



**WATFORD
BOROUGH
COUNCIL**

AUDIT COMMITTEE

26 July 2023

7.00 pm

Town Hall Annexe, Watford

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For information about attending meetings please visit the [council's website](#).

Publication date: 18 July 2023

Committee Membership

Councillor M Hofman (Chair)

Councillor K Clarke-Taylor (Vice-Chair)

Councillors L Nembhard, A Khan and C Newstead

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 25 May 2023 to be submitted and signed.

4. **SIAS Annual Report 2022/23** (Pages 3 - 16)

5. **SIAS Update Report on Progress Against the 2023/34 Audit Plan** (Pages 17 - 56)

6. **Fraud Annual Report 2023** (Pages 57 - 62)

7. **Treasury Management Annual Report 2022/23** (Pages 63 - 82)

8. **Draft Audit Results Report 2020/21** (Pages 83 - 132)

9. **Statement of Accounts Update** (Pages 133 - 239)



Shared Internal Audit Service

Annual Report

2022/23

Annual Report Contents

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Introduction

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2022/23.

Reading my introduction to last year's Annual Report, I shared my enjoyment of the Queen's Platinum Jubilee and the reflection that SIAS had entered its second decade at the heart of internal audit in Hertfordshire. Within the last 12 months, we have not only had the State Funeral of Queen Elizabeth II paying tribute to her remarkable reign and life of service, but also the Coronation of King Charles III with its sense of both continuity and an eye on the future. My choice of words is deliberate as I hope they reflect the aspirations of SIAS too!

I was out on one of my long walks recently (there is a link to internal audit and SIAS I promise) and I quite unexpectedly happened upon a friend at a stile on the edge of Wallington. We happily exchanged pleasantries, made enquiries of family, and quickly found ourselves dissecting the world of work. As internal auditors, we often ask the question 'What keeps you up at night?' as a way of burrowing into the risks and challenges we are exploring, so there was a certain novelty having this question posed to me. I had to answer that it was the recruitment and retention of experienced and management level staff, personal and team capacity and sustainability of cover arrangements for vacancies. Never has there been such a challenging recruitment market or such recruitment fatigue, or at least not in my professional life anyway. I expressed gratitude that I was surrounded by wise counsel and good people prepared to go the extra mile. In case you wondered what keeps child carers up at night, it is Ofsted inspections and the local primary school suddenly offering wraparound care in direct competition.

Speaking of good questions, my son came home from school after a lesson on inspirational heroes and asked me 'Who inspires you?' I won't share the answer with my personal hat on (picture a surf hat), but with my professional hat on (perhaps a trilby?), it is the people in networks and relationships who provide comfort, reassurance, support, wisdom, guidance, humour, and camaraderie. To all those who ring out of the blue to ask how I am, respond quickly to a request for help and a steer, debate the issues long into the evening, provide a welcome interlude despite their own busy schedules, offer a safe space to vent, share a laugh and a natter, and are prepared to talk about the cricket, I say a big thank you! You are my inspirational heroes, and that is what helps me navigate challenging times.

SIAS said a sad farewell to team members departing during the year, whether to well-earned retirement, or career opportunities elsewhere. All are thanked for their achievements and contribution to the service and will be greatly missed. Departures offer the opportunity for new beginnings, and we welcome new team members, who have settled wonderfully well into the service. Congratulations are also extended to team members for their deserved promotions.

For further highlights and reflections, I invite you to delve into the Annual Report itself. As ever, I enjoy the engagement, dialogue, and feedback the report fosters.

Chris Wood - Head of Assurance

June 2023



Levels of delivery

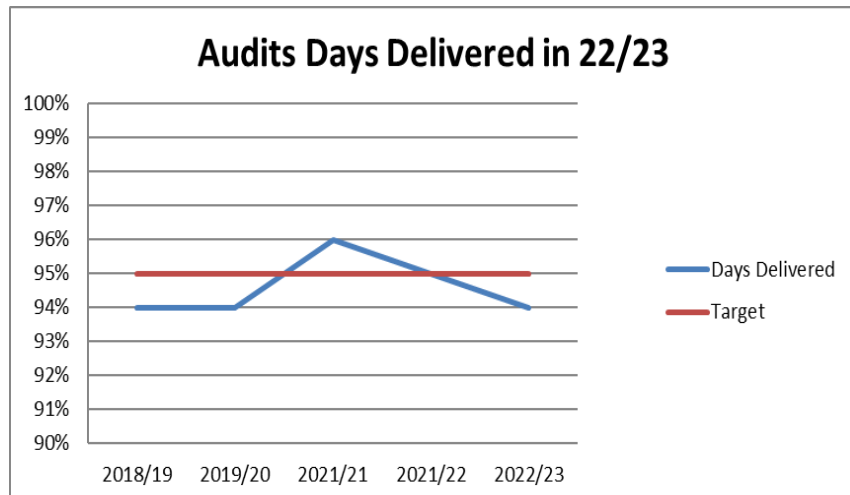
2022/23 presented significant challenges to SIAS in relation to recruitment and retention, these being pressures felt nationally within both local government and the private sector. The availability of experienced Internal auditors is recognised as a particularly challenging area given that it is a niche profession.

In response to the above challenges, SIAS commissioned resource from two additional external partners (Mazars and Veritau) in quarter 4 to support the capacity offered by our co-sourced delivery partner BDO. This allowed SIAS to achieve 94% of planned days and 90% of planned projects to draft report stage, both with targets of 95%.

As the above resource was secured for quarter 4, this resulted in SIAS falling short of the projects PI, however we ensured that at least 95% of projects had reached at least draft report stage by the end of April 2023.

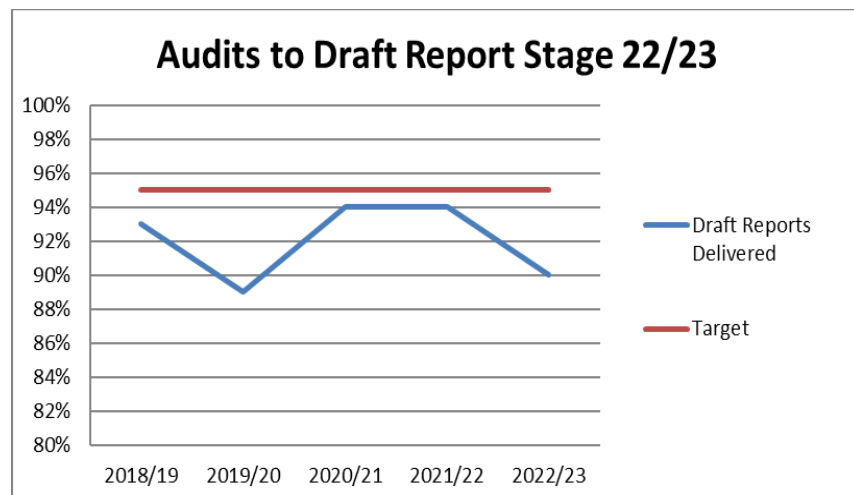
With our key objective being to complete enough work to allow an annual assurance opinion to be provided for each SIAS Partner, we are pleased to report that this was achieved.

Figure 1: Percentage of audits days delivered



Despite the challenges of 2022/23, we delivered our billable days target and achieved within 1% of our 95% project target...

Figure 2: Percentage of audits to draft stage



Shared learning - the power of partnership

A key founding principle of the Shared Internal Audit Service was the opportunity to embed a culture of shared learning within the partnership. A shared learning culture, both formal and informal, is embedded through our team, our sister services within Assurance and across our partners and opportunities abound to promote issues big and small.

Shared learning happens through the dialogue we have with others...

We continued to use our networks with bodies such as the Chartered Institute of Internal Auditors (CIIA), Local Authority Chief Auditors Network (LACAN), London Audit Group (LAG) and Home Counties Chief Internal Auditors Group (HCCIAG) to ensure that we remained in touch with the challenges facing the audit profession and those being faced by the organisations that they provide assurance to. This ensured that we could build robust audit plans for 2022/23 and share emerging risks and opportunities.

During 2022/23 we completed the joint audit (covering all Partners) on Environmental Enforcement, which had previously been approved by the SIAS Board. The report issued provided an opportunity for all Partners to contrast their current approach and balance between preventative, educational and enforcement activities to support the achievement of strategic aims.

We have produced and shared our annual summary of high priority recommendations raised during 2022/23, this allowing all Partners to have awareness of key risks, issues and related internal control and governance improvement opportunities for areas that may not have included in their respective audit plans.

During 2022/23, our staff, partners and Audit Committee members have continued to support our cycle of continuous development with helpful challenges and comments, these being particularly critical in a time that presents an opportunity to re-look at all aspects of the delivery of the Service post pandemic.



Managing the challenges of auditing in a changing environment

We worked with Partners to ensure our audit plans remained dynamic and could sufficiently respond to the changing risk environment.

The risk landscape of Local Government has and will continue to be subject to continued and fast paced change. This includes areas such as our partners embracing new technologies such as Artificial Intelligence (AI), Climate Change, significant transformation, demand and resource pressures, changes in the ways of working and the continuing impacts of external political tensions.

SIAS continues to work with our partners to ensure that our planning approach seeks to understand how these risks have impacted each Authority and subsequent assurance requirements. We also ensure that our plans are sufficiently flexible to accommodate emerging risks during the financial year.

During 2022/23, we have continued to progress our journey of embracing more modern and added value auditing techniques, such as embedded assurance, data analytics and assurance mapping. These allow us to use limited internal audit resources to best effect, as well as providing more robust assurance to our Partners.

As a member of key audit networks, we can ensure that we have access to a wealth of intelligence on emerging risks and techniques for providing robust assurance. In addition, through our co-sourced audit arrangement we are also able to use the knowledge and skills of our external partner to have access to specialist skills, or their wider information pool to support other key opportunities such as benchmarking.

As a service, we have continued to embrace and respond to the changing work environment, in particular home working, both in terms of how this may impact on the internal control environment and delivery of audits. We have also sought to embrace the opportunities that this has presented in terms of efficiencies that can be gained from a different way of working.

Overall, we believe that 2022/23 has provided a springboard for SIAS, and Internal Audit Services in general, to pause and reflect on our methodologies and approach for planning and delivering an effective audit service, with this strengthening our assurance offering to our Partners.

Developing our people and processes

SIAS is committed to providing an exemplar service to its partners and clients that successfully blends cost effectiveness, resilience, and quality.

During 2022/23, we have continued to implement any remaining outstanding continuous improvement opportunities highlighted during our Public Sector Internal Audit Standards (PSIAS) External Quality Assessment in 2021, with these now fundamentally complete.

Given the previously mentioned challenging recruitment and retention market, we have looked to embrace a 'grow your own' strategy. Whilst this naturally takes time to embed, we were extremely pleased to be able to promote our three trainees to auditor roles during April 2023. This was a testament to their significant work and efforts during their period as a trainee auditor.

To support our aspirations of being a respected internal audit service, we have revisited our training and development offering to our team members. As part of this review, we have created an annual training programme at team level, as well as personal development and progression plans for all team members. We currently have five team members actively progressing their professional audit or

accountancy qualifications, either through apprenticeships or being sponsored by the service.

At the core of our service are our team members. During 2022/23 we have revised our approach to training and development and created personal development plans for all team members to support their continued career progression.

At the heart of our service is our staff, and we have continued to look at how we can embed a team culture in what is often a more remote working environment. During 2022/23, and following a suggestion from the team, we have created our 'office Wednesday' day. This provides an opportunity for the team to network and ensures face to face time.

We continue to review how we obtain and disseminate learning from our quality review processes is used to support the development of our staff, seeking feedback from team members to support this process.

We have continued to progress best practice auditing approaches such as data analytics and assurance mapping, ensuring that our team members are supported and trained to use these to best effect.



First class customer service

To monitor our effectiveness and improve our service, at the 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 in 2022/23 we have received 94% satisfactory or higher feedback rating from our customers.

Some of the comments that accompany the formal scoring document are shown below:

- “The Auditor has extensive knowledge & understanding of payroll processing which made the audit very easy to conduct, she was very clear & concise explaining the change in requirements from previous audits.”
- “This year it was a light touch review, so demand on Officer time was minimal. The audit was carried effectively and very efficiently compared to previous years. Very happy with the service received.”
- “The service received was clear and precise. Carried out in a professional manner. Many Thanks.”
- “Thank you to the Auditor who made the process clear and meaningful. No issues to raise.”
- “Good communication from Auditor. Opportunity to ask questions. Welcomed opportunity to discuss and comment on draft report.”
- “Very happy with the overall service. The Auditor communicated clearly and was approachable and open. The findings and recommendations will help us deliver improvements already identified.”
- “The Auditor was very knowledgeable, professional, polite and very accommodating of time (being year-end).”
- “Great service as usual - good thorough approach balanced with pragmatism.”

“The Auditor was helpful, patient with all my questions (and there were lots!). The process was clear to follow and painless. After the initial worry about if I was going to be able to get all the correct documents together, the auditor put my mind at ease and was kind.”

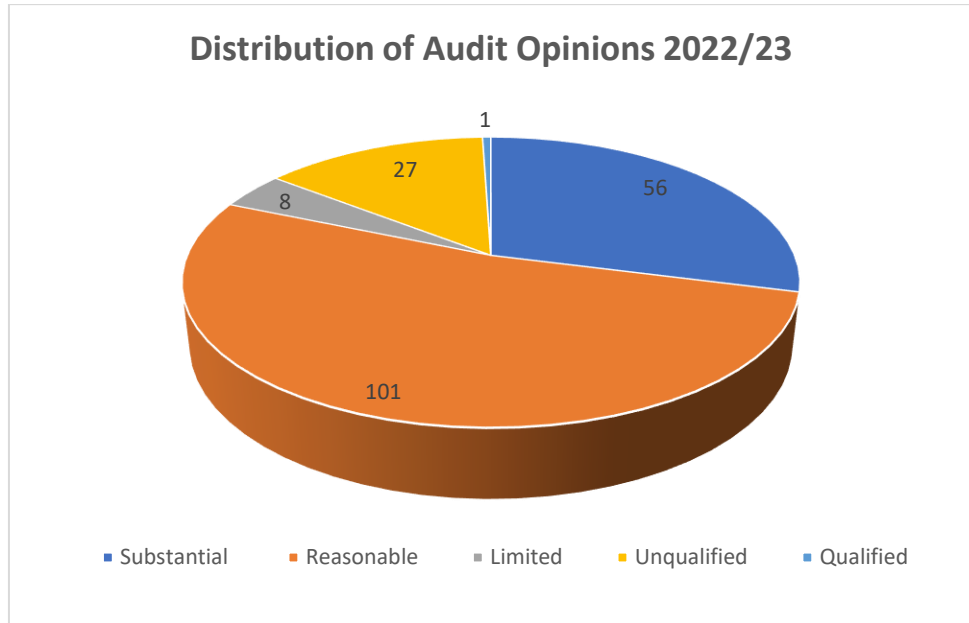


Performance – outcomes

SIAS completed 215 assurance and other projects to draft or final report stage, giving the assurance opinions and recommendations detailed in the charts below.

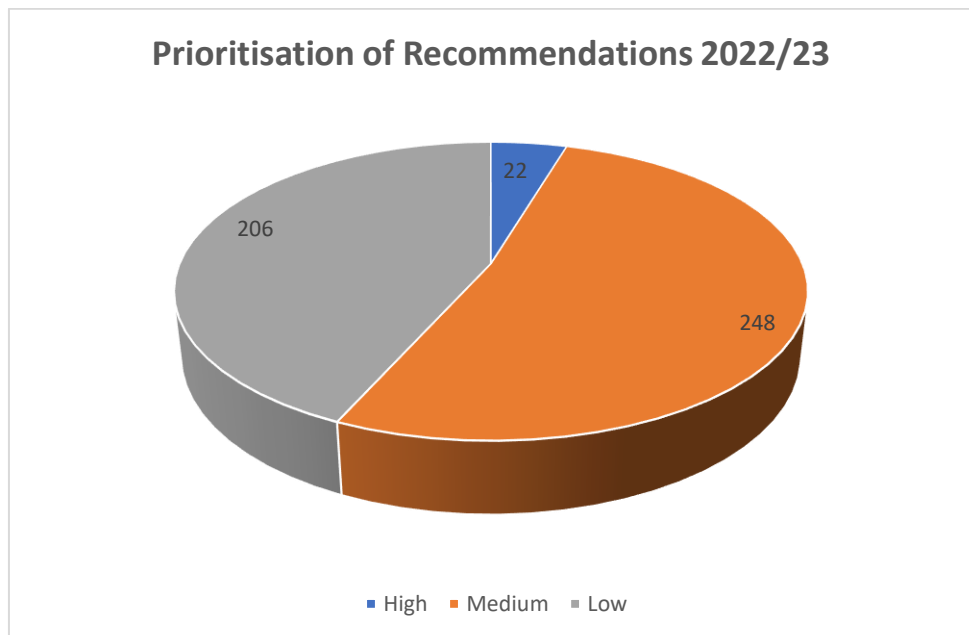
For those pieces which resulted in a formal assurance opinion, the distribution of opinions is set out in figure 3 below:

Figure 3: Distribution of Audit Opinions 2022/23



For those audits where recommendations were required and were graded, the priority ratings are set out in figure 4 below:

Figure 4: Prioritisation of Recommendations 2022/23



Performance indicators

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 overall performance of SIAS against our key performance indicators is reported below.

Table 1: SIAS Business Performance

Indicator	Target	Actual as at 31 March 2022	Actual as at 31 March 2023
Progress against plan: actual days delivered as a percentage of planned days.	95%	95%	94%
Progress against plan: audits issued in draft by 31 March	95%	94%	90%
Client satisfaction	100% client satisfaction questionnaires returned at 'satisfactory overall' level or above	95%	94%

Financial performance of SIAS

SIAS operates on a fully traded basis. Appendix A sets out the summary financial position at 31 March 2023.

Prudent financial management has allowed the service to build a reasonable reserve over the last few years, with the intention of smoothing the impact of any unforeseen events on trading performance in future years or investing in projects that support the delivery, growth or development of the service.

Future developments



Following a recent workshop with the SIAS Board, our key objective for 2023/24 will be create a business plan to set out the medium-term development of SIAS. This will have a particular focus on embracing opportunities to become a modern internal audit service, a longer-term workforce strategy and exploring opportunities for developing our commercial offering.

Following the re-procurement of our external partner contract, re-awarded to our previous provider BDO, we will be focusing on opportunities to embed more intelligence sharing and training to ensure we can better benefit from their skills and experience.

For our team members and their future training and development, we will continue to support those members of our service that are striving to attain professional qualifications, with this continuing to be underpinned by personal development and progression plans.

We are progressing the re-procurement of our existing Audit Management software, where the current support for the existing in-house system ending at the end of 2024.

We will continue to work with our colleagues across audit networks to support the development of our knowledge and approach to making the most effective use of data analytics and assurance mapping within our assurance activities.

embed new ways of working... ensuring that we work with other audit teams to share and develop best practice...

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.

In 2022/23, our Board members were as follows:

Name	Title	Partner
Clare Fletcher	Strategic Director (CFO)	Stevenage Borough Council
Matthew Bunyon	Head of Finance and Business Services	Hertsmere Borough Council
Steven Pilsworth	Director of Finance	Hertfordshire County Council
Ian Couper	Service Director (Resources)	North Herts Council
Richard Baker	Executive Director (Finance and Transformation)	Welwyn Hatfield Borough Council
Steven Linnett	Head of Strategic Finance and Property	East Herts Council
Alison Scott and Hannah Doney	Director of Finance and Head of Finance	Watford Borough Council and Three Rivers District Council
Chris Wood	Head of Assurance	SIAS

SIAS cost centre: budget against outturn 2022/23

	<u>Budget</u>	<u>Outturn</u>
	<u>£</u>	<u>£</u>
Employee Costs	945,867	709,177
Partner / Consultancy Costs	128,100	349,903
Transport (Travel) & Supplies	42,183	7,242
Office Accommodation Cost	17,005	17,005
Total expenditure	<u>1,133,155</u>	<u>1,083,327</u>
Income	<u>-1,152,884</u>	<u>-1,141,832</u>
Net (surplus) / deficit	(19,729)	(58,505)

Appendix B: 2022/23 Definitions of Assurance Levels and Priority of Recommendations

Audit Opinions		
Assurance Level	Definition	
Assurance Reviews		
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.	
Grant / Funding Certification Reviews		
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.	
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.	
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.	
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.	
Recommendation Priority Levels		
Priority Level	Definition	
Corporate	Critical	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.



Watford Borough Council
Audit Committee Progress Report
26 July 2023

Recommendation

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 14 July 2023
- Approve amendments to the Audit Plan as at 14 July 2023
- Agree the change to the implementation date for nine recommendations (paragraph 2.5) for the reasons set out in Appendix C
- Agree removal of implemented audit recommendations set out in Appendix C
- Note the implementation status of high priority recommendations

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- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background

- 2 Audit Plan Update
 - 2.1 Delivery of Internal Audit Plan and Key Audit Findings
 - 2.3 Status of Internal Audit Recommendations
 - 2.7 Proposed Internal Audit Plan Amendments
 - 2.8 Performance Management

Appendices

- A Progress against the 2023/24 Internal Audit Plan
- B 2023/24 Internal Audit Plan Projected Start Dates
- C Progress against Outstanding Internal Audit Recommendations
- D Assurance and Priority Levels

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 Internal Audit Plan for 2023/24 as at 14 July 2023.
- b) Proposed amendments to the approved 2023/24 Internal Annual Audit Plan.
- c) Implementation status of all outstanding previously agreed internal audit recommendations from 2020/21 onwards.
- d) An update on performance management information at 14 July 2023.

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 2023/24 Annual Audit Plan was approved by Audit Committee on 9 March 2023.
- 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 9 March 2023.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 14 July 2023, 20% of the 2023/24 Audit Plan days had been delivered for the combined Watford Borough Council and Shared Services audit plans (excludes 'To Be Allocated' days). Appendix A provides a status update on each individual deliverable within the audit plan.
- 2.2 The following 2022/23 reports have been finalised since March 2023 Audit Committee:

Audit Title	Date of Issue	Assurance Level	Number and Priority of Recommendations
Website Redesign	Mar '23	Substantial	None
Financial Reconciliations	Apr '23	Substantial	Two low
Cyber Security	Apr '23	Reasonable	One medium

Treasury	Apr '23	Reasonable	One medium
Council Tax	May '23	Reasonable	Two medium Two low
NDR	May '23	Reasonable	Four medium
Contract Management	May '23	Substantial	One low
Treasury Management	May '23	N/A	Advisory only
FOI	May '23	Substantial	None
Climate Change & Sustainability Follow Up	Jun '23	Reasonable	One medium
Tree Management	Jun '23	Reasonable	Two medium Three low

No 2023/24 reports have yet been finalised.

