project requirement and will be discussed during transformation. Position - May 2013 No change from above. **Position - August 2013** **Recommendation not yet due for completion. It should be noted that the PSN compliance requirements will impact the solution to this recommendation.**				

Audit Plan 2011/12

IT Project Management 2011/12

Final report issued November 2011

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	An IT Strategy that supports both Councils' corporate strategies needs to be implemented to direct the forward usage of ICT within both Councils and the Shared Service. An IT strategy should be developed in consultation with the business strategies for both Councils and the Shared Service to ensure that IT development links into corporate priorities.	Minor	Agreed Position - August 2012 This has not progressed due to resource constraints caused by work on the ICT Outsourcing Position - November 2012 The councils are currently conducting due diligence with the preferred supplier for the ICT Service. The decision to outsource will have a large impact on the strategy. Position - January 2013 Capita can help with advice on this but the responsibility for this lies with the ICT Client Manager roles which are currently being advertised at both councils Position - May 2013 ICT Client Managers have now been appointed. Due to the high workload during transition to Capita the revised deadline has been amended. **Position - August 2013** **No change to above. Terms of reference for the IT Steering group have been amended to reflect the requirement for the development of an ICT strategy.**	ICT Client Manager	October 2012	×	March 2013 May 2013 Sept 2013 **May 2014**

Recruitment 2011/12

Final report issued August 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.3.14	WBC and TRDC should review the potential benefits of using the Hertfordshire County framework for procurement of agency staff.	Important	Position - August 2012 Agreed. The County framework should be signed by September and a presentation will then be made to District Heads of HR to see who wishes to use the new framework. HR will review at that stage. Position - November 2012 A meeting has been held on 8 November with CMS the new County provider. A further review will be conducted with Comensura, WBC's current provider and then a recommendation submitted to Leadership Team/Management Board for consideration. Agreement needs to be reached by January 2013 if a new provider is to be appointed by April 2013 Position - January 2013 Comensura contract has been extended and can run for up to 2 years from Nov 2012, subject to 6 months notice. Further discussions to take place at Leadership Team and Management Board in April 2013. Position - May 2013 For review at LeadershipTeam / Management Board June / July 2013. **Position - August 2013** **Having met with CMS in July, they have provided proposals for delivering the service for us going forward. These will be looked into during September / October 2013 as part of the review going forward.**	Cathy Watson, Head of HR	End of March 2013.	×	December 2013

Financial Procedure Rules 2011/12 Final report issued September 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.15	FPRs should then be reviewed on a regular basis – at least every 2 years - and updated to reflect any changes made to other policies within the council that ensuring consistent message is being given to staff.	Important	Position - January 2013 The FPR's for both councils have been scheduled in one document and respective s151 Officers will agree style for a harmonised approach. Position - May 2013 This recommendation is being addressed but has taken a lower priority against essential tasks. **Position - August 2013** **First draft of 'harmonised' FPRs produced and agreed with Head of Democracy at Watford for onward consultation. Deadline will be achieved.**	Alan Power, Head of Finance Shared Services	End of March 2013.	×	Sept 2013
4.1.21	As far as is reasonably practical, whenever financial systems are harmonised between WBC and TRDC, the FPRs for both councils should be updated with the same information to make them consistent and avoid duplication of effort.	Important	Position - May 2013 Agreed with recommendation. **Position - August 2013** **First draft of 'harmonised' FPRs produced and agreed with Head of Democracy at Watford for onward consultation. Deadline will be achieved.**	Alan Power, Head of Finance Shared Services	End of March 2013.	×	Sept 2013

IT Back up and Disaster Recovery 2011/12

Final report issued December 2012

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	The Shared Service should conduct a risk assessment of the capability to recover key systems and services in the event of a disaster based on the Recovery Time Objectives (RTO) and Recovery Point Objectives (RPO) for Councils' systems. This should ensure that any potential issues that could be faced are documented with appropriate counter measures put in place.	Essential	Agreed Position - January 2013 This work will be undertaken by Capita during transition and transformation. Position - May 2013 As above, Capita will propose a full disaster recovery plan, post data-centre move (scheduled for Q4 2013). **Position - August 2013** **No change from May update. It should be noted that as part of the contract Capita will work with the Councils to define and implement a back-up strategy and policy. This includes working with business services to define appropriate frequency of backups with RPO's where appropriate of 30 minutes. Data centre move design has commenced and a risk assessment will be included within this planning.**	ICT Client Manager	May 2013	×	Dec 2013 **April 2014**
04	The Shared Service should test its DR arrangements on an annual basis at both Adam Continuity and ICM.. Testing should follow a detailed test plan and test results should be reported to management following the test period. We also recommend that where appropriate, ad hoc tests of tape restores are performed when not otherwise tested.	Essential	Agreed Position - January 2013 A DR test is being planned before the service is transferred to Capita are expected to continue this into the future. Position - May 2013 Due to extensive workload in the run-up to service commencement, a "dry run" of the existing Disaster Plan has not been carried out. However, existing arrangements with both of our continuity providers have been amended and re-signed for a period of one year. Before the expiry of these agreements, Capita will have their own Disaster Plan in place (post data centre move).	ICT Client Manager	March 2013	×	Dec 2013 **April 2014**

IT Back up and Disaster Recovery 2011/12 Final report issued December 2012							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			Position - August 2013 **Data centre move design planning has commenced. It has been agreed that revised BC/DR plans will be created in parallel with the data centre move itself.** **As part of the Capita contract Councils can ask for ad-hoc restores of random files to verify effective backups. This quality check is the responsibility of ICT client managers and is an aspect of monthly service delivery meetings.**				

Audit Plan 2012/13

IT Server Virtualisation (ICT) 2012/13 **Final report issued December 2012**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	The adequacy of the security settings and management arrangements established and applied to the virtual environment at both the Councils should be reviewed and where the standards currently are not aligned with best practice standard such as recommended by CIS (Centre for Internet Security), then they should be applied/configured to create a baseline for on-going security and monitored accordingly.	Essential	Agreed The Council is waiting for Capita to respond with their view on outstanding settings. They are planning to virtualise the remainder of servers and move them up to their own data centre within the first year of the contract, which should go live in May 2013. Position - January 2013 Capita will be moving all servers to their data Centre in Chippenham by December 2013 with new hardware and vmware installations. This recommendation will be incorporated into the design of this implementation. Position - May 2013 The above position has been endorsed and supported by the ICT Client Management Team. **Position - August 2013** **Data centre design has commenced. Within the design itself all vmware environments will be reviewed and aligned with best practice standards.**	ICT Client Manager	November 2013	×	December 2013

Data Transparency 2012/13

Final report issued February 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
4.1.7	Once the outcome of the DCLG consultation is known, the Partnerships and Performance Section Head should ensure that WBC website has been updated to the correct standard and the anomalies listed above are addressed.	Important	Position - May 2013 Not yet due. **Position – August 2013** **The DCLG policy was published in July 2013. Work has been done to update certain elements. Expectation is that it will be completed by end of September 2013 and a report presented to Leadership Team on the policy.**	Kathryn Robson, Partnership and Performance Section Head	End of July 2013	✗	**End of Sept 2013**
4.1.8	When complying with the requirements, the Partnership and Performance Section Head should agree a protocol with Leadership Team for redacting information to a level that should prevent any misuse of information by potential fraudsters.	Important	Position - May 2013 Not yet due. **Position – August 2013** **The redaction of financial spend data was agreed in May 2011 with the Managing Director, Head of Strategic Finance and the Head of Democracy and Governance (at the time the Head of Legal and Property services) following advice from Internal Audit.** **This will be included in the report to Leadership Team.**	Kathryn Robson, Partnership and Performance Section Head	End of July 2013	✗	**End of Sept 2013**
4.1.9	The Partnerships and Performance Section Head should also ensure that the required information is sign posted for easy access.	Important	Position - May 2013 Not yet due. **Position – August 2013** **A new search has been added to the Watford BC website.**	Kathryn Robson, Partnership and Performance Section Head	End of July 2013	✓	

Data Protection 2012/13 **Final report issued 18th April 2013**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.11	Services should be reminded by the Customer Services Improvement Officer to pass on any requests received under the Data Protection Policy to her immediately to ensure that response for sending information can be given promptly.	Important	Services are reminded on a regular basis of this requirement through ZZMail and/or intranet messages. Staff guide was updated June 2012. Position - May 2013 New Staff Guidance for the handling of complaints is being issued May 2013. This includes guidance on officer responsibilities regarding DataAccess requests. **Position - August 2013** **New Staff Guidance for the handling of complaints issued May 2013. This includes guidance on officer responsibilities regarding Data Access requests.**	Danielle Negrello, Customer Service Section Head	End of March 2013	✓	June 2013
4.1.12	Customer Services Improvement Officer should work with the Data Link Officers within services to address the underlying problem for the delays to ensure that the authority consistently meets with the guideline time frame.	Important	A meeting has already taken place with the service where there is the biggest issue with delayed responses to agree better performance in future. Service responses will be monitored and addressed at service meetings by the CSC team. Position - May 2013 Ongoing monitoring of the service to track whether improvements are achieved. **Position - August 2013** **On-going monitoring of the service to track improvements are achieved.**	Danielle Negrello, Customer Service Section Head	End of July 2013.	×	**Sept 2013**

Data Protection 2012/13

Final report issued 18th April 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.13	If poor response times persist, the Customer Services Improvement Officer should publish figures of non compliance periodically (e.g. quarterly) to Leadership Team.	Important	Performance figures for FOI are reported and Data Protection could be included as part of the monthly managing the business indicators if no improvement is seen. Position -May 2013 Not yet due. **Position - August 2013** **Some improvements achieved however on-going monitoring of the service is continuing.**	Danielle Negrello, Customer Service Section Head	End of July 2013.	×	**Sept 2013**
4.2.6	Consideration should be given for a series of training sessions on Data Protection to be made available for staff aimed at preventing future breaches. The course should include action to be taken when access requests are received and also when a breach takes place.	Important	Online Data Protection training is available to staff on the intranet in the Information Management section. Will put forward DP as a possible training module on the new training portal. Head of Legal and Property Services runs lunch and learn sessions on a quarterly basis for all staff. Position - May 2013 Not yet due **Position - August 2013** **The Data Protection and Freedom of Information Packages will be available for all staff on the Learning Steps e-learning platform from the 9th September.**	Danielle Negrello, Customer Service Section Head	End of July 2013.	✓	

Data Protection 2012/13

Final report issued 18th April 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.3.4	Customer Services Improvement Officer should request confirmation from each of the service to say that they have checked their system for flags and that they have been none present or if there were any present, that they have been successfully removed.	Important	Services should have their own flags on the system which would be checked by them and where necessary remove them. The wording on the PV list will be amended to add guidance for services regarding records on their systems. Position - May 2013 Not yet due **Position - August 2013** **Following the departure of SIO, additional Guidance regarding the PV list and flags issued to services which reiterates the requirement to remove out of date flags. Scheduled for follow up with services Sept 2013.**	Danielle Negrello, Customer Service Section Head	End of July 2013.	×	**Sept 2013**

Carbon Management 2012/13

Final report issued May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.15	Arrangements should be made for meter readings to be sent to the utility companies on a regular basis. (at least quarterly). Specific meter readings should be taken and sent to the utility companies at end of each financial year to ensure that the authority gets charged for the actual usage and not estimated.	Important	A number of our operational buildings have smart meters to measure electricity consumption. These automatically send actual readings to the utility company, therefore we are getting accurate bills for those buildings. Buildings and Projects will monitor the information supplied on the spreadsheet, will send reminders to building managers to complete the spreadsheet by a particular date each month and will forward the data to the utility company for them to prepare their bill. Sending the information monthly rather than annually would be more practical. Position - May 2013 Not yet due **Position – August 2013** **No change from May 2013 update.**	Service/ Building Managers to complete spreadsheet. Buildings and Projects to send information to utility company.	Monthly from May 2013	**×** **(Part resolved)**	**April 2014**
4.1.20	Once it is clear who is going to update the usage spreadsheet, check should be carried out on the usage readings recorded against the utility bills on a monthly basis using invoice images on Budget Monitor II to ensure that they have been correctly recorded. This would highlight if there are any marked fluctuations to the energy usage or any errors in.	Important	This should be the responsibility of building managers as they should understand the energy consumption of their own buildings. Position - May 2013 Not yet due. **Position – August 2013** **Reminders are sent out to identified personnel. Transfer of some properties to external operators is now being negotiated to ensure that readings continue to be sent to the Authority for reporting purposes. These will be recorded by the Buildings & Projects section for reporting on by the Energy & Renewal Surveyor. Building Managers remain responsible for the on-site consumption.**	Service Manager/ Building Managers	Monthly from May 2013	**×** **(Part resolved)**	**April 2014**

Carbon Management 2012/13

Final report issued May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.2.5	The Energy and Renewal Surveyor and Buildings and Projects Section Head should ensure that the officers identified by the Asset Management Group for taking and recording the meter readings should continue to record the readings on a monthly basis for a period (e.g. six months) even after the smart meters have been installed.	Important	The implementation date will depend on the installation of the smart meters. Position - May 2013 Not yet due. **Position – August 2013** **No change from May 2013 update.**	Alan Gough, Head of Environmental Health	End of October 2013. (Not yet due)	×	**April 2014**
4.2.6	Service Manager/Building Managers should ensure that the readings on the bills are checked to the readings recorded on the spreadsheet by various establishments to ensure accuracy of the charges made. Once the accuracy of the meter readings is established, the recording could be discontinued.	Important	The implementation date will depend on the installation of the smart meters. Position - May 2013 Not yet due. **Position – August 2013** **No change from May 2013 update**.	Service Manager/ Building Managers	End of October 2013. (Not yet due)	×	**April 2014**