Status of Audit Recommendations

- 2.3 Audit Committee 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 all audit recommendations. It is the responsibility of officers to implement recommendations by the agreed date.
- 2.4 The table below summarises progress in implementation of all outstanding internal audit recommendations as at 14 July 2023, with full details in Appendix C:

Year	Recommendations made No.	Implemented	Not yet due	Outstanding & a request made for extended time, or no update received	Percentage implemented %
2020/21	28	27	0	1	96%
2021/22	37	34	1	2	92%
2022/23	41	24	11	6	59%

- 2.5 Since 9 March 2023 Audit Committee, extension to implementation dates have been requested by action owners for nine recommendations as follows:
- One from the 2020/21 Debtors audit, with a revised target date of 31 December 2023 (was 30 June 2023).
 - One from the 2021/22 Safeguarding audit, with a revised target date of 30 September 2023 (was 1 June 2023).
 - One from the 2021/22 Cyber Security audit, with a revised target date of 30 November 2023 (was 30 June 2023).
 - Five from the 2022/23 Museums audit (see Appendix C for details).
 - One from the 2022/23 Council Tax audit, with a revised target date of 30 September 2023 (was 30 June 2023).

- 2.6 No new high priority recommendations have been made since March 2023 Audit Committee.

Proposed Audit Plan Amendments

- 2.7 A new audit of Revenues and Benefits system parameters has been added to the 2023/24 Shared Services Audit Plan, to review the effectiveness of management controls over the annual system uprating for the revised parameters set by the DWP.

Performance Management

- 2.8 To help the Committee assess the current situation in terms of progress against the projects in the 2023/24 Audit Plan, we have provided an analysis of agreed start dates at Appendix B. These dates have been agreed with management and resources allocated.
- 2.9 Annual performance indicators and associated targets were approved by the SIAS Board in March 2023. Actual performance for Watford Borough Council against the targets that can be monitored for 2023/24 is shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 14 July 2023	Actual to 14 July 2023
1. Planned Days – the percentage of the Annual Internal Audit Plan delivered (excludes unused contingency days)	95%	22% (50 / 227 days)	20% (46 / 227 days)
2. Planned Project – the number of projects delivered to draft report stage against projects in the approved Annual Internal Audit Plan	95%	6% (1 out of 17 projects to draft)	6% (1 out of 17 projects to draft)
3. Client Satisfaction – percentage of client satisfaction questionnaires returned at ‘satisfactory overall’ level (minimum of 39/65 overall)	95%	100%	100% (Based on 2 received in 23/24)
4. Number of High Priority Audit Recommendations Agreed	95%	95%	N/A (No high priority recommendations made)

2.10 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2023/24 Head of Assurance's Annual Report:

- **5. 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 financial year.
- **6. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A - PROGRESS AGAINST THE 2023/24 AUDIT PLAN AT 14 JULY 2023

2023/24 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Key Financial Systems									
Benefits (Shared Services Plan)						10	No	0	Not Yet Allocated
Debt Recovery (Shared Services Plan)						12	No	0	Not Yet Allocated
Key Financial Controls Testing (Shared Services Plan)						10	No	0	Not Yet Allocated
Main Accounting – Assurance Mapping (Shared Services Plan)						10	No	0	Not Yet Allocated
Payroll (Shared Services Plan)						10	No	0	Not Yet Allocated
Parameters Testing (Shared Services Plan)						3	SIAS	3	Draft Report Issued
Operational Audits									
Agency Staffing (Shared Services Plan)						12	SIAS	0.5	In Planning
Asset Management System Data						10	No	0	Not Yet Allocated
Croxley Business Park						15	No	0	Not Yet Allocated
Operational Buildings Compliance Follow Up						6	BDO	4	In Fieldwork
Performance Management & Data Quality						12	No	0	Not Yet Allocated
Play Safety Inspections Follow Up						5	Yes	2	In Fieldwork
Risk Management						8	SIAS	3	In Fieldwork
Shared Services						15	No	0	Not Yet Allocated

APPENDIX A - PROGRESS AGAINST THE 2023/24 AUDIT PLAN AT 14 JULY 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
Grant Certifications						3	No	0	Not Yet Allocated
Contract Management, Project Management & Procurement									
Project Management – Town Hall Quarter						12	BDO	10	In Fieldwork
IT Audits									
IT Operations (Shared Services Plan)						15	BDO	2	Terms of Reference Issued
Cyber Security (Shared Services Plan)						15	BDO	0	Allocated
Follow Ups									
Follow up of Audit Recommendations						8		2	Through Year
To Be Allocated									
Unused Contingency (Shared Services Plan)						0	N/A	0	N/A
Strategic Support									
Audit Committee						8	Yes	3	Through Year
2024/25 Audit Planning						5	Yes	0	Due quarter 4
Head of Internal Audit Opinion 2022/23						3	Yes	3	Complete
Monitoring & Client Meetings						8	Yes	2	Through Year

APPENDIX A - PROGRESS AGAINST THE 2023/24 AUDIT PLAN AT 14 JULY 2023

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		C	H	M	L				
SIAS Development						3	Yes	3	Complete
Completion of 2022/23 audits									
Time required to complete work commenced in 2022/23 (4 days Shared Services Plan; 5 days WBC)						9	Yes	8.5	In Progress
WBC PLAN TOTAL						126		37	
SHARED SERVICES PLAN TOTAL						101		9	
COMBINED TOTAL PLAN DAYS						227		46	

Key to recommendation priority levels: C = Critical; H = High; M = Medium; L = Low / Advisory.

APPENDIX B – AUDIT START DATES 2023/24

Apr	May	June	July	August	September
Project Management – Town Hall Quarter In Fieldwork	Risk Management In Fieldwork	IT Operations (Shared Services Plan) Terms of Reference Issued	Agency Staffing (Shared Services Plan) In Planning	Main Accounting – Assurance Mapping (Shared Services Plan)	Debt Recovery (Shared Services Plan)
Operational Buildings Compliance Follow Up In Fieldwork	Parameters Testing (Shared Services Plan) Draft Report Issued		Play Safety Inspections Follow Up In Fieldwork		Performance Management / Data Quality
					Shared Services

October	November	December	January	February	March
Key Financial Controls Testing (Shared Services Plan)	Benefits (Shared Services Plan)	Payroll (Shared Services Plan)	Cyber Security (Shared Services Plan)		
Asset Management System			Croxley Business Park		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Audit Plan 2020/21

Communications 2020/21							
Final report issued May 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that the service updates all its policies to ensure that they reflect the current process followed.</p> <p>Going forward, the service should ensure that the policies are updated at regular intervals, and proper version control introduced.</p>	Low	<p>These policies were due to be updated in 2020 but due to the impact of Covid-19 this has been delayed.</p> <p>Position – July 2021 No update received.</p> <p>Position – September 2021 The service has had a very busy summer leading on the communications and engagement for a range of priority council initiatives and projects (e.g., mass vaccination clinics, Sustainable Transport Strategy). An additional resource provided by a Kickstart appointment will be supporting this work.</p> <p>Position – November 2021 Overall guidance on publicity and communications has been updated. The team is still working through additional policies.</p> <p>Position – February 2022 Main policies updated.</p> <p>Position – July 2022 Review of all policies underway for 2022/23.</p> <p>Position – August 2022 Main policies updated – additional ones under review.</p> <p>Position – November 2022 In progress.</p> <p>Position – February 2023</p>	Communications and Engagement Lead	31 October 2021	✓	<p>28 February 2022</p> <p>31 March 2023</p>

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Communications 2020/21							
Final report issued May 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>In progress to meet March deadline.</p> <p>Position – July 2023 New Communications and Conversations Strategy to be presented to WBC Cabinet in September 2023. Social media guidance updated.</p>				

Debtors 2020/21							
Final report issued June 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	Consideration should be given to an annual review of debtor accounts to identify duplicate or dormant for deletion or deactivation.	Low	<p>Position – July 2021 We will speak to Finance about the best way of doing this.</p> <p>Position – September 2021 A complete review of the entire Sundry Debtor service has recently been commenced and this will be included as part of the review.</p> <p>Position – November 2021 No update received.</p> <p>Position – February 2022 No update received.</p> <p>Position – July 2022 To date we have not been able to resource this review as we have had to prioritise Grant work and more recently the Council Tax Energy Rebates. We will pick up this project towards the end of the calendar year once the Energy rebate work is completed.</p>	Recovery Team Leader, Revenues Manager and Finance.	31 August 2021	*	<p>31 October 2021</p> <p>31 October 2022</p> <p>31 December 2022</p> <p>30 June 2023</p> <p>31 December 2023</p>

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Debtors 2020/21 Final report issued June 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – August 2022 No update received – target date not yet reached.</p> <p>Update received September 2022 but after reporting deadline for September 2022 Audit Committee: Finance are going to run and extract this data from the Finance System which Revs & Bens will then check. It may be completed before 30 October 2022; it really depends on how many are on the list.</p> <p>Position – November 2022 The lists were provided by Finance mid-September, but work has not yet commenced as the entire Revs and Bens Service was delivering the Energy Fuel Rebate payments. Work will commence on the lists week commencing 14.11.22.</p> <p>Position – February 2023 Revs and Bens have not had the capacity to carry out this work yet as resource has diverted to Energy Fuel Rebate schemes and resource has been very low due to long term staff sickness. Revs and Bens will take ownership of checking duplicate customer account and deleting those where we are certain there is no current billing rule. Finance and the individual services will need to take responsibility for deleting or de-activating old accounts. We will remind them of this requirement.</p> <p>Position – July 2023 The list has been generated and there are 2252 accounts to check. Each one must be checked individually before it can be</p>				

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Debtors 2020/21							
Final report issued June 2021							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			decided if the duplicate entry can be deleted. Work has commenced on the checking / deletion. We are allocating a little resource to this each week as BAU work is extremely high currently so it will take some time to check all 2,000 accounts.				

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Audit Plan 2021/22

Safeguarding 2021/22 Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>When temporary staff members are being appointed, the Council should ensure that necessary safeguarding checks have been completed prior to the employee starting work, and that appropriate records are maintained.</p> <p>If there is an expected delay to such checks being performed, a decision should be recorded to delay the start date until completed</p>	High	<p>HR Management will remind Comensura of the pre-employment checks required by Watford prior to someone starting.</p> <p>HR will carry out spot checks of temporary staff and ask Comensura [or any other provider] to provide evidence of the checks undertaken at least annually.</p> <p>HR will ensure the specification for a future agency partner includes all requirements for pre-employment checks to be undertaken and the checking process to be in place to ensure compliance.</p> <p>Recruiting Managers across the council will be reminded of the need to ensure all compliance documentation is received prior to commencement of staff in post and the different requirements if agency staff come through Comensura or direct through agency to the council.</p> <p>Position – July 2022 Comensura have been reminded of the pre-employment checks required. Their booking system has the requirement for a DBS check as a pre-requisite. The tender specification for the current tender process for future agency partner has included the requirement for DBS checks to be carried out. HRBPs have reminded managers of the compliance documentation required and this will be raised as new bookings are made.</p>	HR Operations Lead	<p>1 June 2022</p> <p>1 April 2023</p> <p>When required.</p> <p>1 June 2022</p>	<p>✓</p> <p>*</p> <p>✓</p> <p>✓</p>	<p>1 June 2023 30 Sept 2023</p>

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Safeguarding 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – August 2022 All recommendations are complete except the one action in progress (spot checks) This has a due date of 1 April 2023.</p> <p>Position – November 2022 The position regarding spot checks will be taken up with Hays (the new contractor/agency partner who commence their contract with the Council on 05 December 2022).</p> <p>Position – February 2023 Hays took up the contractor/agency partner in December 2022. Spot checks will be carried out after 6 months of the contract running when sufficient appointments for spot checking have been made.</p> <p>Position – July 2023 The issue of spot checks is on the agenda for the contractor meeting to be held on 20 July 2023. Spot checks to be completed by 30 September 2023.</p>				

Cyber Security 2021/22							
Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	1.1 Management should ensure that appropriate monitoring controls are in place for the password monitoring and management activities. These should include but not be limited to the following:	Medium	<p>01 Mar 2022 the Azure AD Password Protection was implemented. Users will not be able to change passwords to weak passwords nor known passwords nor passwords from our Ban List of passwords.</p> <p>1.1 – requires a third-party tool and</p>	Associate Director of ICT and Shared Services	31 March 2023	*	31 March 2024

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Cyber Security 2021/22

Final report issued April 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline	
	<ul style="list-style-type: none"> • brute-forcing of account passwords including password spraying, • login attempts from unexpected geographic areas, • unexpected account lockouts • password database for the deny list hashes, • other unusual behaviour from users. <p>1.2 The above proposed controls, once in place, should be actively reported upon, through the periodic cyber security reports, to the senior management.</p>		<p>associated funding would be required. The implementation of the password protection for Azure AD lowers the risk.</p> <p>1.2 - this would be dependent on the ability to fund with a third-party tool – 1.1.</p> <p>Position – July 2022 Third party tools currently being reviewed and costed. Item not yet due.</p> <p>Position – August 2022 1.1 - Third party tools have been evaluated and Netwrix has been selected as the preferred tool.</p> <p>1.2 – Netwrix had demonstrated the tool in detail and a 30-day trial to test the system further is available.</p> <p>1.3 – Quotation for 1- and 3-year option has been provided.</p> <ul style="list-style-type: none"> • 1-year option - £7,806 • 3-year option - £16,483 <p>1.4 – Implementation of the tool will be dependent on the ability to fund the third-party tool, this will require an approval by ITSG for an additional spend. A paper to review this recommendation and request any growth in budget 2022.</p> <p>Position – November 2022 1.1 – Due to the audit, which was performed by DLUHC, the scope of the security posture has extended. The grant to address the sections of the new recommendations within the scope has been successfully secured.</p>					

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Cyber Security 2021/22 Final report issued April 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			1.2 – The evaluation of the third-party tool has been extended, due to the new requirements within the scope presented post the DLUHC audit. 1.3 The new proposed completion dates recommended by DLUHC is end of Q4 March 2024. Position – February 2023 In progress. Produce options and costs continue to be reviewed and costed against all recommendations included within the DLUHC cyber grant budget. Position – July 2023 1.1 – All available options offered by a number of vendors have been evaluated. The decision has been made to utilise the DLUHC grant and to expand on the existing CSOC provision from Exponential-e to meet the requirements of the recommendation. 1.2 The quotation has been provided from Exponential-e to expand the CSOC offering. This has been approved and the project is now moving to the procurement phase. The procurement should be completed by the end of October 2023.				
03	Management should conduct regular monthly vulnerability scans across the entire IT estate including endpoint, to identify and mitigate vulnerabilities including software flaws, missing patches, misconfigurations and malwares.	Low	This would require additional budget and would need a growth item approved, as there are licence implications for the Qualys scanner. Position – July 2022 Extension of current third-party tools currently being reviewed and costed. Item not yet due.	Associate Director of ICT and Shared Services	31 March 2023	*	30 June 2023 30 November 2023

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Cyber Security 2021/22

Final report issued April 2022

Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – August 2022 1.1- Third party Qualys had introduced a new module which will enable the management of remote devices through the cloud.</p> <p>1.2 – Both options are currently being evaluated and costed. Decision made will be based on cost, functionality, and management.</p> <p>Position – November 2022 1.1 – Due to the allocation of a new Account Manager at Qualys and the changes within the licensing structure, Qualys are currently reviewing the proposed quotation to align the requirements with the new licensing structure.</p> <p>1.2 – Workshop with Qualys has been scheduled to discuss the new proposed licensing structure and the modules which are required to enable the management of the devices remotely through the cloud and not relaying on the VPN.</p> <p>Position – February 2023 Remains in progress, however Associate Director of ICT and Shared services requests an extension of 3 months. This is due to</p> <ul style="list-style-type: none"> a. Qualys licencing for public sector has recently changed. Awaiting updated quotations. b. In terms of funding, a recent grant award from DLUHC will cover this item. Therefore, no requirement for additional growth within the ICT service budget. 				

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Creditors 2021/22							
Final report issued July 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	CHAPS, Faster Payments and Payment Vouchers are communicated/re-communicated to all relevant staff across the Council (e.g., in a corporate communication) and placed on key staff systems such as the Intranet for reference		<p>and a communication to all staff.</p> <p>Position - July 2022 Not yet due.</p> <p>Position – August 2022 1 is resolved ✓ process note created. 2 is resolved ✓ process updated.</p> <p>3 We will publish revised note and new note on the intranet along with Delegated authority listings.</p> <p>New deadline: 31 October 2022</p> <p>Position – November 2022 Process notes have been written.</p> <p>There are issues with intranet, so these will be circulated by email,</p> <p>Delegated authority lists to be run and agreed.</p> <p>Again, there are issues with intranet so these will be published when intranet issues resolved.</p> <p>Position – February 2023 There has been an issue with intranet however two Finance staff undertake training next week and will publish as agreed. New deadline 15th March 23.</p> <p>Position – July 2023 The intranet has been updated with the delegated authority lists.</p>				

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Operational Buildings Compliance 2021/22							
Final report issued July 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
03	<p>The Compliance & Maintenance Officer should generate monthly reports for the Facilities Manager and the Leadership Board to review on the compliance rates in relation to the following health and safety areas:</p> <ul style="list-style-type: none"> • Gas Safety • Electrical Safety • Fire Safety • Legionella Safety • Lift Safety <p>The reports should outline the risk assessments undertaken, progress, outcomes, remedial actions completed, due and those delayed for greater oversight. The remedial actions should have an assigned action owner and due date for completion.</p>	High	<p>FM to provide programme on a monthly basis to Leadership Board. This will include information on risk assessments and progress with remedial actions.</p> <p>Position – August 2022 Compliance report to be provided to senior management on a monthly basis. New asset management system (concerto) will be able to generate regular management reports. FM produce a spreadsheet on current status of compliance that can be provided in the meantime.</p> <p>Position – November 2022 All compliance information has been uploaded on asset management system but testing and training still required for FM. Training to be undertaken in November with reports generated from December.</p> <p>Position – February 2023 All compliance information has now been uploaded on the asset management system (Concerto) and is now operational. Specific training in how to generate compliance reports in Concerto is scheduled for week beginning 6th March and compliance reports will then be generated from end March on a regular basis using Concerto. In the meantime, manual reports are capable of being produced and are available to senior management, FM are approaching the agenda organiser to ensure that a regular spot is included in the Corporate Management Teams' agenda for these reports.</p> <p>Position – July 2023 Compliance reports now being provided to leadership team on a quarterly basis.</p>	Associate Director of Property and Asset Management / Facilities Manager .	31 July 2022	✓	<p>30 September 2022</p> <p>46 December 2022</p> <p>31 March 2023</p>

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Operational Buildings Compliance 2021/22							
Final report issued July 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>The first report was provided in March 2023 and second one in June 2023. This frequency of reporting was determined by the Leadership Team, although they can be provided monthly if required.</p> <p>The reports are generated from the new asset management system, Concerto.</p>				

Audit Plan 2022/23

Watford Museum 2022/23							
Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that the statement of purpose for the Watford Museum provides a clear link and reference to the Council’s cultural strategy.</p> <p>We also recommend that the existing delegated authority arrangements are reviewed to ensure that they are sufficiently clear, with a local scheme of delegation created where sub-delegations are in place (for example responsibilities assigned from the Group Head or Head of Service to the Museum Curator).</p>	Medium	<p>The statement of purpose will be developed as the forward plan is revised and to align with the ambitions for the Town Hall Quarter and to link to the cultural strategy.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Position – July 2023 Work is underway on shaping a vision and governance for the museum. As the museum is moving location Arts Council England have informed WBC that it cannot submit for accreditation this year, and will likely move to provisional accreditation whilst the museum is closed for redevelopment. Once the museum is located in the Town Hall we will be invited to submit. NOTE this is usual process for a museum capital project. The plans and policies required can still be developed and implemented in readiness for submission.</p> <p>Museum Governance will be reviewed as part of the process of developing the Arts Council Accreditation Forward Plan and Associated Policies (Action 2) and Town Hall Quarter redevelopment plans.</p>	Associate Director of Environment	<p>30 April 2023 (Subject to Arts Council Submission date)</p> <p>30 April 2023 (Subject to Arts Council Submission date)</p>	<p>*</p> <p>*</p>	<p>Mid-late 2024</p> <p>Mid-late 2024</p>

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Watford Museum 2022/23							
Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Position – July 2023 Work is underway on shaping a vision and governance for the museum. As the museum is moving location Arts Council England have informed WBC that it cannot submit for accreditation this year, and will likely remain on provisional accreditation while the whilst the museum is closed for redevelopment. Once the museum is located in the Town Hall we will be invited to submit. NOTE this is usual process for a museum capital project. The plans and policies required can still be developed and implemented in readiness for submission.</p> <p>Longer term a more substantive governance model will be developed in key areas such as exhibitions, audience development and collections management.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Position – July 2023</p>		30 April 2023 (subject to Arts Council Submission date)	*	Mid-late 2024

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Watford Museum 2022/23							
Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>Work is underway on shaping a vision and governance for the museum</p> <p>As the museum is moving location Arts Council England have informed WBC that it cannot submit for accreditation this year, and will likely remain on provisional accreditation whilst the museum is closed for redevelopment. Once the museum is located in the Town Hall we will be invited to submit. NOTE this is usual process for a museum capital project. The plans and policies required can still be developed and implemented in readiness for submission.</p>				
02	<p>We recommend that all documents or policies are fully completed or subject to review and update prior to the end of the financial year, with policies passed to the Executive for approval.</p> <p>We also recommend that a log is kept of all policies, including the last and the next review dates, to ensure that they are reviewed in a timely manner in future years.</p>	Medium	<p>Arts Council re accreditation is due for submission in April 2023 at the earliest. (The Arts Council will inform us when they require us to submit). A project will be created using EPMO protocols to oversee delivery and approval of the forward plan and policies, linked to the Museum Project and THQ programme boards and revised governance. Some policies are in development already.</p> <p>Monitoring of policies will be brought into service delivery and as a KPI or service plan output.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Position – July 2023 Work is underway on shaping a vision and governance for the museum</p>	Associate Director of Environment	30 April 2023 (Subject to Arts Council Submission date)	*	Mid-late 2024