Accounts Payable 2012/13

Final report issued : May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.7	The AP Service should monitor the number of PO's that are raised after invoices are received on a quarterly basis for both authorities to see if any improvement in trend is noticeable and to identify any persistent areas of failure. These figures should be published to show the rise or fall in the use of commitment accounting by services across both councils.	Important	Recommendation 4.1.7 will be progressed via Director of Corporate Resources and Governance and Head of Strategic Finance. An email will be sent to all staff reminding them of their Financial Obligations and encourage them to raise orders in advance of invoices. The results will be presented to Leadership Team (WBC) and Management Board (TRDC) on a 6 monthly basis. Consideration will be given for this to be added to "Managing the organisation" information if the Head of Strategic Finance thinks it will add value. Position - May 2013 Not yet due. **Position August 2013** **All staff reminded in May Report to leadership and management board due in September. Chief Finance Officer concluded no additional value to reporting on a regular basis.**	Tracy Langley, Senior Finance Officer	End of June 2013	✓	
4.1.11	The Senior Finance Officer should liaise with the Customer Service Section Head (WBC) to see if the invoices could be passed straight to the AP Service.	Important	The Senior Finance Officer raised queries with the Support Service Manager to see if this could be achieved. Currently they do not open post which is specifically addressed to an individual or department. The only post opened is for Revenues and Benefits or Finance or just Watford Borough Council. The Support Service Manager does not have the resources to open more post but he will remind his team that as much as possible should be sent direct to AP. Position - May 2013 Not yet due. **Position - August 2013** **The Support Service Manager did remind**	Tracy Langley, Senior Finance Officer	End of June 2013	✓	

Accounts Payable 2012/13 **Final report issued : May 2013**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
			his staff in June. No additional resource is available. Matter Resolved				
4.1.16	The Senior Finance Officer should remind all Heads of Services that the new payment voucher introduced should be used for all relevant payments.	Minor	Position - May 2013 Not yet due. **Position – August 2013** **Completed August 2013**	Tracy Langley, Senior Finance Officer	End of June 2013.	✓	

Partnerships 2012/13 **Final report issued May 2013**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.1.2	The Partnership Framework document should be up-dated at the earliest opportunity. When up-dated the review date should be recorded. This should ensure that the latest guidance is followed. (Medium).	Important	Agreed Position - May 2013 Not yet due **Position – August 2013** **The Framework is currently being updated but is not yet finalised. Suggested revised deadline.**	Partnerships and Performance Section Head	July 2013	✗	**November 2013**
5.2.3	The Partnerships and Performance Section should make arrangements for the regular collation and reporting of agreed partnership performance information to the relevant reporting body. This will ensure that there is an overview of the work of partnerships and the outcomes in terms of meeting their and the council's specific objectives. It will also help identify under-performing partnerships.	Important	Agreed Position - May 2013 Not yet due. **Position - August 2013** **To be considered as part of the Framework update.**	Partnerships and Performance Section Head	September 2013 (Not yet due)	✗	
5.3.3	Before the Council enters into significant partnerships a formal risk assessment should be carried out and recorded by the appropriate senior officer. At this stage, if a risk is considered to be significant enough it may be necessary to reconsider membership of the partnership. Risks should be recorded on the service or corporate risk register.	Important	Agreed Position - May 2013 Not yet due. **Position – August 2013** **The Partnership Framework contains a risk assessment tool. This will be highlighted as part of the revised Framework.**	Partnerships and Performance Section Head	July 2013	✗	**November 2013**

Partnerships 2012/13

Final report issued May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.3.5	The Council should ensure that a risk management framework is applied to the operations of all partnerships and for example the following areas are addressed: • Risks associated with working in the partnership are assessed with responsibility for managing each risk assigned to individual partners; • Risks are recorded in the relevant risk register maintained by the lead officer in the relevant Service; • The risks recorded in the registers are regularly reviewed; • There is a mechanism for reporting and dealing with risks if these materialize.	Important	Agreed Position - May 2013 Not yet due. **Position – August 2013** **This will be discussed with the Head of Democracy and Governance who now has responsibility for risk management to consider the most effective approach for including this within the council's overall risk management framework.**	Partnerships and Performance Section Head	September 2013 (Not yet due)	✗	
5.4.4	The Council should ensure that any data sharing within the partnerships complies with national legislation and the council's policies.	Important	Agreed Position - May 2013 Not yet due. **Position – August 2013** **To be considered as part of the Framework update.**	Partnerships and Performance Section Head	September 2013 (Not yet due)	✗	

Risk Management 2012/13

Final report issued May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.2.3	All Heads of Service must regularly (biannually) up-date their risk registers and evidence this control procedure by noting the review date on the risk register.	Important	Agreed Position - May 2013 Not yet due. **Position - August 2013** **Head of Democracy and Governance just taken over lead responsibility for risk. Meeting of Risk Management Group scheduled early September 2013 to review risk registers.**	Head of Democracy & Governance	30th June 2013	✗	**31 October 2013**
5.2.6	The intranet should be up-dated with the current version of the Service risk registers at the earliest opportunity (Medium).	Important	Agreed Position - May 2013 Not yet due. **Position - August 2013** **Head of Democracy and Governance just taken over lead responsibility for risk. Meeting of Risk Management Group scheduled early September 2013 to review risk registers.**	Head of Democracy & Governance	30th June 2013	✗	**31 October 2013**
5.3.2	There should be effective action plans in place to address significant risks identified in the Service Risk registers. The action plan may include for example the following areas : - Detailed action to be taken, - Officer(s) responsible for taking action, - Timescales for implementing appropriate action.	Important	Agreed Position - May 2013 Not yet due. **Position - August 2013** **Head of Democracy and Governance just taken over lead responsibility for risk. Meeting of Risk Management Group scheduled early September 2013 to review risk registers.**	Head of Democracy & Governance	30th June 2013	✗	**31 October 2013**