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Watford Museum 2022/23							
Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			<p>As the museum is moving location Arts Council England have informed WBC that it cannot submit for accreditation this year, and will likely remain on provisional accreditation whilst the museum is closed for redevelopment. Once the museum is located in the Town Hall we will be invited to submit. NOTE this is usual process for a museum capital project. The plans and policies required can still be developed and implemented in readiness for submission.</p>				
03	The current investigation of the one item identified as missing should be concluded at the earliest opportunity, with further advice on required actions being sought if the item cannot be located.	Medium	<p>Complete investigation.</p> <p>Position – November 2022 On hold due to staff absence, deadline will be met.</p> <p>Position – February 2023 Due to staff absence this has been on hold. To be completed by 1st May 2023.</p> <p>Position – July 2023 Draft report received and under review.</p>		31 December 2023		1 September 2023
04	We recommend that all staff are reminded of what paperwork needs to be completed for loans including the log which would summarise what items were currently on loan.	Medium	<p>Staff training on loans process to be implemented. Develop log of loans and regularly monitor.</p> <p>Position – November 2022 On hold due to staff absence, deadline will be met.</p> <p>Position – February 2023 Due to staff absence this has been on hold. To be completed by 1st May 2023.</p> <p>Position – July 2023 Diarised - being undertaken as part of</p>	Curator	31 December 2023	*	30 September 2023

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Watford Museum 2022/23 Final report issued October 2022								
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline	
	<p>We also recommend that policies are updated to reflect the approval delegation authorities included within the constitution.</p> <p>Finally, consideration should be given to clarifying within the constitution the value and time thresholds above which loans of objects are required to be authorised, and below this value the local delegation that has been agreed.</p>		<p>refresh Documentation Procedural manual. See action against recommendation 1.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements.</p> <p>Position – July 2023 See action against recommendation 1.</p> <p>See action against recommendation 1.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 Being planned, resources allocated and work commencing in April 23 to align with Town Hall Quarter Programme and ACE requirements. Constitution has had an interim update to reflect this.</p> <p>Position – July 2023 See action against recommendation 1.</p>				<p>*</p> <p>*</p>	<p>Mid-late 2024</p> <p>Mid-late 2024</p>
05	<p>We recommend that an action plan is put in place to support the identification, control and monitoring of remaining key actions in respect of the accreditation preparation. This should include the actions required, target dates and action owners.</p> <p>The above action plan should also</p>	Medium	<p>See actions against recommendations 2 and 3.</p> <p>Position – November 2022 Being planned.</p> <p>Position – February 2023 This is now part of the Museum Project board to oversee.</p>	Associate Director of Environment		*	Mid-late 2024	

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Watford Museum 2022/23 Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	include the recommendations made in this report and progress should be monitored by Senior Managers on a monthly basis.		Position – July 2023 This is now part of the Museum Project board to oversee so consider this complete.				
06	<p>We recommend that advice is sought from the Council's insurers as to the frequency of review of valuations. Upon completion of any future revaluations, this should also support a review of the existing levels of insurance.</p> <p>Upon the above clarity being obtained, the required frequencies (or process for determining review periods) should be incorporated into the relevant policies and procedures.</p>	Low	<p>Follow recommendation and link to action against recommendation 2.</p> <p>Response from Zurich Commercial Insurance: Our Fine Arts team in Zurich Commercial usually work to a valuation every 3 years, however we would be comfortable with valuations every 5 years. That said I would always apply a flexible common-sense approach to the 5-year average guide. If for instance you know some items are subject to rapid increases in value then obviously, I would look to revalue every 3 years, whereas you may have some other items that don't move much at all in value and these items you could push out to say 7 years and everything else falls in between.</p> <p>Naturally the onus is on the council to prove the value of an item in the event of a loss, and this is always made harder after the event if the item is stolen or destroyed with no recent valuations to hand.</p> <p>Position – November 2022 Existing valuations being reviewed by staff and considering commissioning new valuations.</p> <p>Position – February 2023 Due to staff absence this has been on hold. Quotes for valuation to be obtained by 1st May 2023.</p> <p>Position – July 2023</p>	Curator	1 May 2023	*	1 Sept 2023

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Watford Museum 2022/23							
Final report issued October 2022							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Quotes received from Bonhams, clarification from insurance team confirmed and orders placed for valuation.				

Project Management 2022/23							
Final report issued February 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>All projects should either have a Project Brief or Project Initiation Document completed and retained to evidence a clear audit trail and compliance alongside the Project Management Framework.</p> <p>The Council may also want to consider introducing a checklist or audit review document to ensure all key information is completed and in place, as per the Project Management Framework.</p>	Low	<p>This recommendation is noted and accepted. It will be implemented over the next period.</p> <p>Position – July 2023 All projects have a Project Brief or Project Initiation Document, and a checklist is in place to track the documents which have been completed for each project.</p>	Associate Director of Customer and Corporate Services and Project Manager	1 April 2023	✓	

Financial Reconciliations 2022/23							
Final report issued April 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend that the reconciliation procedure notes detail the responsible owner as well as the next review date to ensure they remain up-to-date and relevant.	Low	<p>The process notes do name the author of the note; however, we will add a next review date and responsible person. We will introduce a front sheet on each reconciliation to provide all details recommended.</p> <p>Position – July 2023</p>	Chief Accountant	31 August 2023		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Financial Reconciliations 2022/23							
Final report issued April 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
			Process notes are in the process of being updated – on target for completion by deadline.				
02	We recommend that the Council ensures that month-end reconciliations are prepared and authorised in a timely manner. Any reasons for delays should either be documented within the tracker or on the reconciliation itself.	Low	Agreed we will add to the tracker commentary if signed late. Reminder to be sent that the completion deadline is for both Preparer and Authoriser. Position – July 2023 Guidance was issued to staff to provide commentary if signed late and reminding preparers and authorisers that the completion date applies to both.	Finance manager – systems shared services	6 April 2023	✓	

Cyber Security 2022/23							
Final report issued April 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	Management should review and assess the current cyber security training platform and put arrangements in place so that training completion can be recorded, reported and monitored on an ongoing basis. Arrangements should be put in place for ensuring that the cyber security training is completed by all members of staff, as required, which could include: <ul style="list-style-type: none"> Identifying specific staff members who are required to complete the training and working with their line managers 	Medium	We will review the current cyber security training platform. The current platform is used for all mandatory training for staff. We will review the viability of users not receiving their device until they have completed their cyber-related mandatory training. Position – July 2023 1.1 – A review of alternative training platforms has been conducted and a demo of the products has been provided by the vendors. 1.2 - Each product came at a cost and budget implications are being considered.	Associate Director of ICT and Shared Services	31 December 2023		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Cyber Security 2022/23							
Final report issued April 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	to ensure completion. <ul style="list-style-type: none"> Ensuring regular, top-down communication to increase awareness of the training. Requiring completion of the e-learning before issuing new devices to individuals or as part of performance and progression reviews.		1.3 - The management of training completion by staff is currently being carried out by HR and members of staff are being notified by email when they are due to complete each training module. 1.4 – Starters, Movers, Leaver’s process is currently being updated to ensure that joiners complete the Cyber Security Modules as part of the probation period as per HR Probationary Policy.				

Treasury 2022/23							
Final report issued April 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	1) The Councils should develop an ESG policy, which ensures that investments are made in consideration with the Councils climate change, environmental and governance policies. The policy should emphasise that the Council seeks to be a responsible investor and consider ESG risks as an important overlay to the investment process, thereby improving future sustainability of investments. Once incorporated, ESG risks should also be included in under the Risk Management section of the Treasury Management Practices document for consistency. 2) The policy should also explain that	Medium	An ESG Policy will be developed for both Councils during 2023/24 for approval alongside the 2024/25 Treasury Management Strategy Statements. Position – July 2023 Guidance has been provided by our Treasury Management providers and we are on target to include an ESG policy within the 2024/25 Treasury Management Strategy Statements.	Head of Finance	30 November 2023		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Treasury 2022/23 Final report issued April 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	the Councils will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. 3) The policy should outline the conditions where investments should not be made with certain organisations, which have material links to: <ul style="list-style-type: none"> • Human rights abuse (e.g., child labour, political oppression) • Environmentally harmful activities (e.g., pollutants, destruction of habitat, fossil fuels) • Socially harmful activities (e.g., tobacco, gambling). 						

Council Tax 2022/23 Final report issued May 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	TRDC should ensure that a review of debt outstanding is conducted and decisions taken regarding whether or not to proceed for write-offs. Subsequently, write-offs should be conducted at regular intervals going forward.	Medium	A review of all outstanding debt will be completed during 2023/24. All outstanding write-offs have been cleared since this report was written and on-going write-offs will be reviewed once a quarter. Agreed. Our quality team will get a version control sheet added.	Revenues Manager/Data Performance Manager	31 March 2024		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Council Tax 2022/23 Final report issued May 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	The 'How and Why to put a write off code on a Council Tax Account' procedure should include version control to ensure that it is reviewed periodically.		<p>Position – July 2023 The review of all debt is underway, and this will include looking at debts suitable for write-off.</p> <p>The write-offs for Q1 are being prepared.</p> <p>Version control has been added to all procedures.</p>				
02	<p>Staff should be reminded of their responsibility to record accurate details on the system to ensure that Council Tax is accurately charged and collected.</p> <p>The Council should liaise with the tenant who was offered discount incorrectly from April 2022 instead of August 2022 to recover the financial loss incurred by the Council.</p>	Medium	<p>Agreed. Regular reminders for the need to be accurate are given at all team meetings and officers are given their individual accuracy rates and which are discussed at 121's. Quality control checks are performed on a sample of each day's work.</p> <p>Position – July 2023 Complete</p>	Revenues Manager/Data Performance Manager	Complete	✓	
03	The Council should complete the working papers and retain them on the shared drive to evidence that the reconciliations have been completed. The working papers should include the name of the officer completing the reconciliation along with the date of completion for accountability purposes. Any variations should also be noted, alongside the results of the reconciliation exercise.	Low	<p>Agreed</p> <p>Position – July 2023 Resolved</p>	Revenues Manager	30 May 2023	✓	
04	The Council should document the processes relating to backdated discounts and exemptions to ensure that consistent actions are undertaken	Low	<p>Agreed.</p> <p>Position – July 2023 The document for backdating an SPD has</p>	Revenues Manager/Data Performance Manager	30 June 2023	*	30 Sept 2023

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Council Tax 2022/23							
Final report issued May 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	by staff and these refunds are appropriately reviewed and approved prior to payment.		been documented. We will incorporate the approach for all the other types of discount and exemptions so that it the guidance is held in once process.				

NDR 2022/23							
Final report issued May 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	<p>We recommend that:</p> <ul style="list-style-type: none"> • Actions are taken to address the issue preventing the production of the monthly 'default arrangement list' and (subject to the issue being successfully resolved), arrangements are put in place for Senior Officers to check that these are being actioned appropriately. • As an interim measure, Revenues Officers should be reminded to diarise arrangements to enable checks to be conducted to confirm arrangements are being complied with. 	Medium	<p>The default arrangements list is working and being run. During 2022/23 much of the BAU recovery work slipped due to the service having to process energy and business grants (CARF). During 2023/24 all recovery work will be reviewed, and this will include a review of arrangements that have defaulted.</p> <p>Position – July 2023 Review is currently underway.</p>	Revenues Manager	31 March 2024		
02	<p>We recommend that:</p> <ul style="list-style-type: none"> • Seven-day lists are produced and actioned at regular interval (e.g. monthly). • Arrangements are put in place for 	Medium	<p>The 7 day list is working and being run. During 2022/23 much of the BAU recovery work slipped due to the service having to process energy and business grants (CARF). During 2023/24 all recovery work will be reviewed, and this will include a review of arrangements that have defaulted.</p>	Revenues Manager	31 March 2024		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

NDR 2022/23							
Final report issued May 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✘ or ✔	Revised Deadline
	Senior Officers to check that these are being actioned appropriately.		Position – July 2023 Review is currently underway.				
03	We recommend that write-offs are conducted at regular intervals going forward (e.g. monthly).	Medium	During 2022/23 much of the BAU recovery work slipped due to the service having to process energy and business grants (CARF). All write-offs have now been processed and are up-to-date and will be done going forward at least quarterly. Position – July 2023 Complete	Revenues Manager	Complete	✔	
04	We recommend that: <ul style="list-style-type: none"> • Write-offs are approved in accordance with the scheme of delegated authority for the Council's. • Write-offs for consideration / approval by Committee are timetabled on an on-going basis through the year. Monthly write-off schedules (excel spreadsheets) for the corresponding Write-off Form, should be provided to the S151 to enable independent checks to be performed on transaction details (i.e. values and reasons).	Medium	The S151 is sent the write-off spreadsheet. The number of write-offs needing committee approval are very few given the S151 delegated powers. Going forward any write-offs that are outside of the S151 delegated powers will be taken to committee once a year. Position – July 2023 Complete	Revenues Manager	Complete	✔	

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Contract Management 2022/23							
Final report issued May 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	Contract managers should ensure that all contract meetings are minuted to show discussions against each agenda item, including any actions and their associate owners, which should be reviewed at the following meeting to evidence progress against achieving the noted actions.	Low	Accept the recommendation. Position – July 2023 Meetings now minuted.	HR Business Partner	31 May 2023	✓	

Tree Management 2022/23							
Final report issued June 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
01	We recommend the 10% check of tree works that have been completed by Veolia are formally recorded on a written report or on Ezytreev. This is to ensure Veolia can provide suitable assurance the correct works have been completed and the same trees are not included in the next round of checks.	Medium	Tree Manager to find out whether Ezytreev has the functionality to record checks and if not will create a separate template to record these. Position – July 2023 In progress with Tree Manager.	Tree Manager, Veolia	31 July 2023		
02	We recommend Veolia maintain regular contact with the subcontractor to ensure key information on tree planting is received and in a timely manner.	Medium	Veolia now has a new Tree Manager in place who is in close contact with Gristwood & Toms. Clear instruction has been given that weekly planting updates will be required next season and monthly watering updates will be required throughout the year as well as reporting of any maintenance issues observed during visits. The Tree Manager will keep records of all meetings and discussions held with the subcontractor, monitor planting progress on	Tree Manager, Veolia	30 June 2023	✓	

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Tree Management 2022/23							
Final report issued June 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved ✗ or ✓	Revised Deadline
			site and plot newly planted trees on Ezytreev for future management. Position – July 2023 Tree planting for the winter 2022/23 season is now complete and these have all been plotted on the Ezytreev system. Gristwood & Toms are providing monthly watering updates and reporting any issues.				
03	We recommend for resilience purposes; back-up resource is trained in tree management activities to provide cover in the event of capacity gaps.	Low	Veolia are currently recruiting for a new apprentice which will hopefully be in post later this year. Existing Veolia staff are able to provide cover during short absences of a Tree Manager including John Priestley, Horticultural Development Manager and Nick Graham, Contract Manager Parks, Open Spaces and Street Cleansing, who both have good arboricultural knowledge. External resources will be utilised if required, such as through Maydencroft who have recently provided cover during recruitment of a Tree Manager and are still assisting with Planning matters and handover to the new Tree Manager. Position – July 2023 Apprentice position is currently being advertised and applications are being received. Maydencroft are due to continue providing support with Planning matters until the end of August 2023 to ensure a smooth handover.	Tree Manager, Veolia	Apprentice September 2023 External resources as required		
04	We recommend the Council undertakes system training to enhance monitoring activities. This is to ensure the Council can provide their own independent assurance that inspections and works have been	Low	Training on the Ezytreev system will be arranged for relevant Watford Borough Council officers in order to carry out enhanced monitoring. Position – July 2023	Contract Manager (Parks and Streets), Watford Borough Council	31 July 2023		

APPENDIX C – PROGRESS AGAINST OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS AT JULY 2023

Tree Management 2022/23							
Final report issued June 2023							
Ref No.	Recommendation	Priority	Action to Date	Responsibility	Deadline	Resolved * or ✓	Revised Deadline
	completed and logged in a timely manner.		Training has been requested, awaiting a date.				
05	We conducted sample testing of six trees to ascertain when they were last inspected, what the inspection results were, whether the tree required remedial works and if required, what actions were taken. We found remedial work for one tree was not completed as the tree was outside of the ward that was part of the survey, and the Tree Manager had also not been in post.	Low	<p>Tree Manager to run a report for all outstanding works in order to review progress and programme in if required.</p> <p>This will include a report for each ward to review the 3 yearly survey recommended works that are required to be carried out within 3, 6 or 12 months. A report will also be produced and reviewed for any ad hoc works that fall outside of these surveys.</p> <p>Position – July 2023 In progress with Tree Manager.</p>	Tree Manager, Veolia	31 July 2023		

APPENDIX D – ASSURANCE AND PRIORITY LEVEL DEFINITIONS

Audit Opinions		
Assurance Level	Definition	
Assurance Reviews		
Substantial	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	
Not Assessed	This opinion is used in relation to consultancy or embedded assurance activities, where the nature of the work is to provide support and advice to management and is not of a sufficient depth to provide an opinion on the adequacy of governance or internal control arrangements. Recommendations will however be made where required to support system or process improvements.	
Grant / Funding Certification Reviews		
Unqualified	No material matters have been identified in relation the eligibility, accounting and expenditure associated with the funding received that would cause SIAS to believe that the related funding conditions have not been met.	
Qualified	Except for the matters identified within the audit report, the eligibility, accounting and expenditure associated with the funding received meets the requirements of the funding conditions.	
Disclaimer Opinion	Based on the limitations indicated within the report, SIAS are unable to provide an opinion in relation to the Council's compliance with the eligibility, accounting and expenditure requirements contained within the funding conditions.	
Adverse Opinion	Based on the significance of the matters included within the report, the Council have not complied with the funding conditions associated with the funding received.	
Recommendation Priority Levels		
Priority Level	Definition	
Corporate	Critical	Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
	High	Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
Service	Medium	Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low	Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

Part A

Report to: **Audit Committee**

Date of meeting: **Wednesday, 26 July 2023**

Report author: **Fraud Manager**

Title: **Fraud Annual Report 2023**

1.0 Summary

1.1 This report informs Members of the work of the Fraud Section for the financial year 2022 to date and provides updates on progress and developments.

2.0 Risks

2.1

Nature of risk	Consequence	Suggested Control Measures	Response (treat, tolerate, terminate or transfer)	Risk Rating (combination of severity and likelihood)
Failure to note report or understand the emerging risks	A knowledge gap and lack of scrutiny could leave to a poor understanding of risks that could affect decision making.	Fraud Manager to attend committee to present report and answer questions arising.	Treat	4

3.0 Recommendations

3.1 To note the contents of this report.

Further information:

Garry Turner
garry.turner@watford.gov.uk

Report approved by: Hannah Doney

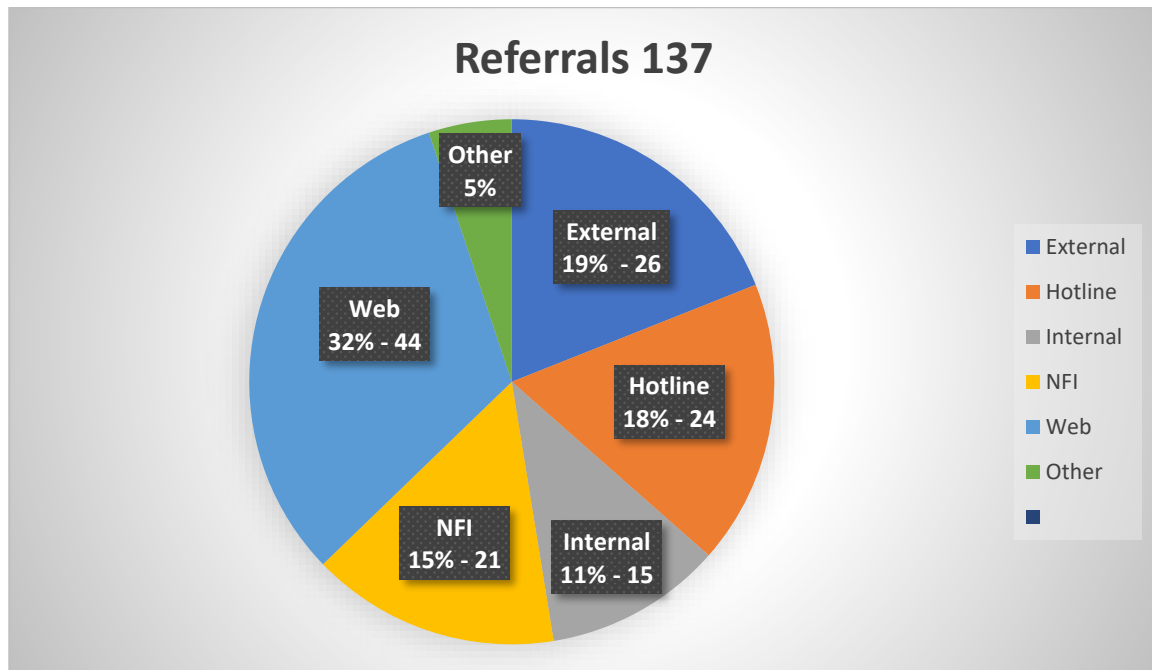
4.0 Detailed proposal

- 4.1 This report informs members of the work of the Fraud Section for the financial year 2022 to date and provides updates on progress and developments.
- 4.2 **Details.**
- 4.3 The Fraud Section is part of the Shared Finance Service between Watford and Three Rivers councils. The details below apply to both councils unless otherwise stated.
- 4.4 The councils have a zero tolerance of fraud and corruption.
- 4.5 Minimising fraud and irregularity is essential to ensure resources intended to provide services are maintained. Fraud is a crime that affects everyone. According to the latest Cross Government Landscape Report fraud and error is estimated to cost the public sector £34bn annually.
- 4.6 The harm caused by fraud is not just financial: it damages local communities, can cause reputational damage and a loss of confidence amongst the public, stakeholders and have an adverse effect on staff morale.
- 4.7 It is vital therefore that we have a strong anti-fraud culture underpinned with effective counter-fraud policies and good practices and procedures.
- 4.8 Fraud does not fit neatly within geographical boundaries of the council. Therefore the fraud team have an important role in collaborative working involving the exchange of information and intelligence between the council and other agencies on national and local fraud and corruption activity. This may also include responding to requests for information, providing the necessary evidence and witness statements to prevent and detect crime.
- 4.9 In 2022-23 the Anti-Fraud & Corruption Strategy, the mechanism for achieving a commitment to reduce losses to fraud and corruption, was revised and approved. In addition the council approved a new Sanctions Policy and Anti Bribery Policy. The Sanctions Policy sets out the Councils policy towards sanctions, including criminal prosecutions, relating to offences committed by both internal (e.g. employees, members, contactors, etc.) and external offenders. The Anti Bribery Policy, provides a framework to enable employees and Members to understand and implement arrangements enabling compliance.
- 4.10 The councils Regulation of Investigatory Powers Act 2000 (RIPA) policy was also revised to reflect and align with the new codes of practice.
- 4.11 Joint working with the DWP(Department for Work and Pensions) still remains limited despite a desire from the council and 47 referrals for joint investigation being made to them from the council. Discussions with them at a senior leadership

level have now commenced with a commitment from the DWP to review their resources at an operational level in Herts and Beds.

4.12 During 2022/23 we responded to 32 requests for intelligence. This involves sharing information legally for the correct purpose and includes providing witness testimony.

4.13 Details of referrals received are shown in the table below;



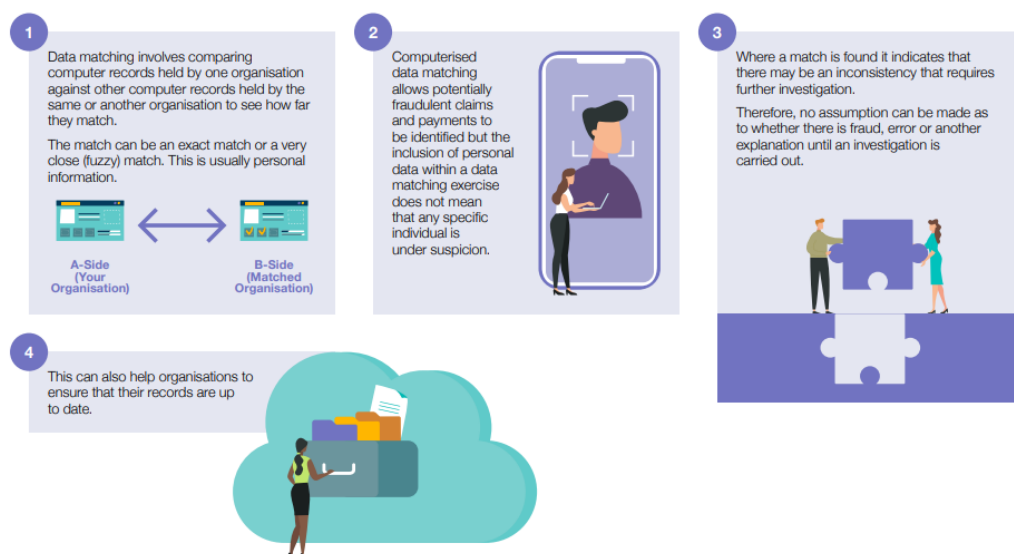
4.14 We responded to 94 requests for information known as a LAIEF (Local Authority Information Exchange Form) from the DWP. The lawful requests for intelligence and information vary from evidencing documentation held to providing overpayment adjustments and respective supporting witness testimony.

4.15 In respect of Council Tax Reduction, a local legal framework is in place to define who is entitled to the reduction and to reduce fraud from entering the system at inception. It is an integral part of the administration that everyone is aware and vigilant of the risks. Unfortunately, however good the administration of benefits is, it is always likely fraud will enter the system by deliberate acts.

4.16 A total of 82 cases were completed with savings identified through repayment of overpayments of circa £58,000. Of these cases 6 received a sanction.

4.17 Data Matching

What is data matching?

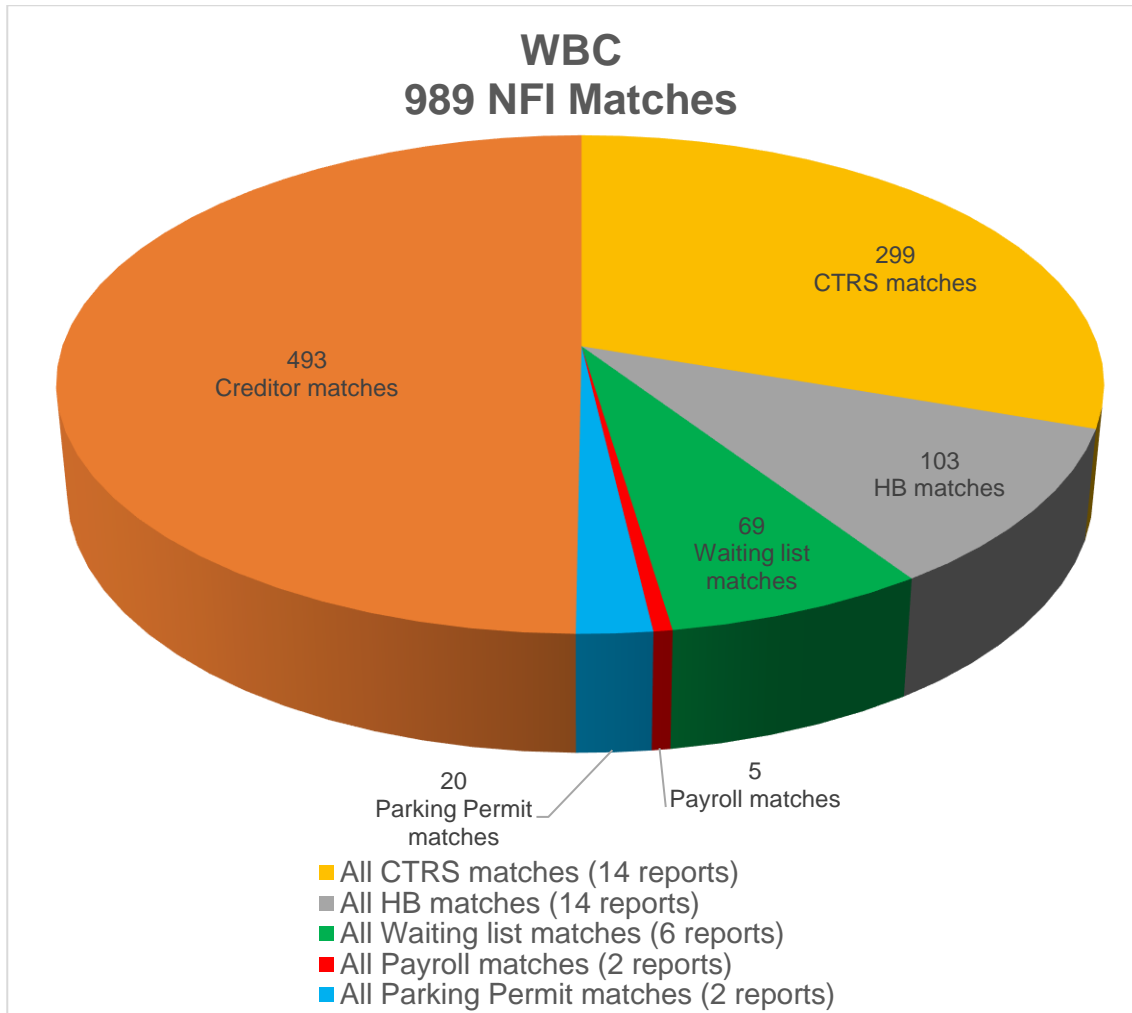


4.18 The service continues to take part in data-matching exercises. These include the National Fraud Initiative (NFI) which is facilitated by the Cabinet Office. It is an exercise that brings together a wide range of organisations, working together to tackle fraud using techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. Participants of the NFI include 1200 organisations that comprise of other local authorities, police authorities, NHS bodies etc. These matches are not just confined to fraud but also include erroneous payments in respect of creditors and payroll. Examples of some matches are shown below;

Data Match	Possible fraud/ error
Council Tax payments to payroll records, student loans, taxi drivers	Claiming discounts or reductions by failing to disclose an income
Payroll records to records of failed asylum seekers and records of expired visas	Obtaining employment while not entitled to work in the UK
Council Tax records to electoral register	A council tax payer gets single person's discount and has not declared other persons living in the property
Payroll records to other payroll records	An employee is working for the council but has employment elsewhere that is not declared.
Immigration matches	To identify instances where the person may not be entitled to benefit because of their immigration status.
Housing waiting lists	To identify possible cases where an individual appears to be resident at two different addresses. For example where an address differs

	from the one they have declared on their waiting list application
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4.19 Details of the specific type of matches are shown below. These matches are currently being reviewed and only those suitable for investigation will proceed.



5.0 Implications

5.1 Financial

5.1.1 The Shared Director of Finance comments that there are no financial implications in this report as expenditure is contained within existing budgets.

5.2 Legal Issues (Monitoring Officer)

5.2.1 The Group Head of Democracy and Governance comments that there are no specific legal issues contained in this report.

5.3 Equalities, Human Rights and Data Protection

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

5.4 **Staffing**

5.4.1 No implications.

5.5 **Accommodation**

5.5.1 No implications.

5.6 **Community Safety/Crime and Disorder**

5.6.1 No implications.

5.7 **Sustainability**

5.7.1 No implications.

Background papers

- No papers were used in the preparation of this report.

Part A

Report to: **Audit Committee**

Date of meeting: **Wednesday, 26 July 2023**

Report author: **Head of Finance**

Title: **Treasury Management Annual Report 2022/23**

1.0 **Summary**

1.1 **Purpose of the report**

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.1.2 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Council January 2022)
- A mid-year year review (November Audit Committee)
- An annual review following the end of the year describing activity compared to the strategy, (this report)

1.1.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the year end position for treasury activities and highlights compliance with the Council's policies previously approved by members.

1.1.4 This Council confirms that it has complied with the requirement under the Code to give scrutiny to all of the above treasury management reports by the Audit Committee. Following scrutiny by the Audit Committee, the report will be presented to Full Council in October.

1.2 **Key Prudential and Treasury Indicators**

1.2.1 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the

impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.3.22 Actual £m	2022/23 Original Budget £m	31.3.23 Actual £m
Capital Financing Requirement in relation to Capital expenditure	81.632	162.423	85.033
Capital Financing Requirement in relation to Finance Lease Liability	228.994	225.046	225.046
Total Capital Financing Requirement	310.626	387.469	310.079
Gross borrowing	281.942	334.626	308.994
External debt	49.000		80.000
Investments	144.773		110.454
Net borrowing / (Investments)	(95.773)		(30.454)

2.0 Risks

2.1 The Code of Practice on Treasury Management identifies eight key risks that are inherent in Treasury Management activity. The Council's Treasury Management Policy sets out the risks that it is seeking to manage:

1.	Liquidity Risk	That the Council may not have the cash it needs on a day to day basis to pay its bills.	This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.
2.	Interest Rate Risk	That the costs and benefits expected do not materialise due to changes in interest rates.	This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).
3.	Exchange Rate Risk	That losses or gains are made due to fluctuations in the prices of currency.	The Council does not engage in any significant non-sterling transactions.

4.	Credit and Counterparty Risk	That the entity holding Council funds is unable to repay them when due.	This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.
5.	Refinancing Risk	That the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher.	The timing of loan maturities is monitored along with interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.
6.	Legal and Regulatory Risk	That the Council operates outside its legal powers.	This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.
7.	Fraud, Error and Corruption	The risk that losses will be caused by impropriety or incompetence.	This risk is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds
8.	Market Risk	That the price of investments held fluctuates, principally in secondary markets.	The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure. The Council's investment in Royal London Asset Management, relating to the Croxley Park reserve, is held for the long term which enables the Council to reduce the risk of needing to divest when prices fall.

3.0 **Recommendations**

3.1 That the Committee notes the Treasury Management Annual Report.

Further information:

Robert Thurlow

Robert.Thurlow@threerivers.gov.uk

Report approved by:

Hannah Doney, Head of Finance

4.0 **Detailed proposal**

4.1 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”.

4.2 The Council’s 2022/23 Treasury Management Policy, as approved by Council on 25 January 2022, has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.

4.3 This report provides the Committee with an overview of Treasury Management performance for 2022/23 including the actual prudential and treasury indicators as prescribed by the Prudential Code for Capital Finance (revised 2021) and the Treasury Management Code of Practice (revised 2021).

4.4 The Council has appointed treasury advisors to assist with our treasury management, Link Treasury Services Ltd, part of Link Group.

4.5 The economic environment has a significant impact on treasury management activity and performance. Information on interest rates for investments and borrowing is contained in the main body of the report. In addition, a commentary on wider economic performance during 2022/23 has been provided by Link Group and is at Appendix 1 to this report.

4.6 **The Council’s Capital Expenditure and Financing**

4.6.1 The Council’s capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

4.6.2 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council’s borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

4.6.3 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2021/22 Actual £m	2022/23 Original Budget £m	2022/23 Actual £m
Capital Expenditure	30.532	79.210	33.356
Financed in Year	(4.504)	(14.828)	(10.775)
Unfinanced Capital Expenditure	26.028	64.382	22.581

4.7 The Council’s Overall Borrowing Need

4.7.1 The Council’s underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council’s indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years’ net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.7.2 Part of the Council’s treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council’s cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLb], or the money markets), or utilising temporary cash resources within the Council.

4.7.3 The Council’s underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet

capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.7.4 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

4.7.5 The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 25 January 2022.

4.7.6 The Council's CFR for the year is shown below and represents a key prudential indicator. The CFR must include finance leases on the balance sheet, which increase the Council's borrowing need. No external borrowing is required against these schemes as a borrowing facility is included within the contract. The Council's investment in Croxley Business Park is a finance lease.

Capital Financing Requirement	2021/22	2022/23	2022/23
	Actual	Original Budget	Actual
	£m	£m	£m
Opening CFR relating to Capital programme	56.434	98.970	81.632
Add unfinanced Capital Expenditure (as above)	26.028	65.632	22.581
Less MRP	(0.830)	(0.179)	(1.243)
Less repayment of capital loans	0.000	(2.000)	(17.937)
Closing CFR relating to Capital programme	81.632	162.423	85.033
Opening CFR relating to Finance Lease	232.942	228.994	228.994
MRP on Finance Lease	(3.948)	(3.948)	(3.948)
Closing CFR relating to Finance Lease	228.994	225.046	225.046
Total Opening CFR	289.376	327.964	310.626
Total Closing CFR	310.626	387.469	310.079
Movement in the CFR	21.250	59.505	(0.547)

Note 1: The CFR may be subject to revision following the completion of the 2020/21 and 2021/22 audits.

Note 2: The CFR in relation to Croxley Park is not equal to the finance lease liability held on the Council's balance sheet as the Council has opted to charge MRP over the useful economic life of the asset (60 years) rather than the length of the lease (40 years).

4.8 Limits to Borrowing Activity

4.8.1 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

4.8.2 in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council’s gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2021/22 Actual £m	2022/23 Original Budget £m	2022/23 Actual £m
Gross borrowing position	277.994	334.626	305.046
CFR	310.626	387.469	310.079
Under funding of CFR (internal borrowing)	32.632	52.843	5.033

4.8.3 The **authorised limit** is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

4.8.4 The **operational boundary** is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.8.5 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

2022/23	Capital Investment	Finance Lease	Total
Authorised limit	£170.000m	£231.000m	£401.000m
Maximum gross borrowing position during the year	£80.000m	£228.994m	£308.994m
Operational boundary	£165.000m	£226.000m	£391.000m
Average gross borrowing position	£62.081m	£227.020m	£289.101m
Financing costs as a proportion of net revenue stream (net income)	-4.66%	-12.53%	-17.20%

4.8.6 External borrowing is well below the operational boundary for external debt predominantly due to re-phasing of the capital programme during the year. The difference between the CFR and external borrowing is met by internal borrowing. This is the use of cash balances (arising from working capital, earmarked reserves and general balances) to finance the expenditure on a short term basis.

4.9 Treasury Position as at 31 March 2023

4.9.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's treasury position (excluding borrowing by finance leases and non treasury investments) was as follows:

Debt Portfolio	31.3.22 Principal	Rate/ Return	Average Life years	31.3.23 Principal	Rate/ Return	Average Life years
Fixed rate financing:						
PWLB	-	-	-	£15.000m	4.02%	0.45
Local Authorities	£49.000m	0.38%	0.65	£65.000m	2.26%	3.76
Total debt	£49.000m	0.38%	0.65	£80.000m	2.59%	1.23
CFR	£81.632m			£85.033m		
Over / (under) borrowing	£32.632m			£5.033m		
Total investments	£144.773m			£110.454m		
Net debt / (Investments)	(£95.773m)			(£30.454m)		

The maturity structure of the debt portfolio was as follows:

	31.3.22 Actual £m	2022/23 original upper limits %	31.3.23 Actual £m	31.3.23 Actual %
Under 12 months	44.000	100.0%	65.000	81.2%
12 months and within 24 months	5.000	100.0%	-	0.0%
24 months and within 5 years	-	100.0%	7.500	9.4%
5 years and within 10 years	-	50.0%	7.500	9.4%

Investment Portfolio	31.3.22	31.3.22	31.3.23	31.3.23
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	Actual £m	Actual %	Actual £m	Actual %
Treasury investments				
Banks	6.048	4.18%	3.934	3.56%
Local and Police authorities	0.000	0.00%	9.000	8.15%
DMADF (H M Treasury)	40.500	27.97%	13.500	12.22%
Total managed in house	46.548	32.15%	26.434	23.93%
Short Term Fixed Income	2.996	2.07%	7.612	6.89%
Diversified Fund	90.115	62.25%	30.758	27.85%
Managed Growth	5.114	3.53%	45.650	41.33%
Total managed externally	98.225	67.85%	84.020	76.07%
Total Treasury Investments	144.773	100.00%	110.454	100.00%
Non-Treasury investments				
Loans to Joint Ventures	33.952	93.40%	27.079	91.91%
Other Long Term Loans	2.375	6.50%	2.362	8.02%
Municipal Bonds Agency	0.020	0.10%	0.020	0.07%
Total Non-Treasury Investments	36.347	100.00%	29.461	100.00%
Treasury investments	144.773	79.93%	110.454	78.94%
Non-Treasury investments	26.097	20.07%	29.461	21.06%
Total of All Investments	170.870	100.00%	139.915	100.00%

The maturity structure of the treasury investment portfolio was as follows:

	31.3.22 Actual £m	2022/23 Maximum £m	31.3.23 Actual £m
Longer than 1 year	95.229	125.000	76.408
Up to 1 year	49.544	n/a	34.046
Total	144.773		110.454

Note: The Diversified Fund and Managed Growth Fund are treated as short term investments for accounting purposes but regarded as long term investments for treasury management purposes as these investments are intended to be held over a period in excess of one year.

- 4.9.2 The Council also has commercial investments in property which are governed by the Investment Guidance issued by the Department for Levelling Up, Housing and Communities. The performance of the Property Investment Portfolio is overseen by the Property Investment Board and is monitored by the Council's Finance Scrutiny Committee. As such, it is not included in this report.

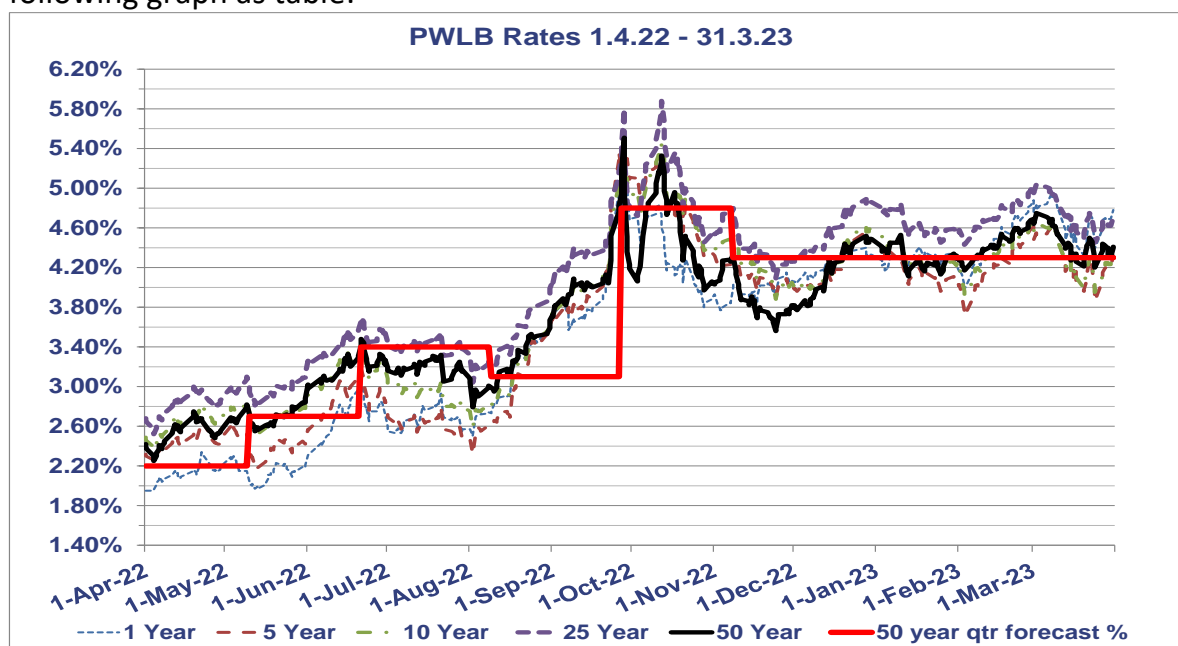
4.10 The Strategy for 2022/23 – Borrowing

4.10.1 When the Capital Strategy and Treasury Management Policy was set in January 2022, interest rate forecasts indicated gradual increases in short, medium and longer-term fixed borrowing rates during 2022/23 with considerable savings to be made by borrowing at the short end of the market.