Council Tax 2012/13

Final report issued May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
5.1.3	There should be an independent sample quality checks carried out to ensure that new accounts are processed accurately, for example the date of the new account and correct Council Tax band. This control procedure should be evidenced for Management review and remedial action purposes.	Important	Agreed. Processing controls will be formulated and an implementation date has been agreed. Position - May 2013 Not yet due.	Billing Team Leader	August 2013	✓	
5.3.5	Regular reviews of access rights should be carried out by matching job functionalities of officers to their access permissions. This check should be evidenced for Management review purposes.	Essential	Agreed A review of access rights is carried out continually on informal basis. On annual basis a review will be carried out as part of administering the declaration of interest process (see recommendation no.5.4.2 below). Position - May 2013 Not yet due.	Revenues Manager	August 2013	✓	
5.4.2	All officers should be required to complete a declaration of interest form and a senior officer should check on a regular basis that this control procedure is adhered to and keep evidence (signed and dated) of this check being carried out. Also staff should be stopped from having any update access to any account where they have an interest such as family and close friends (High).	Essential	Agreed This is currently taking place and should be completed soon and will include the above process (see recommendation above no. 5.3.5). Position - May 2013 Not yet due.	Revenues Manager	August 2013	✓	

Reconciliations, Journals and Internal Transfers 2012/13 **Final report issued May 2013**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
02	Reconciliations should be completed on a regular and timely basis, as stated in the reconciliation timetable. Sufficient supporting documentation should be retained with the reconciliations and these should be signed by the Officer who prepared them, and should also be reviewed and signed by an independent Officer.	Essential	Monthly reconciliations are not possible due to resource constraints. Officers preparing reconciliations are to document and get Independent Officer sign off. Similarly, with independent officer review and sign off for all reconciliations – less resourcing will not allow for this to be consistently applied.	Finance Manager, Revenues and Benefits Manager	August 2013	✓	

NNDR 2012/13

Final report issued May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
5.1.3	There should be an independent sample quality checks carried out to ensure that new accounts are processed accurately, for example the date of the new account and correct Council Tax band. This control procedure should be evidenced for Management review and remedial action purposes.	Important	Agreed Processing controls will be formulated and an implementation date has been agreed. Position - May 2013 Not yet due.	Billing Team Leader	August 2013	✓	
5.3.5	Regular reviews of access rights should be carried out by matching job functionalities of officers to their access permissions. This check should be evidenced for Management review purposes.	Essential	Agreed A review of access rights is carried out continually on informal basis. On annual basis a review will be carried out as part of administering the declaration of interest process (see recommendation no.5.4.2 below). Position - May 2013 Not yet due.	Revenues Manager	August 2013	✓	
5.4.2	All officers should be required to complete a declaration of interest form and a senior officer should check on a regular basis that this control procedure is adhered to and keep evidence (signed and dated) of this check being carried out. Also staff should be stopped from having any update access to any account where they have an interest such as family and close friends (High).	Essential	Agreed This is currently taking place and should be completed soon and will include the above process (see recommendation above no. 5.3.5). Position - May 2013 Not yet due.	Revenues Manager	August 2013	✓	

Accounts Receivable 2012/13

Final report issued : May 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.9	Though the 3 day target is an internal target, Recovery Team should be reminded of this so that invoices are raised within that target.	Important	Agreed	Colin South, Recovery Team Leader	June 2013	✓	
4.2.8	Recovery Team Leader should either train staff as per last years recommendation (4.2.9) or take advantage of the offer provided by the two debt collecting agencies of chasing sundry debts free of charge to assist in prompt collection of debt for existing and future debts.	Essential	The service will use debt collecting agency and/or train staff as appropriate.	Colin South, Recovery Team Leader	June 2013	✓	

Payroll Service (Shared Services) 2012/13

Final report issued June 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
4.1.7	All employment related documentation should be held in the employee's personnel file. These include a copy of the employee's passport, proof of NI number, etc. Where proof of NI number is not provided, prospective employees should be requested to either submit a P45, where appropriate or complete a P46. Further, CRB checks received should not be retained in the employee's personnel file due to the sensitive nature of the information supplied.	Important	Agreed	Head of HR	Immediate	✓	
4.7.6	Guidance should be communicated to managers in order to remind them of their requirements in relation to the authorisation of expenses and the retention of receipts processes. Further, expenses should not be reimbursed unless they are adequately supported by a valid train ticket.	Important	Agreed	Head of HR	June 2013	✓	
4.7.8	All receipts for expense claims should be retained within HR and filed by employee and claim number. Consideration should also be given to scanning receipts and retaining these in the electronic files.	Important	Agreed	Head of HR	July 2013	✓	

Page 178

Benefit Administration System (Shared Services) 2012/13 **Final report issued August 2013**							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
01	Procedural guidance for changes to circumstances should be updated to reflect current practices. In addition, the guidance should be version controlled and easily accessible to all relevant staff.	Minor	Agreed	Quality Assurance Team	31/05/13	✓	
02	Evidence should be retained to confirm that system parameters have been accurately entered into the system in accordance with the rates specified by the Department for Work & Pensions.	Important	Agreed **Position - August 2013** **Not yet due**	Benefits Manager	30/09/13	×	
03	The Benefits service should decide on the process to be implemented for the handling of email requests received in relation to changes of circumstances. Once agreed, this responsibility should be formally documented and monitored, where appropriate	Important	Agreed and the decision has been made since the audit that the Scanning team will be responsible for the identification and uploading of changes to circumstances onto the Anite system. Action will be taken to map out and verify this process.	Benefits Manager	31/03/13	✓	
04	The Benefits service should devise an action plan for the implementation and monitoring of the Atlas system for both Authorities	Essential	Agreed and the current plans are for Serco to handle the Atlas changes to circumstances at the current point in time. However, until the current backlog of changes to circumstances has been cleared a decision will not be made.	Benefits Manager	Immediate	✓	
05	Two changes to circumstances cases should be selected for spot checking for each employee from the Benefits service on a daily basis, where applicable. In addition to this the Quality Assurance team should harmonise the process conducted and retain a central record of these changes.	Important	Agreed	Quality Assurance team	Immediate	✓	

Benefit Administration System (Shared Services) 2012/13

Final report issued August 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
06	Evidence should be retained by the Quality Assurance team to confirm that an amendment has been made to correct an error identified through the review process. The senior assessment staff responsible for reviewing the amendment should sign the checklist to confirm the amendment is satisfactory.	Minor	Agreed	Quality Assurance team	Immediate	✓	
07	As part of the independent periodic checks, a monthly performance report should be issued by the Quality Assurance team to the Benefits Manager. This record should provide a summary of checks performed per employee and the number of errors detected.	Important	Agreed. Monthly performance reports were generated directly from quality assurance module within Academy, however this has not been working since within 2012/13. This issue has been logged with IT who are trying to resolve the matter **Position August 2013** **Not yet due**	Quality Assurance team	30/09/13	×	

Audit Plan 2013/14

Recruitment Follow up (Shared Services) 2013/14

Final report issued June 2013

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved × or ✓	Revised Deadline
1.	Correct documentation should be requested and maintained by the service to demonstrate that the process was carried out in full.	High	HR Advisors have confirmed that they will ensure that all documentation is requested and copies are held. We are moving towards electronic storage wherever this is possible.	Head of HR	Immediate	✓	
2.	The service already has an electronic filling system which contains individual files for each of the current employees. Consideration should be given to storing information in the electronic files instead of paper files. This will ensure that the documents are readily available and are more secure as these files can only be accessed by HR staff. Paper copies should only be maintained where there is a need to do so.	High	Incorporated in the above action point – where practicable this will take place	Head of HR	Immediate	✓	
3.	Human Resources staff should be reminded of the starter process and the importance of the receiving and maintaining documentation. Decisions to start employees before all employment check information has been received should be authorised by HR management.	High	Staff have been reminded of the process for new starters. All documents to be in place before appointment is confirmed in line with our recruitment policy – unless this is over ridden by HR manager/ Head of Service.	Head of HR	Immediate	✓	

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Report to: Audit Committee

Date of meeting: 25 September 2013

Report of: Stephen Exton – Shared Services Finance Manager

Title: Treasury Management

1.0 **SUMMARY**

1.1 This report presents to members a mid year review of the Treasury Management function 2013/14.

2.0 **RECOMMENDATIONS**

2.1 That approval is given for the continuing investment in Clydesdale bank (see Appendix 1 note 4).

2.2 That this report be noted.

Contact Officer:
For further information on this report please contact: Stephen Exton (Shared Services Finance Manager).

Telephone extension: 7197 email: stephen.exton@threerivers.gov.uk

Report approved by: Alan Power, Head of Shared Services Finance.

3.0 **DETAILED PROPOSAL**

3.1 **Mid Year Review of the Treasury Management Function**

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: “The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

3.2 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities and complies with the Local Government Act 2003.

3.3 Attached at Appendix 1 is a mid year review of the Treasury Management function for 2013/14. The review updates members with the progress on the capital position, amends prudential indicators as necessary, considers whether the Council is meeting the strategy and whether any policies require revision.

3.4 The underlying economic environment remains difficult for the Council (Sector’s Treasury Management Update Quarter Ended 30 June 2013 at Appendix 2), foremost being the concerns over investment counterparty risk. This background encourages the Council to continue maintaining investments short term (i.e. up to one year) and with high quality counterparties. The downside of such a policy is that investment returns remain low.

3.5 The basis of the treasury management strategy, the investment strategy and the performance indicators are not changed.

3.6 The prudential code requires the Council to update:

- The Council's capital expenditure plans;
- How these plans are being financed.

These requirements are met by the Council's Budget Monitoring reports, which include revised capital expenditure and funding statements.

4.0 **IMPLICATIONS**

4.1 **Financial** - None specific.

4.2 **Legal Issues** - None specific.

4.3 **Potential Risks - Risk Management Implications**

Potential Risk	Likelihood	Impact	Overall Score
Investment with non approved body	1	3	3
Investment with an approved counterparty that subsequently defaults	1	4	4
Failure to achieve investment interest budget targets	3	2	6
Those risks scoring 9 or above are considered significant and will need specific attention in project management. They will also be added to the service's Risk Register.			

Appendices

Appendix 1 Mid Year Treasury Management Monitoring Report

Appendix 2 Sector's Treasury Management Update - Quarter Ended 30th June 2013

Background Papers

UK Economic Forecasts provided by Sector;
CIPFA Prudential Code for Capital Finance in Local Authorities, 2012 Edition;
CIPFA Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes, 2011 Edition;
CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities, 2011 Edition.

File Reference - None.

APPENDIX 1

MID YEAR TREASURY MANAGEMENT MONITORING REPORT

1 Capital Financing Requirement (CFR), External Debt and Operational Boundary

The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	2013/14 Original Estimate	Current Borrowing Position	2013/14 Revised Estimate
Capital Financing Requirement	£3.0m	£6.0m	£8.5m
External Debt and Operational Boundary			
Long Term Borrowing	£10.0m	£6.0m	£10.0m
Short Term Borrowing	£3.0m	£0.0m	£3.0m

Limits to Borrowing Activity

The first key control over the treasury activity is a PI to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. The Council is meeting this control.

2 The Authorised Limit

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2013/14 Original Indicator	Current Borrowing Position	2013/14 Revised Indicator
Long & Short Term Borrowing	£13.0m	£6.0m	£13.0m

3 Interest Rate Movements and Expectations

The information relating to the interest rate movements and future expectations is shown within Sector's Treasury Management Update Quarter Ended 30 June 2013 at Appendix 2.

4 Current Investment Position

This information is reported in the Members Information Bulletins.

The Council held £43.210m of investments at 31 August 2013 and the list of investments and counterparties is shown below:

Sector	Country	Up to One Year
Banks	UK	£29.210m
Building Societies	UK	£2.000m
Debt Management Office	UK	£12.000m

List of Investments as at 31 August 2013:

Institution	Principal £
Clydesdale Bank	3,000,000
Co-Operative Bank	3,210,000
Deutsche Bank	3,000,000
Lloyds TSB Bank	2,000,000
Lloyds TSB Bank	1,000,000
Lloyds TSB Bank	2,000,000
Nat West Bank	5,000,000
Nat West Bank	2,000,000
Nat West Bank	3,000,000
Santander Bank	5,000,000
Nationwide Building Society	2,000,000
Debt Management Office	3,000,000
Debt Management Office	3,000,000
Debt Management Office	3,000,000
Debt Management Office	3,000,000
Total	**43,210,000**

The Council has no sums invested for greater than 364 days.

Investment 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, which include the Fitch, Moody's and Standard & Poors Credit Ratings Services and special criteria for the council's own bank. 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. One long-standing investment for £3m with Clydesdale Bank, 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 counterparty has been approved by Leadership Team. Details of the Investment Strategy for 2012/13, which was approved by the Audit Committee on 14 March 2012, can be found on the Council's website.

Bank Tender – the provision of banking services is currently subject to a bank tender exercise with any new provider due to be in place on 1 April 2014.

The Revised cash flow model for the current financial year (giving interest earned, on a cash basis) is within the Treasury Management Strategy Statement 2013/14 – 2015/16. Using this model, the revised budget position for investment income, on an accruals basis, is:

	2013/14 Original Estimate	2013/14 Latest Estimate	2013/14 Revised Estimate
Interest Receivable	£270,000	£270,000	£270,000

The following reports the current position against the benchmarks originally approved.

5 Security

The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, was set as follows:

"0.01% historic risk of default when compared to the whole portfolio"

Note: The benchmarks are an average risk of default measure, and would not constitute an expectation of loss against a particular investment. The benchmarks are embodied in the criteria for selecting cash investment counterparties and these will be monitored and reported to Members. As this data is collated, trends and analysis will be collected and reported. Where counterparty is not credit rated a proxy rating will be applied.

The Head of Shared Services Finance can report that the investment portfolio was maintained within this overall benchmark during this year to date.