4.10.2 The forecast provided by Link Group in December 2021 is shown in the following table:

Link Group Interest Rate View 20.12.21		Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE		0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings		0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings		0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings		0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB		1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB		1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB		1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB		1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

4.10.3 This contrasts sharply with actual PWLB rates during the year as shown in the following graph as table:



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

- 4.10.4 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.
- 4.10.5 A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<3 years) as appropriate.
- 4.10.6 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when it may not be possible to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 4.10.7 Against this background and the risks within the economic forecast, the Council undertook longer term borrowing from the PWLB during the year to reduce the exposure to future interest rate and refinancing risk.

4.11 Borrowing Activity

- 4.11.1 During the year loans were drawn to fund the net unfinanced capital expenditure (£31.000m) and naturally maturing debt (£39.000m). The loans drawn were:

Lender	Principal	Type	Weighted Average Interest Rate	Weighted Average Maturity
PWLB	£15.000m	Fixed interest rate	4.02%	3.76 years
Local Authorities	£55.000m	Fixed interest rate	2.63%	0.44 years

- 4.11.2 The Council's total debt at 31 March 2023 was £80.000m. The Weighted Average Maturity (WAM) of the total debt portfolio is 447 days (237 days at 31 March 2022).

- 4.11.3 The weighted average interest rate payable on loans outstanding at 31 March 2023 was 2.59% compared to 0.40% on loans maturing in year. This reflects both the changing interest rate environment and the increase in WAM.
- 4.11.4 Total interest payable for the year was £0.806m. The latest budget for 2022/23 set by Council in January 2023 included an increase of £0.150m for expected pressures on borrowing costs. Higher than expected cash balances led to a delay in the timing of refinancing borrowing and increased interest receivable over the last three months of the year leading to a net underspend of £0.211m against the revised budget.
- 4.11.5 The Council has not borrowed more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

4.12 The Strategy for 2022/23 – Investments

- 4.12.1 In accordance with the CIPFA Prudential Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 4.12.2 During the year, investment returns increased as central banks attempted to address persistent high inflation with tighter monetary policy, recognising that the inflationary increases seen at the end of 2021/22 were not transitory and had not peaked. The Bank of England base rate was 0.75% on 1 April and moved up in stepped increases of either 0.25% or 0.5% throughout 2022/23, reaching 4.25% by the end of the financial year.
- 4.12.3 This has led to a rebalancing of the investment landscape with short term cash deposits and other Specified Investments (investments of less than a year in duration) becoming an attractive asset class when compared to bonds, equity, and property.
- 4.12.4 This has placed greater emphasis on proactive cashflow management and forecasting, as, for the first time in over a decade, cash balances (even relatively low values held for daily liquidity) are able to generate a significant contribution to the revenue budget through interest received.

4.13 Investment Activity

- 4.13.1 The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 25 January 2022.
- 4.13.2 This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies,

supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

4.13.3 Credit rating information is supplied by our treasury consultants, Link Group, on all counterparties that comply with the Council’s criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

4.13.4 There were no changes to the Council’s counter party list during the year.

4.13.5 The policy also set out the following liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft of £nil.
- Liquid short term deposits of at least £1.000m available with a week’s notice.

4.13.6 The liquidity arrangements were adequate during the year.

4.13.7 The investment activity during the year conformed to the approved strategy with one exception:

- A technical breach of the approved counterparty limit with the Council’s own bank, Lloyds Bank Plc for a period of one night in December following the repayment of a loan from Hart Homes (Watford) Development LLP after the daily dealing had been completed. Officers were not notified by Watford Community Housing that the monies would be repaid until after the transaction had been processed.

4.13.8 The Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31.3.22 £m	31.3.23 £m
General Balances	2.000	2.000
Earmarked reserves	36.660	31.129
Provisions	10.058	16.854
Usable capital receipts	0.642	9.593
Total	49.360	59.576

Note: Values are taken from the unaudited 2022/23 draft Statement of Accounts and maybe subject to change following the conclusion of the external audit.

4.13.9 Investments held by the Council:

- The Council maintained an average balance of £21.468m of internally managed funds.

- The internally managed funds earned an average rate of return of 2.52%.
- The comparable performance indicator is the average 7 day Sterling Overnight Index Average (SONIA) rate, which was 2.23%.
- Total investment income from internally managed funds was £0.509m.
- Interest on loans to the Council's joint ventures was £1.678m

4.13.10 The Council keeps all internally managed treasury investments short term. There are no sums invested for greater than 364 days.

4.13.11 Investments held by fund managers:

The Council uses three funds managed by Royal London Asset Management (RLAM) to invest its cash balances in relation to the Croxley Business Park Reserves. The performance of the managers against the benchmark return was:

Fund	Investments Held at 31 March 2023	Annualised Return*	Annualised Benchmark
Short Term Fixed Income	£7.612m	2.13%	2.26%
Sustainable Diversified (Equity)	£30.758m	-6.07%	-5.07%
Sustainable Managed Growth (Fixed Income)	£45.650m	-8.38%	5.97%
Total	£84.020m	-6.60%	-4.90%

*Annualised return is shown net of fees

4.13.12 These investments are held with a long-term view and performance is assessed over medium term horizon of three to five years.

5.0 Implications

5.1 Financial

5.1.1 The Shared Director of Finance comments that this report provides formal assurance on the Council's compliance with its Treasury Management Strategy during the year. The Shared Director of Finance also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached. The financial implications are set out in the main body of the report and the impact of interest rates on investment income and borrowing costs have been reported through the financial monitoring report during the year.

5.2 **Legal Issues** (Monitoring Officer)

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

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

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

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

Having had regard to the council's obligations under s149, it is considered that there are no equalities or human rights implications.

5.4 **Staffing**

5.4.1 There are no staffing implications arising from this report.

5.5 **Accommodation**

5.5.1 There are no accommodation implications arising from this report.

5.6 **Community Safety/Crime and Disorder**

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

5.7 **Sustainability**

5.7.1 There are no sustainability implications arising from this report.

Appendices

Appendix 1 – Economic Commentary (provided by Link Group)

Appendix 2 - Commentary on Gilt Yields and PWLB Borrowing Rates (Provided by Link Group)

Background papers

The following background papers were used in the preparation of this report. If you wish to inspect or take copies of the background papers, please contact the officer named on the front page of the report.

- Capital Strategy and Treasury Management Strategy 2022/23 (published as part of the 2022/23 Budget)

Economic Commentary (Provided by Link Group)

The Economy and Interest Rates

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi

Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the “heavy lifting” has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.23. Notwithstanding the £’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That’s despite UK banks having been less exposed and equity prices in the UK’s financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

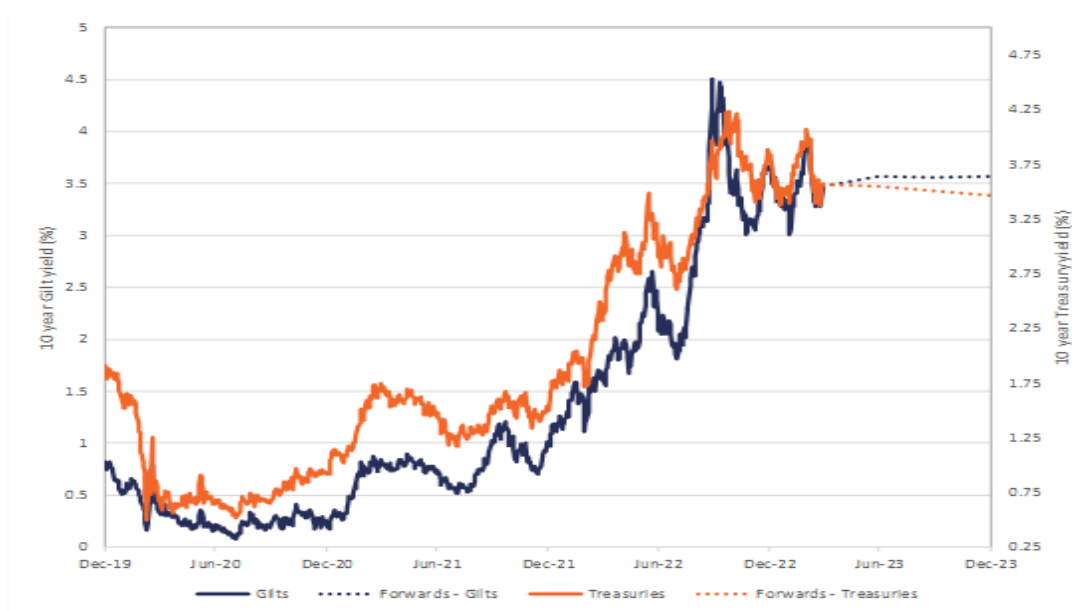
As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

Commentary on Gilt Yields and PWLB Borrowing Rates (Provided by Link Group)

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.



Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

Watford Borough Council Draft Audit results report

**Year ended 31 March 2021
18 July 2023**

18 July 2023



Watford Borough Council
Town Hall
Watford
WD17 3EX

Dear Audit Committee Members

2020-21 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 26 July 2023 on further progress to that date and explain the remaining steps to the issue of our final opinion.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 26 July 2023.

Yours faithfully

Maria Grindley

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit Committee and management of Watford Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Watford Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Watford Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive summary

Executive summary

Scope update

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.7m, with performance materiality, at 50% of overall materiality, of £0.9m, and a threshold for reporting misstatements of £87k. These materiality thresholds have been determined based on the operating expenditure in the first draft of the 20-21 financial statements. Due to a delay in the completion of the prior year 2019-20 audit, the first draft of the 20-21 financial statements have not yet incorporated the prior year audit adjustments. We will consider whether any changes are required to our materiality and risk assessment based on the revised draft financial statements which will include the prior year adjustments. We are expecting to receive the revised draft financial statements on 19 July 2023.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus)(Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The impact of the Covid-19 pandemic increased the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous risk assessed consultation process for all auditor reports to ensure that they include the appropriate narrative.

Status of the audit

Our audit work in respect of the Council opinion is well progressed.

We have completed the majority of our testing based on the first draft of the 20-21 draft financial statements. Due to timing of publication the first draft of the 20-21 financial statements do not include the audit adjustments put through in the prior year 19-20 accounts. We are expecting a revised 20/21 draft financial statements that reflect the prior year 19/20 adjustments to be prepared by management on 19 July 2023. We are required to update our materiality, risk assessment, and also procedures based on the revised draft financial statements.

There have been delays in getting the required information to us mainly due to management's capacity as some individuals are working on risk and complex areas. Whilst we recognise that there are good reasons for this we will include this in our post-audit wash up discussion with officers to ensure we can have a smoother audit process in the coming year.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.



Executive summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit - Value for Money

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements.



Executive summary

Audit differences

We identified an uncorrected misstatement greater than our reporting threshold of £866k. This relates to the decrease in investment in Watford Health Campus amounting to £1,749k. We will update the audit differences based on the revised 20/21 draft financial statements as we complete the outstanding work.

There have been a number of presentational and disclosure amendments which we have identified and to be corrected by management.

See Section 4 of this report for further details of the mis-statements.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council, subject to final review. As at writing, we have no issues to report.

Our work on procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission is subject for review. As at writing, we have no issues to report. We will update our work on the WGA after we receive the revised draft financial statements on 19 July 2023.

Executive summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Watford Borough Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report and summarised below.

Audit findings and status: Fraud/Significant risk: Incorrect Accounting for Manual Accruals - Risk of fraud in expenditure recognition

- ▶ To date we have identified no evidence of incorrect accounting for manual accruals. Our work on journal entry testing and accounting estimates are still on-going at the date of writing this report.
- ▶ Our work on manual accruals testing is substantially complete with one outstanding evidence from management and subject to review. We have identified a reclassification error between short-term to long-term liabilities amounting to £180k.

Audit findings and status: Fraud risk: Misstatements due to fraud or error

- ▶ We have not identified any issues to date, but work is ongoing at the time of writing this report.

Audit findings and status: Fraud/Significant risk: Incorrect accounting for income from investment and leasehold properties - risk of fraud in revenue and expenditure recognition

- ▶ This work is complete and subject to review. As at the date of this report we have found no instances of incorrect accounting for income from investment and leasehold properties.

Audit findings and status: Fraud risk: Inappropriate capitalisation of revenue expenditure

- ▶ We are waiting for evidences and adjustments between PPE and REFCUS to complete our testing.

Audit findings and status: Significant risk: Valuation of Other Land and Buildings in Plant Property and Equipment, Investment Properties, and surplus assets

- ▶ Our work on this area is substantially complete subject to review and updates based on the revised 20/21 draft financial statements.

Audit findings and status: Inherent risk: Valuation of Pension Fund Assets and Liabilities

- ▶ This work is complete and subject to review. We identified a misstatement relating to increase of pension liability from 20/21 Hertfordshire pension fund audit amounting to £271k.

Audit findings and status: Inherent risk: Accounting for Covid-19 related Government Grants

- ▶ This work is complete and subject to review. We have not identified any misstatements in our testing.

Executive summary

Areas of audit focus

Audit findings and status: Inherent risk: Going Concern compliance with ISA570

- ▶ We have reviewed the going concern assessment prepared by management for Watford Borough Council up to March 2024 and we consider the Council to be able to continue as a going concern to that date. However the going concern assessment is required to cover at least 12 months after the audit signing date, which is expected to be 31 August 2023. The going concern assessment will therefore have to be extended by management for our review.

Audit findings and status: Inherent risk: Incorrect classification of fixed assets (L&B, IP and surplus assets)

- ▶ We have not yet started this area of testing as the revised 20/21 draft financial statements that reflects the adjustments in the prior year 19/20 accounts have not yet been provided as at the date of drafting of this report. We will complete this area of testing when the revised draft financial statements are received.

Audit findings and status: Inherent risk: lack of prudence in compliance in estimation of Minimum Revenue Provision (MRP)

- MRP is charged one year in arrears. The MRP charged in 20/21 is based on unfunded capital expenditure in 2019-20 and before. Due to the delay in completion of the 2019-20 audit this area of audit is to be started.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues;
- ▶ You concur with the resolution of the issue; and
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.

Control observations

We have not identified any control deficiencies as at writing of the report.

Independence

In our Audit Plan presented at the 28 July 2022 Audit Committee meeting we did not identify any independence issues.

Please refer to Section 9 for our update on Independence.



02 Areas of audit focus



Areas of audit focus

Significant risk

Incorrect accounting for manual accruals - risk of fraud in expenditure recognition*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through inappropriate timing or measurement of estimates, manual accruals around the year end being a typical estimate that could be affected.

What judgements are we focused on?

Correctness of recognition of manual accruals within accounting periods.

What did we do?

We focused on our journals testing strategy around the year-end period, with a particular focus on those manual entries that impact expenditure.

Where there was any management estimation or assumptions involved in the calculation of year end accruals we ensured that the rationale provided by management was appropriate and clearly documented on file via minutes of conversations held by management.

In addition to the focused review of manual accruals, our work was part of a suite of mandatory procedures performed regardless of specifically identified fraud risks. This included:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Assessing accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions.

To support our work on mandatory procedures, we utilised our data analytics capabilities to assist with our work, including carrying out testing on the income and expenditure accounts and journal entry testing.

What are our conclusions?

To date we have identified no evidence of incorrect accounting for manual accruals. Our work on journal entry testing and accounting estimates are still ongoing at the date of writing this report.

Our work on manual accruals testing is substantially complete with one outstanding evidence from management and subject to review. We have identified a reclassification error between short-term to long-term liabilities amounting to £180k.



Areas of audit focus

Significant risk (cont'd)

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

Correctness and appropriateness of journals recorded in the general ledger and other adjustments including accounting estimates.

What are our conclusions?

To date we have identified no evidence of misstatement due to fraud or error. Our work on journal entry testing and accounting estimates are still on-going at the date of writing this report.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including:
 - Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
 - Assessing accounting estimates for evidence of management bias, and
 - Evaluating the business rationale for significant unusual transactions.

We utilised our data analytics capabilities to assist with our work.



Areas of audit focus

Significant risk (cont'd)

Incorrect accounting for income from investment and leasehold properties - risk of fraud in revenue and expenditure recognition*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the financial position.

A key way of improving the revenue position is through the inappropriate recognition of Investment property rental income from the properties held by the council and from leasehold properties.

What judgements are we focused on?

We focused on allocating income from investment and leasehold properties to correct accounting periods

What did we do?

We reviewed a sample of investment property and leasehold property income at a lower testing threshold to confirm it is appropriately accounted for,

What are our conclusions?

We have undertaken sample testing on investment property and leasehold property income using a lower testing threshold. We have not identified any issues to date, but work is still subject to review.



Areas of audit focus

Significant risk (cont'd)

Inappropriate capitalisation of revenue expenditure*

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including consideration of REFCUS.

What did we do?

We have:

- ▶ Tested PPE additions, and REFCUS, to ensure that the expenditure incurred and capitalised is clearly capital in nature or appropriate to be treated as REFCUS.
- ▶ Identified and understood the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries more generally for evidence of management bias and evaluate for business rationale.

What are our conclusions?

We focused our testing on property, plant and equipment capital additions and also Revenue Expenditure Financed from Capital Under Statute (REFCUS) capital additions.

As our testing of capital additions and REFCUS is ongoing due to outstanding evidences and REFCUS adjustments from management. We will continue with testing of these areas when these are received.



Areas of audit focus

Significant risk (cont'd)

Valuation of land and buildings in Plant, Property and Equipment, Investment Property and Surplus Assets

What is the risk?

The fair value of land and buildings, investment properties, and surplus assets, represent a significant balance in the Council's accounts and is subject to valuation changes and impairment reviews. In addition land and buildings are also subject to depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

As one of the largest accounting estimates on the balance sheet and one dependent on a high degree of subjectivity, and also in light of a number of material misstatements relating to property valuations identified in the PY19-20 audit, we have continued to associate a significant risk to the valuation of land & buildings in the 2020/21 audit.

What judgements are we focused on?

We focused on aspects of the land and buildings valuation which could have a material impact on the financial statements, primarily:

- harder to value assets - such as assets which are valued on a depreciated replacement cost basis;
- the assumptions and estimates used to calculate the valuation; and
- changes to the basis for valuing the assets.

What are our conclusions?

We have received the draft memo from EY Real Estate specialists and are satisfied that the assets reviewed are materially correct. We note however that land and buildings in plant, property and equipment are valued one year in arrears, and we will perform additional work to confirm that PPE valuations are correctly indexed to reflect the year-end 31 March 2021 date in the revised 20/21 draft financial statements.

What did we do?

We have:

- Considered the work performed by the Council's valuers Avison Young, including the scope and timing of the work performed on valuations and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise;
- Reviewed that procedures are applied by the Council to any roll forward valuations from 01 April 2020 to the year end 31 March 2021 for operational PPE;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Reviewed any assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated. We have considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries to ensure they have been correctly processed in the financial statements; and
- Reviewed valuer reports and findings, which determined our specialist EY valuer was required to review of methodologies, data and assumptions.



Areas of audit focus

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?

Valuation of defined benefit pension scheme

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.

Watford Borough Council's pension fund assets and liabilities are material estimated balances and the Code requires that the liability be disclosed on the Council's balance sheet. At 31 March 2021 the net liability was valued at £55.935m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Pension Fund.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Accounting for Covid-19 related grant funding

The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.

What did we do?

We have:

- ▶ Liaised with the auditors of Hertfordshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Watford Borough Council;
- ▶ Assessed the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used; and
- ▶ Reviewed and tested the accounting entries and disclosures made within Watford Borough Council's financial statements in relation to IAS19.

We have completed our work in this area and identified a misstatement relating to understatement of pension liability from 20/21 Hertfordshire pension fund audit amounting to £271k. This work is under review.

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- ▶ An Agent, where it has determined that it is acting as an intermediary; or
- ▶ A Principal, where the Council has determined that it is acting on its own behalf.

We have completed our work in this area and have no matters to raise. This work is under review.



Areas of audit focus

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?

Going Concern Compliance with ISA 570

There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the Council's day to day finances, its annual budget, its cashflow and its medium term financial strategy, there is a need for the Council to ensure its going concern assessment is thorough and appropriately comprehensive.

The Council is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What did we do?

We have:

- ▶ Challenged management's identification of events or conditions impacting going concern.
- ▶ Tested management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- ▶ Reviewed the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- ▶ Undertook a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- ▶ Challenged the disclosure made in the accounts in respect of going concern and any material uncertainties.

We have reviewed the going concern assessment prepared by management for Watford Borough Council up to March 2024 and we consider the Council to be able to continue as a going concern to that date. However the going concern assessment is required to cover at least 12 months after the audit signing date, which is expected to be 31 August 2023. The going concern assessment will therefore have to be extended by management for our review.

Incorrect classification of fixed assets (L&B, IP and surplus assets)

In the PY19/20 audit we have noted a number of misclassifications of assets between L&B subclasses, and also between L&B, IP, and surplus assets. Therefore in the CY20/21 audit there is an inherent risk for the misclassification of fixed assets.

We have not yet started this area of testing as the revised 20/21 draft financial statements that reflects the adjustments in the prior year 19/20 accounts have not yet been provided as at the date of drafting of this report. When the revised draft 20/21 draft financial statements is received we will:

- ▶ perform a substantive approach on L&B (PPE), IP and surplus asset, including test for existence, in-year additions and disposals, and also valuations of these assets. As part of our work we also reviewed the correct classification of these assets into L&B, IP, and surplus assets.
- ▶ perform a high level review of asset names within the fixed asset register to test for the reasonableness of their classification into the various asset subclasses.



Areas of audit focus

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?

Lack of prudence in estimation of Minimum Revenue Provision (MRP)

In the PY 19/20 audit, we have noted that management has not included MRP as part of its capital financing requirements (CFR) calculations. We have also identified a control deficiency in relation to the Council's capital financing requirement (CFR) and minimum revenue provision (MRP) record keeping as they were not able to produce a breakdown of its £32.4 million outstanding CFR on an asset by asset basis.