6 Liquidity

The Council set liquidity facilities/benchmarks to maintain:

- Bank overdraft - £0.5m.
- Liquid short term deposits of at least £2m available with a week's notice.
- Weighted Average Life benchmark is expected to be 0.5 years, with a maximum of 10 years.

The can report that liquidity arrangements were adequate during the year to date.

7 Yield

Local measures of yield benchmarks are:

- Investments – returns 0.12% above average bank rate.

The Head of Shared Services Finance can report that return up to 31 August 2013 averaged 0.60%, against a benchmark rate of 0.62%. The actual investment interest rate is therefore -0.02% (-3.23%) below the benchmark rate.

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Sector's Treasury Management Update

Quarter Ended 30th June 2013

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report therefore ensures this council is implementing best practice in accordance with the Code.

1. Economic Background

- During the quarter ended 30th June: -
  - Indicators suggested that the economy accelerated;
  - Stronger household spending, both on and off the high street;
  - Inflation remained stubbornly above the MPC's 2% target;
  - The MPC remained in a state of limbo ahead of Mark Carney's arrival;
  - 10-year gilt yields rose above 2.5% and the FTSE 100 fell below 6,100;
  - The Federal Reserve discussed tapering the pace of asset purchases under Quantitative Easing 3 (QE3).
- After avoiding recession in the first quarter with a 0.3% quarterly expansion, it looks likely that the economy grew even more strongly in Q2. On the basis of past form, the CIPS/Markit business surveys for April and May point to 0.5% quarterly growth in the second quarter of 2013. Official output data echoed the message from the business surveys. The 3m/3m change in industrial production reached 0.9% in April, the strongest pace since July 2010. Similarly, the service sector expanded by 0.8% on the same basis. And while output in the volatile construction sector in April was 1% lower than a year ago, it was the smallest annual fall since the end of 2011, raising the prospect that the sector supported the recovery in Q2.
- There have been signs of renewed vigour in household spending in the second quarter. May's 2.1% monthly rise in retail sales overturned April's 1.1% fall. This tallied with information from the Bank of England agents, who reported a further pick-up in retail sales values in May. Non-high street spending looks to have been robust too, with new car registrations up by 20% in the year to May.
- The pick-up in economic growth appears to have supported the labour market, with employment rising by 24,000 in the three months to April. Admittedly, this was a lot slower than the 113,000 quarterly gain in employment seen on average over the past twelve months. But the rise in employment was still strong enough to reduce the level of unemployment further. The ILO measure fell by 5,000 in the three months to April while the timelier claimant count measure reported an

8,600 fall in May. Meanwhile, pay growth rebounded strongly in April, though this was mostly driven by high earners delaying bonuses until after April's cut in the additional rate of income tax. Excluding bonuses, earnings rose by just 1.3% y/y, well below the rate of inflation at 2.7% in May.

- Meanwhile, the Bank of England extended its Funding for Lending Scheme (FLS) into 2015 and sharpened the incentives for banks to extend more business funding. To date, the mortgage market still appears to have been the biggest beneficiary from the scheme, with the quoted interest rate on a 2-year fixed rate mortgage at a 90% loan-to-value ratio now 4.6%, around 130 basis-points lower in May than when the FLS was introduced in August 2012.
- Alongside the Government's Help to Buy scheme, which provides equity loans to credit-constrained borrowers, this is helping to boost demand in the housing market. Mortgage approvals by high street banks, as measured by the BBA, rose from 33,000 to 36,100 in May. Excluding a stamp-duty holiday related spike in January 2012, this was the highest level for over three years. The rise in demand has helped to push up house prices, with both the Halifax and Nationwide measures reporting a 0.4% monthly gain in May. On an annual basis, measured prices were up by 3.7% and 1.1% respectively.
- Turning to the fiscal situation, the public borrowing figures continued to be distorted by a number of one-off factors. On an underlying basis, borrowing in Q2 looked to be broadly in line with last year's figures, highlighting the government's difficulty in reducing borrowing while economic growth is relatively lacklustre.
- Meanwhile, the 2013 Spending Review, covering only 2015/16, made no changes to the headline Government spending plan. Total expenditure was still forecast to be broadly flat in real terms in 2015/16 and the £50bn planned capital expenditure announced for that fiscal year was identical to the amount already outlined in March's Budget.
- On the monetary policy front, June's MPC meeting, the last chaired by the outgoing Governor Mervyn King, showed that the Committee remained in limbo ahead of the arrival of his replacement, Mark Carney. The Committee voted 6-3 to keep the level of asset purchases unchanged at £375bn, with the majority judging that the current stimulus and Funding for Lending Scheme would be sufficient to support growth in the context of price stability.
- Having fallen from 2.8% to 2.4% in April, CPI inflation rose to 2.7% in May. May's rise mostly reflected price changes due to the earlier timing of Easter, which depressed inflation in April. Even so, inflation is still likely to have risen further in June due to base effects, with last year's fuel price falls providing an unfavourable annual comparison. That said, underlying price pressures do seem to be easing, with wages and producer prices both growing at subdued rates. Indeed, if anything, the inflation outlook brightened over the second quarter, with the price of oil falling from $108pb to $103pb while sterling appreciated by around 1.5% on a trade-weighted basis.

- Having continued to rally over April and May, financial markets sold off in June following a Federal Reserve statement that suggested the central bank may ‘taper’ its asset purchases earlier than anticipated. The resulting rise in US Treasury yields was replicated in the UK, with 10 year gilt yields rising to 2.5% from 1.8% at the start of the quarter. Equities were hit too, with the FTSE 100 falling from 6,411 at the start of the quarter to below 6,100 before ending the quarter a bit higher at 6,240.
- In the US, the statement from the Fed took the limelight. The Fed’s comments sparked a sharp sell-off in the Treasury market, with 10-year Treasury yields hitting 2.54%. The Fed move was a response to the improving economic outlook in the US. Indeed, payroll figures showed that the US added 175,000 new jobs in May, helping to pull the unemployment rate down to 7.6%, from 8.2% a year ago. In the housing market, house prices rose by 12% in the year to April, which helped to bring more households out of negative equity.
- Meanwhile, tensions in the Eurozone eased over the second quarter, but there remained a number of triggers for a potential flare-up. For example, the Democratic Left party left the Greek governing coalition in June, causing 10 year Greek government bond yields to surge to 11.5% from around 8% a month ago. And while the economic survey data improved consistently over the first half of the year, the composite Eurozone PMI is still pointing to a further contraction in output in Q2. If this materialises, it would be the seventh quarter of Eurozone recession, the longest on record.

2. Interest Rate Forecast

The Council’s treasury advisor, Sector, has provided the following forecast:

	Sep-13	**Dec-13**	**Mar-14**	**Jun-14**	**Sep-14**	**Dec-14**	**Mar-15**
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%
5yr PWLB rate	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.40%
10yr PWLB rate	2.90%	2.90%	3.00%	3.10%	3.20%	3.30%	3.50%
25yr PWLB rate	4.10%	4.10%	4.20%	4.20%	4.30%	4.40%	4.60%
50yr PWLB rate	4.20%	4.20%	4.40%	4.40%	4.50%	4.60%	4.70%

Sector undertook a review of its interest rate forecasts following the issue of the latest Bank of England Inflation Report in May 2013. Sector has left unchanged its forecast for the first increase in Bank Rate to be in March 2015. However, forecasts for PWLB rates have been increased as a result of the marked recovery in confidence in equity markets, anticipating stronger economic recovery in America, supported by growth in the Far East. The rise in equity prices was dented towards the end of the quarter by comments from Ben Bernanke, chairman of the Federal Reserve, that QE3 would be tapered off in the not too distant future. This seemed to catch financial markets by surprise and generated a bit of a stampede out of bonds and equities. This sharp selloff in bonds caused ten year bond yields to jump up nearly 90 bps between the low and high for the quarter.

SUMMARY OUTLOOK

UK Economy

In Mervyn King's last Inflation Report as Governor of the Bank of England, there was a distinct shift towards optimism in terms of a marginal upgrading of growth forecasts so that the wording changed for the recovery from "remain weak by historical standards" to "modest and sustained recovery over the next three years". In addition, there was a lowering of the inflation forecast to now hit the 2% target within two years. However, this is still a long way away from strong recovery though the chances of there being more quantitative easing (QE) have receded due to business surveys indicating that the economy is on the up. QE has not increased from a total of £375bn since October 2012 and other measures have been implemented in preference to further QE. Thus the Funding for Lending Scheme (FLS), (started in August 2012), was expanded in April to provide further incentive to banks to expand lending to small and medium size enterprises. The FLS certainly seems to be having a positive effect in terms of stimulating house purchases (though levels are still far below the pre crisis level), and a marginal increase in house prices. However, concerns are increasing that QE and FLS are also in danger of causing asset price bubbles. Investors may seek higher returns by switching investment of cash from deposit accounts (yielding very low rates) and from government and corporate bonds - ahead of the eventual end of QE - to equities, whilst FLS may have the side effect of inflating house prices, creating the potential for prices in each of these markets to be pushed at some point in time to potentially unsustainable levels.

In summary, our current views are centred around the following: -

UK

- Mark Carney starts on 1st July as the new Governor of the Bank of England. His appointment could lead to some changes to the way the MPC operates and makes decisions and announcements. It is possible there could be forward guidance e.g. that Bank Rate will not go up until some target rate, e.g. unemployment, had fallen to a specified level. Some commentators are guessing that this could effectively close the door to any increase in Bank Rate until sometime in 2016.
- Growth in Q1 of 2013 was confirmed at +0.3%. Q2 looks likely to be even higher at around +0.5%. The so called double dip recession at the beginning of 2012 was erased by the latest revision of statistics.
- Business surveys, consumer confidence, consumer borrowing and house prices are all on the up and may help to create a wide spread

feel good factor. But this is still a long way away from the UK getting back to strong growth.

- A fair proportion of UK GDP is dependent on overseas trade; the high correlation of UK growth to US and EU GDP growth means that the UK economy is likely to register growth rates below the long term average in 2013 and 2014, though this should be on an improving trend.
- Consumers are likely to remain focused on paying down debt and consumer expenditure is likely to remain suppressed by inflation being higher than increases in average earnings i.e. disposable income will continue to be eroded.
- The Coalition government is hampered in promoting growth by the need to tackle the budget deficit. However, the March budget did contain measures to boost house building and the supply of mortgages, and brought forward, by one year to April 2014, the start of a £10,000 tax free allowance for incomes.
- Little sign of a co-ordinated strategy for the private sector to finance a major expansion of infrastructure investment to boost UK growth.
- Government inspired measures to increase the supply of credit to small and medium enterprises (which are key to achieving stronger growth) by banks are not succeeding.
- There is little potential for more QE in 2013 in the UK and so gilt yields are vulnerable to pressures to rise, especially as gilt yields are powerfully influenced by American treasury yields and American investors have been spooked by Bernanke's comments on tapering QE in America.
- In February 2013 Moody's downgraded the UK's AAA credit rating one notch to AA+ and Fitch followed suit in April. There was little reaction in financial markets, as this had been widely anticipated.

Eurozone

- Most Eurozone countries are now battling against recession, although Germany is experiencing a resurgence of business confidence and surveys are pointing towards a resumption of growth. Growth prospects for many Eurozone countries are poor due to the need to adopt austerity programmes to bring government deficits under control.
- The ECB cut its central rate from 0.75% to 0.5% in this quarter but this is unlikely to lead to much in the way of improvement in the prospects for GDP growth.
- Although market anxiety about Greece has subsided after the agreement to a further major financial support package amounting to

nearly €50bn in December. In addition, business surveys are indicating some improvement in the economy, concerns are building that yet another haircut to reduce total debt to a more manageable level will eventually be required, together with more bail out funds. Whether all parties to such a deal would be prepared to pour more money into Greece remains an open question. The eventual end game could therefore still be that Greece is eventually forced to exit (dubbed "Grexit") the Eurozone and to return to the drachma.

- There is also increasing concern that the contraction in Spain's economy and the very high level of unemployment of 27%, similar to the level in Greece and Portugal, could mean that all three countries could get into a downward deflationary spiral, which makes achieving fiscal correction increasingly difficult and possibly unachievable. The ECB's pledge to provide unlimited bond buying support for countries that request an official bailout means that market anxiety about these countries is likely to be subdued in the immediate future. However, the poor economic fundamentals and outlook for these economies could well mean that a storm in financial markets has only been delayed, not cancelled. Spain has resisted asking for an official national bailout, although it has received financial support to recapitalise its four largest banks.
- The general election in Italy has created a highly unstable political situation where the two dominant parties have formed an unlikely coalition due to the blocking power of the new upstart Five Star anti-austerity party which has 25% of seats and has refused to enter a coalition agreement with ANY party. Whether such a coalition could effectively implement an agreed policy of austerity is very much open to question – which will make Italy vulnerable to swings in investor confidence.
- There could therefore be volatility in Spanish and Italian bond yields over the next year, depending on political and economic developments.
- A general election is due in Germany in the autumn of 2013. It currently looks likely that this will lead to little change in current policy on the Euro and support for peripheral countries. However, polls are indicating that 25% of the electorate now favour Germany leaving the Euro and stopping the flow of money from Germany to profligate southern countries. Any further disasters in the Eurozone could see this sentiment increase significantly.
- A bailout for Cyprus was eventually agreed in the last week of March. Slovenia, however, looks increasingly likely to be the next in line for a bailout, so their bond yields have risen. However, huge damage will be done to the Cypriot economy by the fallout from this bailout and

many commentators consider it is only a matter of time before another bailout will be needed – or exit from the Euro.