Management has later agreed to amend the accounts to include a provision of £83,000; while we accept that the Council has complied with its statutory duty to make a revenue provision it considers to be prudent, in our view the MRP is aggressive as it would take the Council 384 years to cover its capital financing requirement of £32.4 million at that level of provision. In the PY we have therefore recommend the Council reconsiders whether its current MRP policy leads to prudent provision.

In addition to the issues identified in the PY, in the CY there is additional CFR for the material new Croxley Park finance lease that is likely to have a large impact on MRP calculations. In the CY 20/21 audit therefore included management's estimation of the MRP as an area of audit focus to confirm that a prudent level of MRP is provided for.

What did we do?

MRP is charged one year in arrears. The MRP charged in 20/21 is based on unfunded capital expenditure in 2019-20 and before. Due to the delay in completion of the 2019-20 audit this area of audit is to be started.

When the revised draft 20/21 draft financial statements is received we will review the breakdown of the Council's capital financing requirement on an asset by asset basis. We will then form our own estimate of the MRP in accordance to the Prudential Code and compare this against the Council's own estimate. We will also involve our EY technical expert to assist with this MRP calculation.



03 Audit report



Audit report

Draft audit report 20-21

Draft audit report - To follow on completion of the audit

Our opinion on the financial statements

▶ To follow

▶ To follow



04 Audit differences





Audit differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted/unadjusted differences

We highlight the misstatement greater than our reporting thresholds of £866k that have been identified during the course of our audit. We will provide an update at the Audit Committee meeting on and a final position at the conclusion of the audit.

Uncorrected Mis-Statements:

Investments in Watford Health Campus should have been reduced by £1,749k due to the repayment of principal during the year.




There have been a number of presentational and disclosure amendments which we have identified and will be corrected by management.



Audit differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that this uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the **Audit Committee** and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2021 (£000) 	 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Error					
Known differences:					
▶ Decrease in investments in Watford Health Campus due to the repayment of principal during the year	1,749		(1,749)		
Balance sheet totals	9,888	32,424	660,336	(43,523)	(299,153)
Income effect of uncorrected misstatements (before tax)	1,749				
Cumulative effect of uncorrected misstatements before turnaround effect	1,749				
Turnaround effect of PY uncorrected misstatement - NB these are below our tolerable error so not reported here.	-				
Cumulative effect of uncorrected misstatements, after turnaround effect	1,749				



05

Value for money



Value for money

The Council's responsibilities for value for money (VFM)

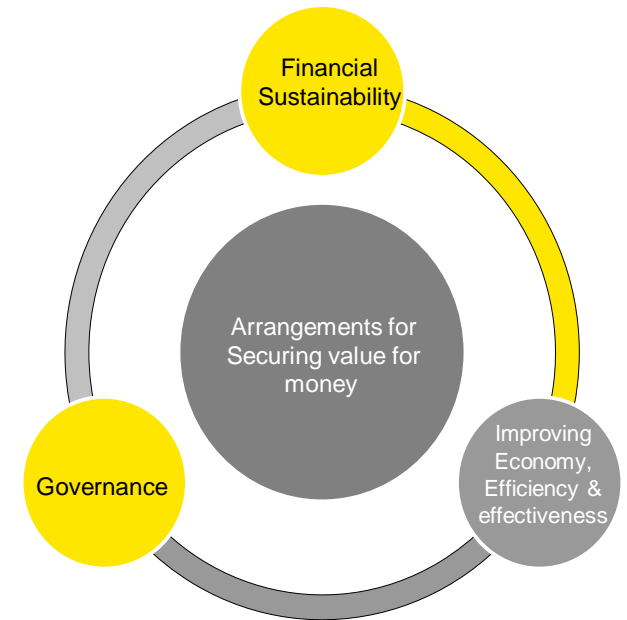
The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are currently completing our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements.





06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council, subject to review. As at writing, we have no issues to report.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Our work on procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission is subject to review. As at writing, we have no issues to report.

We have no other matters to report as at writing of the report. We will update our work on the WGA after we receive the revised draft financial statements on 19 July 2023.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”).

We did not identify any issues which required us to issue a report in the public interest.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Watford Borough Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

As at the date of this report we have nothing that we need to bring to the attention of the Audit Committee in respect of Other Matters.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed.

Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control including group-wide or at components.

We have not identified any control deficiencies as at writing of the report.



08 Data Analytics



Management Override of Controls

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted around the year-end, those relating to overstatement of payable accruals at yearend, those relating to income recognition from investment and leasehold properties and those relating to inappropriate capitalisation of revenue expenditure.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

At the date of writing this report our journal entry testing is ongoing; we will conclude on the testing and report any material findings.



Data Analytics

Journal Entry Data Insights

Watford Borough Council 31 March 2021

The graphic outlined below summarises the journal population for 2020/21. We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions included in our data subset.

EY Helix - GLASS: Journal Entry Data Insights - Watford Borough Council - 31/03/2021

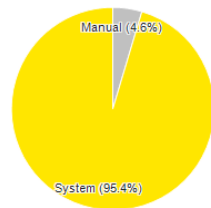
Facts and Figures

Number of Journals Posted:
16,268

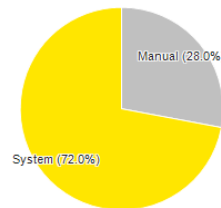
Average Number of Journals Posted per Day:
52

Average Number of Lines per Journal:
11

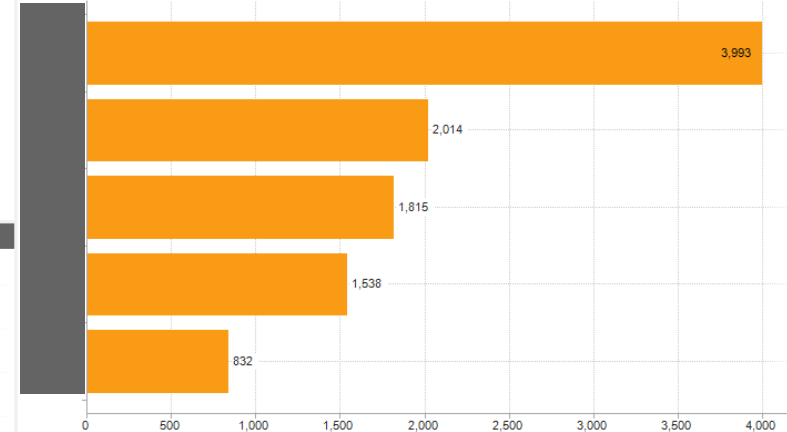
Manual v System by Volume



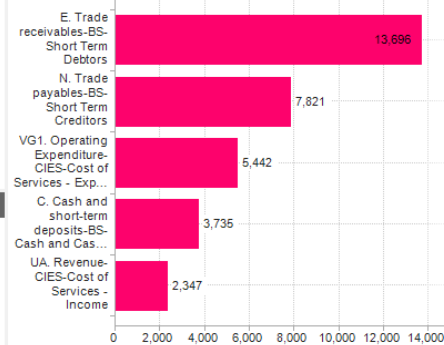
Manual v System by Value



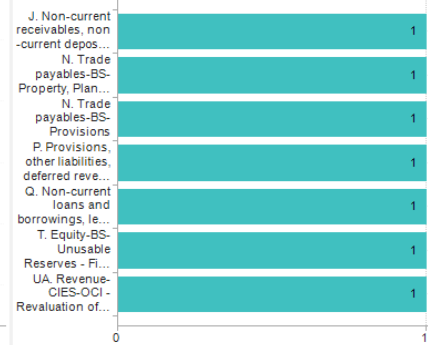
Top Five Preparers



Top Five Activity Accounts



Bottom Five Activity Accounts



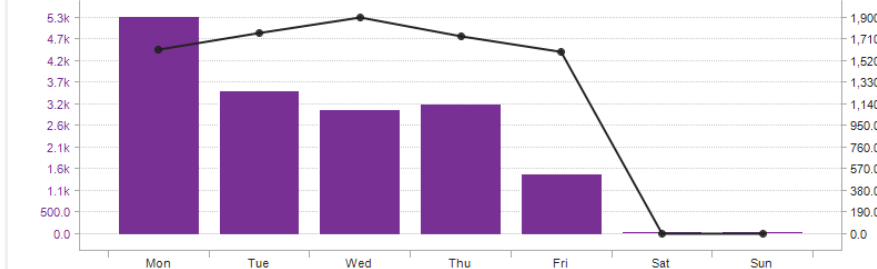
Operational Efficiencies

Manual Journals Posted at weekend:
0

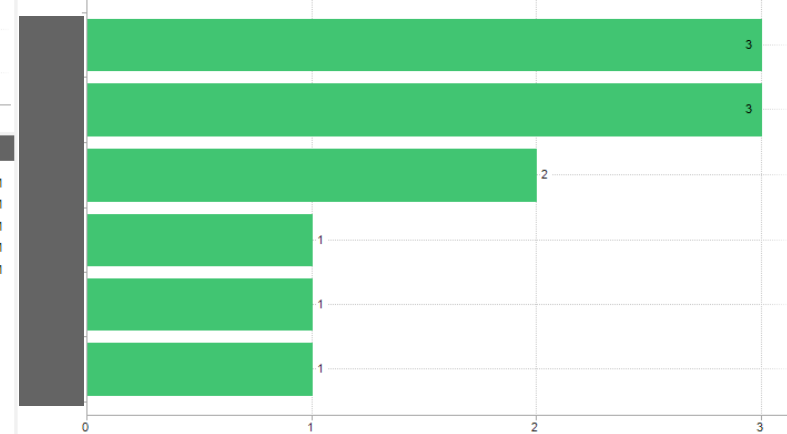
Manual journals where gross amount is < £5:
13

Journal lines with zero value:
0

Days of the Week



Bottom Five Preparers



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09

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. Further detail of all fees has been provided to the Audit Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 28 July 2022.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 26 July 2023.

We confirm we do not plan to undertake non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd . We will apply the necessary safeguards in our completion of this work should we be required to complete any.

Confirmation and analysis of Audit fees

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Total Audit Fee - Code work	TBC	71,440	66,355
Housing Benefits	TBC	TBC	TBC
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk. (Note 1)	TBC	TBC	42,909
Scale fee variation - Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation, additional work on grants and VFM conclusion (Note 2)	TBC	TBC	23,500
Total Audit Fees	Notes 1 & 2	TBC	132,764

All fees exclude VAT

Note 1 - The proposed increase reflects the increased risk and complexity facing all public sector bodies, adjusted for our knowledge and risk assessment for this Authority as well as the changes and incremental increase in regulatory standards. The proposed increase in the baseline fee is relatively consistent with other councils of a similar size, risk profile and complexity that EY audits.

Note 2 - The impact of Covid-19 on the audit, the updated requirements on VFM conclusion, group requirements, use of experts for the work on valuation of PPE additional work on grants and the work on going concern will all impact the work that is required to be done. As we near the conclusion of the audit, we will be in a position to quantify the impact of these additional procedures and where we propose a variation to the Authority's scale fee. We note the significant additional procedures as a result of the incorrect treatment of Grants and the subsequent materiality re-assessment and additional testing required.

On both points, we will continue to discuss and share with you our assessment of the audit fees required to safeguard audit quality and our professional standards.

All fees are subject to final review and agreement by PSAA Ltd

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2022:

[EY UK 2022 Transparency Report | EY UK](#)







10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK entities. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented at the 28 July 2022 Audit Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report presented at the 28 July 2022 Audit Committee meeting
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit planning report presented at the 28 July 2022 Audit Committee meeting

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting

Appendix A




Our Reporting to you

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Draft Audit results report presented at the 26 July 2023 Audit Committee meeting
VFM Commentary	<ul style="list-style-type: none"> ▶ Report the findings from our VFM review in the Auditor's Annual Report 	Auditor's Annual Report presented within 3 months from the date of the audit opinion

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item 	Actions to resolve 	Responsibility 
Revised Draft Statement of Accounts 20/21*	Management to reflect 19/20 adjustments into the 20/21 opening balances and EY to update materiality and risk assessment procedures based on the revised draft statement of accounts.	EY and management
Manual accruals testing	Management to provide one outstanding piece of evidence on business rate COVID grants. EY to update the testing upon receipt of this item.	EY and management
Journal entry testing	EY to share the journal entry testing samples and management to provide the corresponding evidences.	EY and management
PPE additions and REFCUS	Management to provide the outstanding evidences on PPE additions and REFCUS adjustments. EY to update the testing upon receipt of these items.	EY and management
Classification of fixed assets (L&B, IP and surplus assets)	Management to provide revised workings on classification of fixed assets after reflecting the 19/20 adjustments. EY to update the testing upon receipt of this item.	EY and management
Minimum Revenue Provision (MRP)	EY to perform testing on MRP.	EY
Value for Money (VFM)	EY to complete risk assessment work.	EY
Going concern review and disclosures	Management to provide an updated going concern assessment covering at least 12 months after the audit signing date, which is expected to be 31 August 2023. EY central review process and finalisation of disclosures and opinion wording	EY and management
Group Reporting from component auditors	Group consolidation review and casting of final accounts	EY
General review of completed tasks	EY to complete various levels of review on completed work	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

* Note that we may potentially request for additional items depending on the changes in the revised draft statement of accounts 20/21.

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion, but we should point out that key disclosures on going concern remain to be finalised and audited.

Draft Management Representation Letter

Draft Management Rep Letter

[To be prepared on the entity's letterhead]

[Date]

Maria Grindley
Ernst & Young
R+ Building
2 Blagrove Street
Reading, RG1 1AZ

This letter of representations is provided in connection with your audit of the Council financial statements of Watford Borough Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the Council financial statements give a true and fair view of the Council financial position of Watford Borough Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Council the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the Council financial statements. We believe the Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) and are free of material misstatements, including omissions. We have approved the Council financial statements.
3. The significant accounting policies adopted in the preparation of the Council financial statements are appropriately described in the Council financial statements.
4. As members of management of the Council, we believe that the Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic.

Management representation letter

Draft Management Rep Letter

A. Financial Statements and Financial Records (cont'd)

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the Council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].
6. We confirm the Council does not have securities (debt or equity) listed on a recognised exchange.

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

1. We acknowledge that we are responsible for determining that the Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the Council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council including Audit Committee, Council and Policy Committee, and (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: [list date]
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the Council financial statements.

Management representation letter

Management Rep Letter (cont.)

C. Information Provided and Completeness of Information and Transactions (cont'd)

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter dated XXX through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that (1) such unauthorised access to our information technology systems is reasonably likely to have a material impact on the Council financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

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

E. Going Concern

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

F. Subsequent Events

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

G. Other information

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

H. Ownership of Assets

1. Except for assets capitalised under finance leases the Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheets.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Council financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

Management representation letter

Management Rep Letter (cont.)

H. Ownership of Assets (cont'd)

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

I. Reserves

1. We have properly recorded or disclosed in the Council financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist - NNDR Appeals Provision, Pensions, and Property, Plant and Equipment

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

L. Estimates - NNDR Appeals Provision, Pensions, and Property, Plant and Equipment

1. We confirm that the significant judgments made in making the estimates listed above have taken into account all relevant information and the effects of the COVID-19 pandemic on these estimates of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates listed above.
3. We confirm that the significant assumptions used in making the estimates listed above appropriately reflect our intent and ability to carry out ongoing activities on behalf of the entity.

4. We confirm that the disclosures made in the Council entity financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic on the above estimates, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) .
5. We confirm that appropriate specialized skills or expertise has been applied in making the estimates detailed above.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the parent entity financial statements, including due to the COVID-19 pandemic.

M. Retirement benefits

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

Yours faithfully,



(Director of Finance)

(Chair of the Audit Committee)

Progress report on implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Council will be fully compliance with the 2024/25 Code. The following table summarises the actions necessary to implement the adoption of IFRS 16 from 1 April 2024:

IFRS 16 theme	Summary of key measures  
Data collection	Management should have: <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classified all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identified, collected, logged and checked all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council need to agree on certain policy choices. In particular: <ul style="list-style-type: none"> ▶ Will [the council adopt a portfolio approach? ▶ Has the low value threshold been set and agreed with auditors? ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components? ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ED None

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Part A

Report to: **Audit Committee**

Date of meeting: **Wednesday, 26 July 2023**

Report author: **Head of Finance**

Title: **Statement of Accounts Update**

1.0 Summary

1.1 This report sets out the latest position for external audit of the Statement of Accounts for 2020/21, 2021/22 and 2022/23. It also provides an update on the transition to new external auditors for 2023/24 onwards.

2.0 Risks

2.1

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

Changes to accounting policies have an impact on the revenue budget or capital programme.	Impact on reserves, especially where not identified at budget setting.	Maintain awareness of future changes	Tolerate	6
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3.0 Recommendations

- 3.1 To approve the Statement of Accounts 2020/21 at Appendix 1.
- 3.2 To approve the Letter of Representation 2020/21 at Appendix 2.
- 3.3 To agree that the Section 151 Officer (Shared Director of Finance), in consultation with the Chair of the Committee, can make any further changes to Statement of Accounts 2020/21 and Letter of Representation that may arise during the completion of the audit.
- 3.4 Agree that the Committee authorise and instruct the Chair to sign the Statement of Accounts for 2020/21 once finalised and signed by the Section 151 Officer to confirm that the Statement of Accounts presents a true and fair view of:
- (a) the financial position of the authority at the end of the financial year to which it relates; and
 - (b) that authority's income and expenditure for that financial year
- 3.5 To note the progress and latest timetable for completion of the external audit of the statement of accounts for 2021/22 and 2022/23.

Further information:

Hannah Doney
hannah.doney@threerivers.gov.uk

Report approved by:

Alison Scott, Shared Director of Finance

4.0 Detailed proposal

4.1 Statement of Accounts 2020/21

4.1.1 The 2020/21 audit was on hold during May and June as the Council's external auditors Ernst and Young (EY) focused on NHS audit work during those months. The Audit Manager and Assistant Audit Manager returned to the Watford 2020/21 audit on 4 July and progress has been made in closing down outstanding queries.

4.1.2 The latest version of the Statement of Accounts 2020/21 is at Appendix 1 to this report. The accounts have been updated to reflect all agreed changes arising from the 2020/21 audit and the opening balances have been updated to reflect the final values within the signed Statement of Accounts 2020/21.

4.1.3 The Committee is asked to approve the Statement of Accounts for 2020/21 and delegate to the Director of Finance, in consultation with the Chair of the Committee, the ability to make any further changes to the Statement of Accounts 2020/21 that may arise from the completion of the audit. This will enable the accounts to be signed off as soon as the audit work is concluded and in advance of the next meeting of this Committee in September.

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

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

4.1.6 The Letter of Representation must set out any unadjusted audit differences where management has chosen not to amend the statements for audit findings and the rationale for not doing so. At this stage, it is not anticipated that there will be any unadjusted audit differences.

4.1.7 The Draft Audit Results Report 2020/21 from the external auditors is elsewhere on the agenda.

4.2 Statement of Accounts 2021/22

4.2.1 The draft Statement of Accounts 2021/22 was authorised for issue by the Director of Finance and [published on the Council's website](#) on 31 July 2022 in line with the

statutory timeframe. The period of public inspection ran from 1 August to 12 September 2022.

4.2.2 It is anticipated that the audit of the 2021/22 accounts will commence in September 2023. The audit duration is expected to return to the standard period of four to six weeks, reflecting the fact that the impact of the 2019/20 adjustments will already be fully accounted for in the ledger, reducing the need for manual adjustments and additional audit work.

4.3 **Statement of Accounts 2022/23**

4.3.1 The draft Statement of Accounts 2022/23 was authorised for issue by the Director of Finance and published on the [Council's website](#) on 31 May 2023 in line with the statutory timeframe. The period of public inspection ran from 1 June to 13 July 2023.

4.3.2 The audit of the 2022/23 accounts will follow on as soon as practicable from the conclusion of the 2021/22 audit. The audit is expected to take four to six weeks. It is still hoped that this can be concluded by the end of March 2024.

4.4 **Appointment of External Auditors for 2023/24 to 2027/28**

4.4.1 It was reported to the Committee in March that Azets Audit Services have been appointed by Public Sector Audit Appointments Ltd (PSAA) as the auditor for the Council for 2023/24 to 2027/28.

4.4.2 An introductory meeting took place between [Paul Grady](#), Partner at Azets, who will be the Council's Key Audit Partner, and the Director of Finance and Head of Finance on 11 July.

4.4.3 Paul Grady will attend the Audit Committee meeting in September to introduce himself and Azets to members of the Committee and set out the approach to the 2023/24 audit.

4.4.4 Azets will start walkthrough work in December 2023 ahead of year end and a draft audit plan will be presented to the Audit Committee in November 2023 or March 2024. It is hoped that it will be possible to conclude the audit of the 2023/24 accounts by the Statutory deadline of 30 September 2024. However, this timetable is dependent on the completion of prior year audits before July 2024.

5.0 Implications

5.1 Financial

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

5.2 Legal Issues (Monitoring Officer)

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

5.3 Equalities, Human Rights and Data Protection

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

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

Having had regard to the council's obligations under s149, it is considered that there are no equalities or human rights implications.

5.4 Staffing

5.4.1 There are no staffing implications arising from this report.

5.5 Accommodation

5.5.1 There are no accommodation implications arising from this report.

5.6 Community Safety/Crime and Disorder

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

5.7 Sustainability

5.7.1 There are no sustainability implications arising from this report.

Background Papers

Statement of Accounts Update report to Audit Committee 9 March 2023

Appendices

Appendix 1 – Statement of Accounts 2020/21

Appendix 2 – Letter of Representation 2020/21



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

xx July 2023

Dear Maria,

This letter of representations is provided in connection with your audit of the financial statements of Watford Borough Council (“the Council”) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Watford Borough Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.



3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by the auditor and brought to the attention of the committee because they are immaterial and do not have an impact on the general fund position.

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

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or

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

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 24 November 2022.

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

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

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

7. From 20 January 2023, the date of our last management representation letter, through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

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

E. Subsequent Events

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

F. Other information

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

G. Going Concern

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

H. Use of the Work of a Specialist

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

I. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We confirm that the significant assumptions used in making the valuation of PPE, investment property and surplus assets; NNDR appeals provision; pensions liability; and manual accruals appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete, including the effects of the COVID-19 pandemic on the valuation of PPE, investment property and surplus assets; NNDR appeals provision; pension liability; and manual accruals, and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

J. Retirement benefits

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

Yours faithfully,

(Director of Finance)

(Chair of the Audit Committee)



**WATFORD
BOROUGH
COUNCIL**

DRAFT

STATEMENT OF ACCOUNTS

2020/21

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Statement of Responsibilities for the Statement of Accounts

The Council's Responsibilities

The Council is required to:

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

The Chief Financial Officer's Responsibilities

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

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

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

The Director of Finance has also:

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

Opinion

The draft Statement of Accounts presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021.