- There are also concerns about the way austerity programmes are affecting economic growth in Ireland and Portugal. The Eurozone remains particularly vulnerable to investor fears of contagion if one country gets into major difficulty. Chancellor Merkel will be hoping that no major blow up occurs before the German general election which requires Germany to pour yet more money into a floundering country.

US

- There has been a marked improvement in consumer, investor and business confidence this year.
- Unemployment has continued on a steady, but unspectacular decline to 7.6%, but still a long way from the target rate of 6.5% for an increase in the Fed. rate.
- The housing market has turned a corner, both in rising price rises and the volume of house sales. Many householders are now not in negative equity.
- US equities reached all time highs, and so added to the feel good factor, until Ben Bernanke's words on tapering QE3 spooked investors.
- There has been a strong resurgence of confidence in US financial markets due to the "fiscal cliff" being largely averted or postponed. However, tax increases and cuts in Government expenditure leading to cuts in jobs, are damping the potential for recovery in growth rates.
- GDP in Q1 was disappointingly downgraded from +2.4% to a sub par +1.8%.
- The shale gas revolution is providing some solid underpinning to the US economy by enhancing its international competitiveness through cheap costs of fuel.
- There has been a start to the rehoming of manufacturing production from China to the USA as Chinese labour costs have continued their inexorable rise and new forms of high tech production have made home based production more viable and flexible.

China

- GDP growth has been disappointing in 2013. There are still concerns around an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector.

- There are also increasing concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates during the Government promoted expansion of credit, aimed at protecting the overall rate of growth in the economy since the Lehmans crisis.
- Since the change of national leadership, the new leaders have taken action to test the robustness of the banking system which has caused a rise in fear that there could be a credit crunch looming up in China.

Japan

- The initial euphoria generated by "Abenomics", the huge QE operation instituted by the Japanese government to buy Japanese debt, has quickly evaporated as the follow through measures to reform the financial system and introduce other economic reforms, appears to have stalled.

Sector's forward view

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely during 2013/14 as investor fears and confidence ebb and flow between favouring more risky assets i.e., equities, and safer bonds. Key areas of uncertainty include:

- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is frail and unstable.
- Problems in other Eurozone heavily indebted countries could also generate safe haven flows into UK gilts.
- Monetary policy action failing to stimulate growth in western economies, especially the Eurozone and Japan.
- The potential for weak growth or recession in the UK's main trading partners - the EU and US.
- The impact of the UK Government's austerity plan in dampening confidence and growth.
- Geopolitical risks e.g. Syria, Iran, North Korea

However, there is particular potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates, as follows: -

- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- A renewed increase in investor confidence that robust world economic growth is firmly expected, together with a reduction or end of QE operations in the US, causing a flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on an improvement in financial stresses in the Eurozone.
- In the longer term - a reversal of QE; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.
- Further downgrading by credit rating agencies of the creditworthiness and credit rating of UK Government debt, consequent upon repeated failure to achieve fiscal correction targets and recovery of economic growth.

The overall balance of risks to economic recovery in the UK is now evenly weighted. Sector believes that the longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Near-term, the prospect of further QE has diminished but measures other than QE may be more favoured by Governor Carney if additional support is viewed as being required.

Given the generally weak outlook for economic growth, Sector sees the prospects for any increase in Bank Rate before 2015 as limited. Indeed, the first increase could be even further delayed if the tentative signs of growth failed to be maintained.

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Agenda Item 8

Report to:	Audit Committee
Date of meeting:	25 September 2013
Report of:	Alan Power – Head of Finance Shared Services
Title:	Future Work Programme

1.0 SUMMARY

1.1 To consider a range of discussion topics and updates for consideration at future meetings of the Audit Committee.

2.0 RECOMMENDATIONS

2.1 The Audit Committee considers and agrees a timetable for discussion topics and updates for future meetings.

Contact Officer:
For further information on this report please contact:
Alan Power, Head of Finance Shared Services
telephone extension: 01923 727196
email: alan.power@watford.gov.uk

Report approved by:
Joanne Wagstaffe, Director of Finance

3.0 **DETAILED PROPOSAL**

3.1 Discussions have been held with the Shared Internal Audit Service (SIAS) regarding a programme of topics and updates for the Audit Committee at future meetings for information and training purposes. Initial proposals from SIAS are attached at Appendix 1. Suggested leads for topics have been included subject to confirmation between Officers and SIAS

3.2 If Members agree, topics could be scheduled for discussion thirty minutes prior to the formal commencement of Audit Committee. Another option would be to insert them as the first item on the Committee's agenda. Members are asked to agree their preferred format.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 The Shared Director of Finance comments that there are no financial implications if the recommendation is agreed.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 The Head of Democracy and Governance comments that there are no legal implications in this report

4.3 **Equalities**

Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfill this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices and decisions impact on people with different protected characteristics. It is also important to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions

4.3.1 The consideration a range of discussion topics and updates does not have any direct equality implications.

4.4 **Potential Risks**

Potential Risk	**Likelihood**	**Impact**	**Overall score**
Audit Committee's ability to exert effective scrutiny may be impaired in the absence of suitable updates on areas of responsibility and current events.	2	4	8

Appendices

Appendix 1 Pre-Audit Committee Updates for Members - Shared Internal Audit Service (SIAS)

Background Papers

None

File Reference

None

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APPENDIX 1

The table below contains a list of proposed updates or discussion topics for the Audit Committees at Watford Borough Council (WBC) and Three Rivers District Council (TRDC) and offers the opportunity to express an interest in each topic.

Topic	Led by	Level of Interest / Priority (H/M/L)
Audit Committee effectiveness	SIAS	
Navigating SIAS audit reports	SIAS	
The role of the Audit Committee in corporate governance	Head of Democracy and Governance / SIAS	
The role of the Audit Committee in risk management	Risk Manager / SIAS	
The role of the Audit Committee with the work of external audit	External Audit	
Statement of Accounts for Audit Committees	Finance	
Anti-Fraud and Corruption	Anti-Fraud Team	
Emerging Risks	SIAS	
Treasury Management (where relevant)	Treasury Manager	
Oversight of Freedom of Information (where relevant)	Head of Democracy and Governance	
About SIAS	SIAS	

1. Each of the above topics could be covered as a high level 'lite bite' (15 to 30 minutes) or as an extended session (45minutes to 1 hour max) prior to the commencement of each Audit Committee. The latter may involve merging some of the proposed topics.
2. Shorter sessions are a popular choice for Members pressed for time and not wishing to be overwhelmed by detail.
3. These sessions work best where there is an open discussion on the topic and Members actively engage, rather than just being talked at by the presenter.

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