Signed

Date: xx August 2023

Alison Scott, CPFA
Director of Finance

Signed

Date: xx August 2023

Mark Hofman
Chairman of Audit Committee

Narrative Statement

INTRODUCTION

As the Director of Finance and Section 151 Officer it is my responsibility to ensure that the Council's financial affairs are properly administered, and its financial position remains stable and robust. This is essential to ensure that the Council can continue to provide high quality services to all the residents and businesses within the Watford Borough and to continue to develop it.

The following Statement of Accounts give an overview of the Council's finances for 2020/21. I am pleased to be able to report that the Council has maintained its strong financial position, which shows that there is a high standard of financial management and stewardship of the Council's resources.

The Statement of Accounts are prepared in accordance with the guidance for Local Authorities in the UK. The Statement of Accounts provides information so that members of the public, including electors and residents of Watford, Council Members, partners, stakeholders and other interested parties can have:

- A full and understandable explanation of the overall financial position of the Council.
- Confidence that the Council has been responsible in spending the public money which it has been given and accounted for in an appropriate manner.
- Assurance that the financial position of the Council is sound and secure.

The deadlines for the preparation of the Accounts changed for 2019/20. The Ministry of Housing, Communities and Local Government (MHCLG) recognised that local authorities' priorities altered as a result of dealing with the impact of the COVID-19 pandemic. The well-being of all the residents and businesses has been the top priority for this Council, along with other Councils across the country and that resources will have been redirected to deal with the pandemic. Therefore MHCLG in consultation with key stakeholders, introduced the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which have amended the Accounts and Audit Regulations 2015.

Last year the draft accounts had to be published by 31 August 2020, this requirement has been amended and is now 31 July. Local authorities must commence the public inspection period on or before the first working day of August 2021. This is a challenge for the council but we are pleased to be able to provide these draft accounts before the end of July.

COUNCIL PLAN

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

During 2020 the Council updated its Council Plan. The new Council Plan sets out the aspirations for both the council and the town we serve. It is forward-looking, high level and outward facing, with an emphasis on outcome focused commitments. The plan demonstrates our role as leader of place and how we will continue to build on our strategic and operational excellence.

Our Council Plan themes are:

- A council that serves our residents
- A thriving, diverse and creative town
- A healthy and happy town

The Council Plan 2020-2024 can be found at the following link:

https://www.watford.gov.uk/info/20016/the_council/108/council_plan_2020-24_and_delivery_plan_2020-22

Narrative Statement

2 Overview of the financial underpinning of service delivery

During the year, the Council progressed its vision in the delivery of a bold and progressive future for Watford. The financial underpinning of this was through the approval of the revenue budget in January 2020 for the following activities:

Service Area	Approved budget 2020/21 £000
Community and Environmental	8,980
Corporate Strategy and Communications	1,118
Democracy and Governance	2,063
HR Shared Service	671
Place Shaping & Performance	(4,921)
Service Transformation	2,673
Strategic Finance	5,169
Total Net Expenditure	15,753

The Council also approved a Capital Programme for 2020-21 of £119.7 million. The five largest schemes in these three years were:

	£m
Riverwell (Watford Health Campus Partnership)	50.1
Hart Homes	24.1
Watford Business Park redevelopment	7.8
Town Hall redeployment	8.9
Woodside Sports Village	6.8


Riverwell and Hart Homes are joint venture schemes for the delivery of housing within the Borough with capital expenditure recouped as developments are delivered. They are included within the capital programme to ensure transparency and strong governance.

3 Strategic Resource Allocation and Performance Monitoring

The Council monitors its budget during the year and any changes made are reflected in a revised budget. This was agreed in January 2021, as usual, as part of the MTFS (Medium Term Financial Strategy) for 2021/22. This is supported by regular budget monitoring during the year, monthly to officers and quarterly to Members. The MTFS approved for 2021/22, including a revised budget for 2020/21 and as amended for the decision of Council on 26 January 2021, is on the following page.

The 2020/21 revised budget shown includes approved carry forwards of £1.756 million from 2019/20, which were approved by Cabinet in June 2020 and subsequently Council in July 2020. The gap shown in the MTFS can be funded from reserves and reflects the fact that long-term ongoing savings do not come through in a full year until the end of the MTFS period. The Council Tax base figures in the MTFS for future years include projected growth in the base but doesn't include any allowance for an increase in council tax level for inflation.

Narrative Statement

 WATFORD BOROUGH COUNCIL BE BOLD	2020/21 Original	2020/21 Revised	2021/22	2022/23	2023/24
	£000s	£000s At Period 8	£000s	£000s	£000s
Total Net Expenditure	15,753	17,703	13,684	12,491	12,137
Planned Use of Reserves					
Contributions to reserves	157	552	628	1,288	621
Contributions from reserves- Incl W2020 & Carry forward Reserve	(1,517)	(4,432)	(885)	(200)	(200)
Sub-Total	(1,360)	(3,880)	(257)	1,088	421
Funding					
Council Tax (including £188K CTSS funding in 2021/22)	(9,160)	(9,160)	(9,311)	(9,393)	(9,378)
Business Rates	(3,152)	(3,152)	(3,002)	(3,002)	(3,002)
New Homes Bonus	(772)	(772)	(480)	(577)	(577)
(Surplus)/Deficit on collection fund	(250)	(250)	0	0	0
Additional Government Funding	(400)	(400)	(122)	(122)	(122)
Sub-Total	(13,734)	(13,734)	(12,914)	(13,093)	(13,078)
Total Funding & Use of Reserves	(15,094)	(17,614)	(13,171)	(12,005)	(12,657)
Gap	659	88	513	485	(521)
Reserves - opening balances	(19,006)	(19,916)	(16,036)	(15,308)	(16,396)
Planned use of reserves	1,360	3,880	257	(1,088)	(421)
Gap funded from reserves	658	88	513	485	(521)
Reserves - closing balances	(16,988)	(15,948)	(15,266)	(15,911)	(17,338)
Council Tax Rate Calculation					
Council tax base	33,480.0	33,480.0	32,786.1	33,095.7	32,394.5
Council tax charge for band D	£ 273.59	£ 273.59	£ 278.24	£ 283.80	£ 289.48
£	9159.79	9159.79	9122.40	9392.71	9377.59

4 Performance, including outturn for 2020/21

Revenue Outturn 2020/21

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

Service Area	Revised Budget £000	Outturn £000	Variance £000
Service Transformation	3,155	3,651	497
Community & Environmental	11,870	11,901	31
Democracy & Governance	2,075	1,977	(98)
Place Shaping	(4,226)	(3,597)	628
Corporate Strategy & Communications	(594)	(760)	(166)
Human Resources	726	636	(90)
Strategic Finance	4,697	3,604	(1,093)
Net Direct Cost of Service	17,703	17,411	(292)
		Carry Forwards	274
		Total Variance	(18)

Narrative Statement

COVID-19

The COVID-19 Pandemic has had, and will continue to have, a notable impact on the public's and businesses' behavior and consequently has had a considerable impact on the Council.

The Government's national lockdowns and restrictions has meant that many businesses have been forced to close – significantly impacting on the local economy, which in turn impacts on the Council's income. Furthermore, the Council has incurred additional expense ensuring that the homeless are safe during this period and that the most vulnerable in our community are cared for through our shielding hub.

These additional costs and reductions in income have had a dramatic impact on the financial outturn for 2020/21. The Council experienced substantial losses across many of its largest income streams, most notably Car Parks, Leisure Centres and Commercial Rent. However, collection levels of Council Tax did not see a significant drop. Similarly, planning applications and building control notices remained buoyant, while the new Garden Waste service exceeded its predicted customer base and income generated. Helping to offset this impact, the Council has received £1.383m emergency COVID-19 funding and is projecting £1.250m from the Government's loss of Income Guarantee Scheme.

The Council has a prudent General Fund balance and has a separate Economic Impact reserve which it has utilised during the pandemic to maintain financial resilience. During 2020/21 the Council established a Recovery/Renewal Fund to support Watford in recovering from the impacts of COVID-19. Therefore the Council is in a position to draw upon its reserve balance should it need to but clearly this could have longer term implications.

Throughout 2020/21, the Council adopted a pro-active approach to ensure that it responded to the emerging needs of residents and businesses. Regular financial monitoring will continue to ensure the Council takes all necessary remedial action, where practicable, with a continued focus on delivering key services against the backdrop of considerably reduced available resources.

Capital Outturn 2020/21

Capital expenditure is incurred on assets that benefit the community over a number of years.

Key capital projects included:

- Substantial improvements to the Public Realm including Clarendon Road;
- Progressing various housing related schemes including Hart Homes with our partner Watford Community Housing
- Evolving development of Watford Business Park
- Investment in Oxhey Park including leisure and recreational facilities;

The Council completed and funded £21.973m of capital works in 2020/21 (£26.745m in 2019/20).

Key variations in the Capital Programme include:

- £13.9m rephasing relating to Watford Riverwell that continues to progress.
- £4.2m of rephasing relating to public realm works in Clarendon Road and Lower High Street.
- £2.4m rephasing relating to the ongoing investment at Watford Business Park.
- £2.0m rephasing relating to housing opportunities.
- £1.3m rephasing for vehicle fleet requirements.

Funding came from £0.130m from capital receipts, £2.197m from grants & contributions, £0.331m from reserves, £4.454m from Section 106 receipts and £14.861m from borrowing.

The Council is involved in three long term major schemes at Watford Riverwell, Hart Homes and Watford Business Park where spend during the year was £0.779m, £3.0m and £1.778m respectively.

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Other notable projects during the year relate specifically to a Public Realm scheme in Clarendon Road totaling £3.8m, housing schemes for £4.0m and capital commitments in connection to Croxley Business Park for £1.4m.

Borrowing Facilities and Capital Borrowing

The Council borrowed from external sources in 2020/21 and the expectation is for this to continue in order to fund future capital investment requirements.

Pensions

The Council has disclosed its full liabilities to the Hertfordshire Pension Fund. The CIES includes the charges made for retirement benefits in accordance with ISA 19 (International Accounting Standards). The MIRS (Movement in Reserves Statement) shows how this is adjusted for in the General Fund for the actual amount paid to the Fund in the year (i.e. the amount met from Council Tax). The Balance Sheet shows a Net Liability to the Fund at 31 March 2021 of £55.150m. This has increased from £41.543m at 31 March 2020 and reflects actuarial changes. There are statutory arrangements for funding the deficit that protect the Council's financial position. Note 33 to the Core Statement of Accounts provides further information. Following the results of the triennial valuation of the Pension Fund, on the advice of the Pension Fund actuaries the Council made a contribution of £3.692m in 2020/21 (£3.692m in 2019/20).

Performance Monitoring

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

5 Outlook

The Council has been successfully undertaking a transformational approach to its service and financial challenges, and is well placed to continue with this in the short and medium term. The deal for Croxley Business Park provides a prudent and effective improvement to the Council's financial position, and protects a key asset for the residents' economic resilience and vibrancy going forward.

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

6 Future challenges

The future for local government funding remains very uncertain. Further delays to the reviews of Fair Funding, Business Rates and New Homes Bonus have been announced.

This uncertainty makes medium term financial planning far more challenging, coupled with the ongoing effects associated with the COVID-19 Pandemic and how the District then plans for the recovery phase. However, proactive financial stewardship has seen the Council make provision to manage the outcome of the reviews and to ensure we are in a strong financial position to enable us to move forward and react to all of these challenges that we will be facing.

Narrative Statement

7 Basis of Preparation and Presentation

The Accounts are presented on an International Financial Reporting Standards (IFRS) basis having been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. References to material and materiality relates to the significance of transactions, balances and errors. Financial information is material if its omission or misstatement could influence the users of the accounts.

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SCOPE OF RESPONSIBILITY

1. Watford Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
3. Watford Borough Council has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/Solace Framework 'Delivering Good Governance in Local Government'. It is also in accordance with the requirements of the Accounts and Audit (England & Wales) Regulations 2015.
4. This Governance Statement explains how the Council has maintained sound governance during the financial year 2020/21 and also how the Council meets the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

5. The governance framework has been in place at the Council for the year ended 31 March 2021 and up to the date of approval of the annual report and statement of accounts. It comprises the systems and processes as well as the culture and values, by which the Council is directed and controlled and through which accounts to, engages with and leads the community.
6. The governance framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
7. The system of internal control is a significant part of this framework and is designed to manage risk to a reasonable level. However, it cannot eliminate all risk of failure to achieve policies, aims and objectives and, therefore, can only provide reasonable and not absolute assurance of effectiveness.
8. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and to manage them efficiently, effectively and economically.

THE GOVERNANCE FRAMEWORK

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

General

10. Watford Borough Council operates an elected Mayor and Cabinet model of governance under the Local Government Act 2000 and this places total responsibility for those functions designated as Executive Functions into the hands of the directly elected Mayor. However full Council is responsible for setting the Council's budget and agreeing the key policy framework. The Council also has established an Overview and Scrutiny Committee, Financial Scrutiny Committee to scrutinise the actions of the Mayor and Cabinet and assist with policy development, this is done

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either directly by those committees or by Overview and Scrutiny Committee establishing task and finish task groups to look at particular areas of interest. In addition, the Council has six further committees that cover non-executive functions, these are; Licensing, Development Management, Audit, Functions, Standards and Appointments. It also has a number of advisory member groups such as Major Projects Board, Planning Advisory Group, Housing Advisory Group, the Health and Wellbeing Forum, the Sustainability Forum, the Constitution Working Party and the Member Development Group.

11. Watford Borough Council has a directly elected Mayor, which means that the community elect that person to lead the council at four yearly intervals. The Mayor is supported by a Cabinet made up of elected councillors 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 delegated decisions within their area of responsibility as set out in the Executive Scheme of Delegation, individual officers can also make decisions as set out in both the Executive Scheme of Delegation and the Council's Functions Scheme of Delegation in the Constitution.
12. The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to the local community. Some of these procedures are required by law, whilst others are adopted by the Council. The Constitution is reviewed annually and is available on the Council's website and intranet.
13. The Council has an approved Code of Conduct for Councillors and a separate code for officers, which sets out and describes its commitment to good governance and identifies the arrangements that have been and will continue to be made to ensure its ongoing effective implementation and application in all aspects of the Council's work. The Local Code of Governance is available on the Council's website and intranet.
14. The Council acknowledges its responsibility for internal control, and for ensuring that its systems maintain the integrity of accounting records and safeguard its assets. These systems provide reasonable assurance as to the reliability of financial information and to maintain proper control over the income, expenditure, assets and liabilities of the Council. However, no system of internal control can provide absolute assurance against material misstatement or loss.
15. Leadership Board and Management Board are aware of the financial and other procedures and controls outlined in the Constitution, and senior officers are required to sign a declaration of compliance, in the form of a Management Assurance Statement at the end of each year. This evidences amongst other things, that their staff are aware of and consistently apply the requirements of the Constitution.
16. Elected Members as decision-makers have to fill in a register of pecuniary interest when they are elected and also declare any pecuniary or non-pecuniary interests as and when they occur.

Strategic Framework

17. The Council has mapped its strategic governance framework to identify the linkages from its Council Plan 2020-24 to its key strategies, which ensure the Council retains an effective focus on delivery and clarity of purpose. The Council Plan 2020-24 is the Council's key strategic document, setting the direction for the authority and providing a basis for its planning and delivery of outcomes for the community.

Vision, themes and commitments:

The Council Plan 2020-24 sets out the council's vision, themes and commitments.

Our Vision: Watford Together: Our Town Our Future

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Our Themes:

- A council that serves our residents;
- A thriving, diverse and creative town;
- A healthy and happy town.

18. Underpinning these overarching themes are a series of measurable (SMART) commitments and actions that are set out in the Council's Delivery Plan 2020-22. The Delivery Plan ensures that every member of staff understands their role in delivering the Council's ambitions and our community is well-informed about our plans and promises. The Council also plays a major role in the Local Strategic Partnership, One Watford, which is made up of key stakeholders such as Hertfordshire County Council, Herts Valleys Clinical Commissioning Group, Watford BID, Watford and Three Rivers Trust, Watford Community Housing, and Hertfordshire Constabulary.

Decision Making Structures

19. At an Officer level, the Council has a Leadership Board made up of the Managing Director and Group/Executive Heads of Service. The Council also has Management Board which meets monthly and in addition to members of Leadership Board also comprises Heads of Service. Financial control is primarily the responsibility of a shared Director of Finance with neighbouring Three Rivers District Council. Leadership Board meets fortnightly to review and progress the key objectives of the Council. The Council also has a Strategic Group, chaired by the Managing Director, to consider and drive forward the overall strategic direction of the Council. In addition, there are a variety of officer boards that look at the council's commercial and property investments and oversee the Council's response to COVID-19.

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

Constitution

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

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

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

24. The Council published a new Council Plan in July 2020, which has taken a four-year perspective. This is reviewed annually and is underpinned by a more detailed Delivery Plan, which sets out key service improvement commitments and actions 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

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Multiple Deprivation. Progress on the Plan is reported to Cabinet and Overview and Scrutiny Committee (both public meetings) and more directly to the public through the Council's magazine, About Watford, which is distributed to every household in the Borough and is also available online.

25. Councillors are assisted in their policy and decision-making roles by the advice of staff with suitable qualifications and experience, under the leadership of the Managing Director. All reports requiring a decision from members include comments on financial, legal, equalities, sustainability, community safety (as relevant), risk 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.
26. The Constitution sets out an Officers' Code of Conduct, which includes: Disclosure of Information, Political Neutrality, Potential Conflict of Interest Situation, Bribery, Corruption and Fraud, Appointments and Other Employment Matters, Outside Commitments, Personal Interests, Equality Issues, Information Security, Criminal Offences, Whistle blowing and Breaches of the Code of Conduct.
27. The scrutiny function within a local authority provides a necessary check upon the role of Cabinet and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance, including those of the Council's outsourced services, it can also set up task groups to look in depth at issues it wishes to scrutinise and it also scrutinises the Community Safety Partnership. In addition, the Standards Committee considers member conduct and the Financial Scrutiny Committee considers financial issues. Finally, the Audit Committee reviews the overall governance arrangements, including the service related control and risk management environment. The Audit Committee also considers the response to Freedom of Information requests, the Ombudsman's annual report, risk management, Regulation of Investigatory Powers Act as well as annual accounts and treasury management (investment) policies.
28. 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.
29. Codes of Conduct defining the standards of behaviour for members, staff, partners and the community have been developed and communicated and are available on the Council's website. These include:
 - Members Code of Conduct;
 - Code of Conduct for staff;
 - Anti-fraud and corruption policy (including whistle blowing and anti-bribery);
 - Money Laundering detection guidance;
 - Members and officer protocols;
 - Regular performance appraisals, linked to service and corporate objectives;
 - Service standards that define the behaviour of officers;
 - A Standards Committee which has a key role in promoting and maintaining high standards of conduct for members;
 - Officers are subject to the standards of any professional bodies to which they belong.
30. The Group Head of Democracy and Governance is the Council's Monitoring Officer and duties include: maintaining the Council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.

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

Data Quality and Risk Management

32. The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the Council has a senior member of staff who acts as the Senior Information Risk Officer. Guidance documents include a Data Quality Policy, an Information Security Policy, a Data Asset Register and management training modules, all of which are on the intranet.

33. 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 Board and the Audit Committee. This Strategy underpins the Corporate Risk Register which was updated and reviewed by the Audit Committee in March 2021 and covers major issues that will affect the achievement of the council's key objectives. The Corporate Risk Register is at a strategic / high level and is complemented by detailed project and service risk registers. The Corporate Risk Register is reviewed quarterly by Leadership Board and is reviewed annually by Audit Committee. It was last reviewed by Audit Committee in March 2021.

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

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

Shared Services with Three Rivers District Council

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

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

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

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Community Engagement

37. Corporate governance includes informing our community of the plans and aspirations of the council and is primarily communicated through its published Council Plan and Delivery Plan as well as regular update reports to Cabinet and Overview and Scrutiny Committee and through its resident magazine, 'About Watford'. The directly elected Mayor, Peter Taylor, takes the lead in ensuring there is open and effective community leadership and provides a focal point for individuals, communities, business and voluntary organisations to engage with the Council. The Mayor is also the Chair of the Borough's Local Strategic Partnership, One Watford, which continues to lead on the successful delivery of the overall vision and objectives for the town and on effectively integrating partnership working and delivery.
38. The Council has established twelve neighbourhood forums, which mirror the Borough's ward boundaries and each has a devolved budget of £3,000. These are organised and managed by the relevant local councillors as part of their commitment to community leadership and engagement.
39. The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and businesses with information about the Council and its spending through a leaflet. For 2020/21 this was distributed with Council Tax bills and online for Business Rate customers. A summary of key financial information is contained in the Council magazine 'About Watford'. It also has very high engagement figures through social media, which is important for its profile as a town with a younger than average population.
40. A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey', which covers a range of areas relating to the Council's services and activities, including how it spends its money and prioritises areas for focus and improvement. Local residents are also invited to attend a range of Council-led Forums across a range of local issues, which help build understanding across a range of areas including future plans and service delivery. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community.

REVIEW OF EFFECTIVENESS

41. In accordance with recent external audit guidance, the review of the effectiveness of the governance framework will focus upon significant weaknesses and the 'big picture'. If issues have not been highlighted, it is because current governance arrangements have proved fit for purpose.
42. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Annual Report of the Head of Assurance for the Shared Internal Audit Service and also by comments made by the external auditors and other review agencies and inspectorates. The Mayor and Portfolio Holders maintain a continuous review of the Council's policies, activities and performance of Officers both through regular reviews and on a day to day basis.

The Council

43. Council comprises 36 Members and an Elected Mayor. The main roles are:
- To set Watford Borough Council's Budget and Policy Framework;
 - To receive a report from the Mayor, which Councillors can then ask the questions related to the report;
 - To receive questions from the public, which are then debated by the Councillors;
 - To receive petitions from the public, which are debated by the Councillors;

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- To receive questions from Councillors with their response, these are not debated;
- To receive motions from Councillors, which are then debated;
- To consider any recommendations from Committees or Working Parties.

44. Council met six times during 2020/21 and agendas, reports and minutes are available on the Council's website.

Cabinet

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

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

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

48. Cabinet met nine times during 2020/21.

The Review Committees

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

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

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

The committee met nine times in 2020/21.

51. Financial Scrutiny Committee comprises eight members and its work includes:

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

The Financial Scrutiny Committee met five times in 2020/21.

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Member Panels

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

Standards Committee

53. The Standards Committee is set up as and when required to consider matters of Member conduct. There was one meeting of this committee in 2020/21.

Members' Remuneration

54. Members' remuneration was reviewed in 2018 by an Independent Remuneration Panel, which was made up of four independent members. The report and recommendations of the Independent Remuneration Panel was approved by the Full Council as part of the Budget Council meeting, details of which are available on the Council's website. The Panel recommended that with effect from April 2019 the Basic Allowance should be linked to local government pay settlements and increased accordingly.
55. The Independent Remuneration Panel now sits on a quadrennial basis and is therefore next due to meet in in 2021.

Senior Management

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

56. Leadership Board comprises the three statutory appointments above, plus the following officers: Group Head of Community and Environmental Services, Executive Head of Strategy and Communications, Group Head of Transformation, Executive Head of Human Resources and Organisational Development, Group Head of Place and Executive Head of Commercial and Innovation. Leadership Board meets every two weeks.

Performance Management

57. Performance management follows a 'cascade' principle. The Council approves its Council Plan and Delivery Plan and highlights key aspirations and targets including a series of commitments and actions to be achieved in the year ahead. This Council Plan then cascades down to individual service plans, which in turn translates into team and individual work plans. Performance is monitored regularly by Leadership Board and through Group / Executive Heads of Service, Cabinet Members and Overview and Scrutiny Committee. Panel. Performance reviews also include consideration of complaints and progress against the Council's equalities agenda. In 2020/21, the Council implemented a new performance and project management software (Qlik), which is allowing for greater real time assessment and scrutiny of performance, including across its major projects.
58. The Council keeps residents and stakeholders informed of its progress through a publication called 'About Watford' which is delivered to every household and covers key achievements, events and opportunities. It also has a large social media following across Facebook, Twitter and

Annual Governance Statement

Instagram platforms which are a significant channel for communicating and engaging with residents.

Procurement

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

The Audit Committee

61. The Audit Committee comprises five members and met four times during 2020/21.
62. The Audit Committee's terms of reference are consistent with best practice. The Committee approves the annual plan of internal audit and receives the quarterly and annual reports of the Head of Assurance for the Shared Internal Audit Service. It approves the Statement of Accounts, the annual governance statement and the review of the effectiveness of the internal audit system. It receives reports on risk management and reviews the operation of treasury management. It also received the annual letter from the Ombudsman and considers regular reports upon Freedom of Information requests, risk management and the Regulation of Investigatory Powers Act.

Internal Audit

63. Internal Audit is an assurance function that provides an independent and objective opinion to the Council on its control environment - this comprises the systems of governance, internal control and risk management - by evaluating its effectiveness in achieving the organisation's objectives.
64. The internal audit function is carried out, by the Shared Internal Audit Service (SIAS), a local internal audit partnership hosted by Hertfordshire County Council. This provides greater independence and resilience and a positive step in improving governance. Internal Audit carry out a programme of reviews during the year which are based upon a risk assessment including fraud risk. The audit plan is approved by Audit Committee in March of the preceding year. As part of these audits, any failures to comply with legislation, council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to senior officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported quarterly to Audit Committee.
65. In line with Public Sector Internal Audit Standards, an Annual Assurance Statement and Internal Audit Report is compiled and presented to the first Audit Committee of each year, which:
- includes an opinion on the overall adequacy and effectiveness of the Council's internal control environment;
 - discloses any qualifications to that opinion, together with any reasons for the qualification;
 - draws attention to any issues which are judged particularly relevant to the preparation of the Annual Governance Statement.
66. The SIAS Head of Assurance Annual Report is a key source document for the Council's Annual Governance Statement. For 2020/21 this Report includes the following statements:
- In our opinion the corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by

Annual Governance Statement

CIPFA/SOLACE. This conclusion is based on the work undertaken by the Council and reported in its Annual Governance Statement for 2020/21;

- A satisfactory assurance opinion is given on the adequacy and effectiveness of both financial systems and non-financial systems in the internal control environment, based on the internal audits completed in the year. The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements. There are no qualifications to this assurance.

The Council's External Auditors

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

68. The Annual Audit and Inspection Letter 2019/20 was presented to the Audit Committee in July 2021 and the main conclusions for the year were:

- The 2019/20 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council; and
- The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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

SIGNIFICANT GOVERNANCE ISSUES

70. The 'normal' running of Council business has and can be controlled through the governance framework detailed in this report. No significant governance issues have been identified for 2020/21 and no outstanding matters were brought forward from 2019/20.

71. During 2020/21 COVID-19 has had a significant impact on the Council. Staff having been working largely from home relying on IT systems for remote working that were in place before the start of the pandemic. In addition, the Council has been responsible for administering significant grant systems and Council Tax and Non-Domestic Rate reliefs. The range of responses to the pandemic has placed considerable strain on the Council's resources. Incident management arrangements were put in place to oversee the Council's response, with regular incident management meetings and briefings for Cabinet. Existing delegated authorities to officers, the Mayor and Portfolio Holders were used when urgent decisions were required.

72. The Council recognised early the importance of steering both the town and the council through the COVID-19 crisis and into recovery and renewal. It developed a 'Road to Renewal' Plan in spring 2020 specifically to concentrate activities and resources on achieving a successful recovery. Progress against the Plan is reviewed by Leadership Board, Cabinet and Overview and Scrutiny Committee.

Certification Statement from the Elected Mayor and the Managing Director

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

Annual Governance Statement

Signed _____

Peter Taylor - Mayor

Date _____

Signed _____

Donna Nolan - Managing Director

Date _____

EXPLANATION OF CORE FINANCIAL STATEMENTS

Movement in Reserves Statement (MIRS) (Page 22)

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

Comprehensive Income and Expenditure Statement (Page 23)

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

Balance Sheet (Page 24)

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

Cash Flow Statement (Page 25)

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

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT

2020/21	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2020		(2,292)	(45,877)	(28)	(75,651)	(123,848)	(227,862)	(351,710)
Opening balance adjustment							(7)	
Total Comprehensive income and expenditure		11,004				11,004	16,371	27,375
Adjustments between accounting basis, and funding basis under regulations	8	(24,324)		(450)	(1,289)	(26,063)	26,063	0
Transfer to/from Earmarked Reserves		13,572	(13,572)		0	0	(0)	0
Total (Increase)\decrease during the year		252	(13,572)	(450)	(1,289)	(15,059)	42,427	27,368
Balance as at 31 March 2021		(2,040)	(59,449)	(478)	(76,940)	(138,907)	(185,435)	(324,342)

2019/20	Note	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Reserves
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2019		(2,000)	(19,492)	(1)	(4,228)	(25,721)	(199,305)	(225,026)
Total Comprehensive income and expenditure		(85,051)				(85,051)	(40,382)	(125,433)
Adjustments between accounting basis, and funding basis under regulations	8	58,950		(27)	(71,423)	(12,500)	12,500	0
Transfer to/from Earmarked Reserves		25,809	(25,134)			675	(675)	0
Total (Increase)\decrease during the year		(292)	(25,134)	(27)	(71,423)	(96,876)	(28,557)	(125,433)
Balance as at 31 March 2020		(2,292)	(44,626)	(28)	(75,651)	(122,597)	(227,862)	(350,459)

Core Financial Statements

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT



2019/20					2020/21		
Gross Spend	Gross Income	Net Spend			Gross Spend	Gross Income	Net Spend
£'000	£'000	£'000		Note	£'000	£'000	£'000
			Services				
1,315	(81)	1,234	Corp Strategy & Client Service		6,636	(5,359)	1,277
15,877	(3,642)	12,235	Community Services		16,960	(2,853)	14,107
2,513	(567)	1,946	Democracy & Governance		2,236	(143)	2,093
673	(46)	627	Human Resources		773	(62)	711
14,756	(4,569)	10,187	Place Shaping & Performance		23,866	(4,625)	19,241
6,458	(292)	6,166	Service Transformation		5,832	(608)	5,224
35,328	(31,282)	4,046	Strategic Finance		29,077	(29,256)	(179)
76,920	(40,479)	36,441	Cost of Services		85,380	(42,906)	42,474
		(10,735)	Other Operating (Income)	9			93
		(1,924)	Financing and Investment (Income)	10			(9,322)
		(108,833)	Taxation and Non-Specific Grant Income	11			(22,241)
		(85,051)	(Surplus)/Deficit on Provision of Services				11,004
		(18,676)	(Surplus) on Revaluation of PPE	21(a)			3,011
		(21,706)	Re-measurement of the net defined benefit liability	33			13,360
		(40,382)	Other Comprehensive (Income)				16,371
		(125,433)	Total Comprehensive (Income)/Expenditure				27,375

Core Financial Statements

BALANCE SHEET

2019/20 (restated)			2020/21
£'000			£'000
361,466	Property, Plant and Equipment	21	357,207
1,331	Assets Under Construction	21	1,518
2,609	Heritage Assets	22	2,574
2,600	Surplus Assets	23	2,745
161,448	Investment Properties	23	158,825
2,870	Long Term Investments	26	22,766
18,441	Long-Term Debtors	26	2,420
0	Capital Programmes		
550,765	Total Long term Assets		548,055
0	Assets Held For Sale		0
20	Inventories		15
11,684	Short-Term Debtors	27	15,919
94,413	Short-Term Investments	28b	92,848
9,865	Cash and Cash Equivalents	28a	16,893
115,982	Total Current Assets		125,675
(22,949)	Short-Term Creditors	30	(25,802)
(15,000)	Short-Term Borrowing	30	(20,011)
(37,949)	Total Current Liabilities		(45,813)
(231,912)	Long-Term Creditors	31	(233,508)
0	Long-Term Borrowing		(11,250)
(2,987)	Provisions	32	(3,737)
(42,191)	Defined Benefit Pension Scheme	33	(55,079)
(277,090)	Total Long Term Liabilities		(303,574)
351,710	Net Assets		324,343
	Reserves		
(123,848)	Usable Reserves	35	(138,907)
(227,862)	Unusable Reserves	36	(185,435)
(351,710)	Total Reserves		(324,342)

Signed:
Alison Scott, CIPFA
Director of Finance

Date: xx August 2023

Signed:
Mark Hofman
Chairman of Audit Committee

Date: xx August 2023

Core Financial Statements

CASH FLOW STATEMENT

2019/20 (Restated)				2020/21	
£'000	£'000		Note	£'000	£'000
85,051		Net surplus on the provision of services	CIES	(11,004)	
19,872		Adjustments to net surplus or deficit on the provision of services for non cash movements	29a	18,511	
298,509		Adjustments for items that are outflows in provision of services from investing and financing activities	29a	86,089	
	403,432	Net cash inflows from Operating Activities			93,596
(403,013)		Investing Activities outflows	29b	(89,583)	
4,514		Financing Activities outflows	29c	3,015	
	4,933	Net increase in cash and cash equivalents			7,028
	4,931	Cash and Cash equivalents at the beginning of the reporting period			9,865
	9,865	Cash and Cash equivalents at the end of the reporting period	28		16,893

1. Accounting Policies - Single Entity and Group Accounts

General Principles

The Statement of Accounts summarises the Council's transactions for the 2020/21 financial year and its position at the year end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2015, which require these to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act, primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by the International Financial Reporting Standards (IFRS). There have been no material changes to the accounting policies for 2020/21.

The accounting convention adopted in the Statement of Accounts is primarily historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. These statements have been compiled on the basis of the Council remaining a going concern and all amounts have been rounded to the nearest £1,000.

Turnover (for Group Accounts)

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

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

1.03 Accruals of Income and Expenditure

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

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

1.04 Cash and Cash Equivalents

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

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

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

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

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

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

1.06 Charges to Revenue for Long Term Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These entries are adjusted through the Movement in Reserves Statement.

1.07 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post Employment Benefits

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

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme

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

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

- Current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost — the increase in liabilities arising from current year decisions which relate to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- Interest cost — the expected increase in the present value of liabilities during the year as they move one year closer to being paid — debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Expected return on assets — the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Gains or losses on settlements and curtailments — the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees — debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs

Notes to the Core Financial Statements

- Actuarial gains and losses — changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions — credited to the Comprehensive income and expenditure - Other Comprehensive Income and Expenditure line and reversed through the Movement in Reserves to the Pensions Reserve;
- Contributions paid to the HCC pension fund — cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense in the Comprehensive Income and Expenditure Statement.

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

Discretionary Benefits

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

1.08 Financial Instruments

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cashflows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the 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 (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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

Expected Credit Loss Model

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

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

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

The Authority recognises gains and losses on its Pooled Investment through Surplus / Deficit on Provision of Services on the face of the Income Statement. This is a new requirement under IFRS 9. There is a “statutory reversal” which means that the impact of this change in valuation does not hit the “bottom line” or taxpayers. The impact is reversed out and placed in an unusable reserve.

1.09 Government Grants and Contributions

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

- The Council will comply with the conditions of the payment and
- 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, depending upon their nature. 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.

1.10 Intangible Assets

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

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

Notes to the Core Financial Statements

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

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

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

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

1.11 Inventories and Long Term Contracts

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

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

1.12 Investment Property

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

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

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

1.13 Leases

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

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:-

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

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

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

Operating Leases

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

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal.

Lease rentals 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 CIES).

The gain credited to the CIES 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

Notes to the Core Financial Statements

balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

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

1.14 Overheads and Support Services

The actual costs of overheads and support services are charged to those users that benefit from the supply or service as required by the CIPFA Code of Practice on Local Authority Accounting 2020/21.

1.15 Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

- Infrastructure, community assets and assets under construction — depreciated historical
- All other assets — fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value — EUV).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. In addition, should current valuations of a similar class of asset suggest material differences in valuations, the entire class to which the asset belongs would be revalued. The current valuers have undertaken a market review of individual asset types within the Council's portfolio at year end to identify any material changes to the fair value of assets. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

When decreases in value are identified:

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

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

Impairment

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

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

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

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.

Notes to the Core Financial Statements

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).

Depreciation is calculated on the following bases:-

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

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

Depreciation commences in the year following acquisition.

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

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

Disposals of Non-current Assets

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

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

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

Construction Contracts

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

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

probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

1.16 Heritage Assets

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

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

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

1.17 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

The level of provisions are reviewed annually by the Council.

Contingent Liabilities

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

circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

Contingent Assets

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

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

1.18 Reserves

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

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

1.19 Revenue Expenditure Funded from Capital under Statute

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

1.20 Value Added Tax (VAT)

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

1.21 Jointly Controlled Operations and Jointly Controlled Assets

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

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

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

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

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

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

1.22 Single Entity Financial Statements

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

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

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

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

Subsidiary undertakings are accounted for in accordance with the implementation of IAS27 (International Accounting Standard 27) in the 2020/21 Code. The 2020/21 Code requires consolidation of subsidiaries. Consolidation is a method of accounting whereby an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, reserves, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:-

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

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

Taxation (for Group Accounts)

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

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

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

Allocation of Profits and Drawings (for Group Accounts)

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

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

Work in progress (for Group Accounts)

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

1.24 Fair Value

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

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

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

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

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

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

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

Paragraph 3.3.4.3 of the Code of Practice requires that the Council discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. The requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2021 for 2020/21).

In compiling the 2020/21 accounts there are no material effects in relation to these standards.

Notes to the Core Financial Statements

In response to the COVID-19 pandemic, CIPFA/LASAAC deferred the implementation of IFRS 16 Leases in the public sector until the 2022/23 financial year, with an effective date of 1 April 2022. This will require lessees to recognise assets subject to leases as right-of-use assets on their balance sheet, along with corresponding lease liabilities (there are exceptions for low-value and short-term leases).

3. 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 assumptions within the accounts are arrived at in a number of ways:

- a) Estimates for accrued expenditure/income - based on service managers' and accountants' calculations at year end.
- b) Bad debt provision - based on historic trends and adjusted for any material movements during 2020/21. This includes an estimation of the impact that the COVID-19 lockdown will have on rates of debt recovery.
- c) Asset lives for the calculation of depreciation charges - based on service managers' experience of previously used assets.
- d) The Council has also placed reliance on technical estimates supplied by third parties for the following:
 - Property valuations made by the Avison Young
 - Pension valuations supplied by Hymans Robertson - Actuary engaged by Hertfordshire County Council.

The Council has received very detailed reports from both of these sources outlining overall valuations and all of the key assumptions made in arriving at these final figures. These reports will be examined by EY during their audit of the Council's Accounts.

e) Delays to the reviews of the future funding mechanisms for Local Government have caused a high degree of uncertainty. The impact of this on the finances of this Council will be material with an expectation that the current various income streams will be altered, reduced and even ceased in some cases. This has been compounded by the COVID-19 pandemic which required various national lockdowns and restrictions to be imposed. Authorities have received some necessary reactive funding and have been reimbursed for the majority of the lost income normally collected through Fees and Charges. This funding, along with the need to close facilities have been sufficient to protect the assets of the Council from impairment.

4 Prior Period Adjustments

We have no prior period adjustments this year.

5 Events after the Balance Sheet date

There are no known events that would have material impact on the Council's position as at 31 March 2021.

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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 2021 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Impact
Property, Plant and Equipment (PPE)	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.
Investment Properties	Due to the effects of COVID-19 on the property market the Council's valuer Avison Young have provided valuations reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, they advise that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.	The impact of different valuations would have an impact on the value of non-current assets and reserves on the Balance Sheet changing both by the same amount.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to: the discount rate used; the rate at which salaries are projected to increase; changes in the retirement ages; mortality rates; and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The value of pension assets is based upon information available at the Balance Sheet date, but these valuations may be earlier than the Balance Sheet date. The actual valuations at the Balance Sheet date, which may not be available until sometime later, may	The effects on the closing defined benefit obligation of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the closing defined benefit obligation of £17.733m. A 1 year increase in life expectancy assumptions would increase the closing defined benefit obligation by 3-5%.

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	<p>give a different value of pension assets, but this is not generally considered to be material.</p>	
Arrears	<p>At 31 March 2021, the Council had a short term sundry debtor balance of £16,135k. A review of significant balances suggested a provision for bad debts of £5,494k was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient. See Note 27.</p> <p>The economic impact of the COVID-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>	<p>If collection rates were to deteriorate an increasing level of doubtful debts would require an additional amount to be put aside as a bad debt provision for additional bad debt write offs.</p>
Non Domestic Rates Appeals Provision	<p>The provision for NDR Appeals includes an assessment of the appeals lodged to 31st March 2021, plus an estimate of the appeals not yet lodged.</p>	<p>There is uncertainty and risk surrounding the calculation of the provision as future events may affect the amount required to settle the obligation. If NDR appeals were to significantly increase, the provision would have to be reassessed and increased. The increased liability would be shared between the Council, Central Government and County Council.</p>
Fair Value Asset Valuations	<p>The Council engages Avison Young, a qualified RICS surveyor, to provide valuations of land and property assets at the year end. The values of assets are adjusted to their current values by reviewing the sales of similar assets in the region, applying indexation and considering impairment of individual assets. Avison Young's valuation experts work closely with finance officers on all valuation matters.</p>	<p>Significant changes in the assumptions of future income streams/growth; occupancy levels; ongoing property maintenance and other factors could result in a significantly higher or lower fair value for these assets.</p> <p>In particular, the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value.</p>

Notes to the Core Financial Statements

7(a) Expenditure and Funding Analysis

2019/20				2020/21		
Net Expenditure chargeable to General Fund	Adjustments	Net Expenditure in the CIES		Net Expenditure chargeable to General Fund	Adjustments	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
1,233	1	1,234	Corp Strategy & Client Services	1,125	152	1,277
9,561	2,674	12,235	Community Services	10,903	3,204	14,107
1,943	3	1,946	Democracy & Governance	1,971	122	2,093
625	2	627	Human Resources	342	369	711
(10,519)	20,706	10,187	Place Shaping & Performance	7,729	11,512	19,241
5,255	911	6,166	Service Transformation	3,196	2,028	5,224
14,694	(10,648)	4,046	Strategic Finance	2,393	(2,572)	(179)
22,792	13,649	36,441	Net Cost of Services	27,659	14,815	42,474
(48,894)	(72,599)	(121,492)	Other Income and Expenditure	(40,979)	9,509	(31,470)
(26,101)	(58,950)	(85,051)	(Surplus) on Provision of Services	(13,320)	24,324	11,004
25,809			Transfer (from) \to Reserves	13,572		
(292)			(Surplus)/Deficit as per Outturn	252		
(2,000)			Opening General Fund Balance	(2,292)		
(26,101)			(Surplus) on Provision of Services	(13,320)		
25,809			Transfer to Earmarked Reserves	13,572		
(2,292)			Closing General Fund Balance	(2,040)		

Notes to the Core Financial Statements

7(b) Note to Expenditure and Funding Analysis

2019/20				2020/21				
Adjustments for capital purposes	Net change for the pension the adjustments	Other Difference	Total Adjustments		Adjustments for capital purposes	Net change for the pension the adjustments	Other Difference	Total Adjustments
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
0	0	1	1	Corp Strategy & Client Services	0	124	28	152
2,876	0	(202)	2,674	Community Services	2,853	283	68	3,204
0	0	3	3	Democracy & Governance	0	102	20	122
0	0	2	2	Human Resources	0	358	11	369
6,350	0	14,356	20,706	Place Shaping & Performance	11,232	233	47	11,512
1,097	0	(186)	911	Service Transformation	1,930	62	36	2,028
552	(665)	(10,535)	(10,648)	Strategic Finance		(2,572)	0	(2,572)
10,875	(665)	3,439	13,649	Net Cost of Services	16,015	(1,410)	210	14,815
(67,785)	1,509	(6,323)	(72,599)	Other Income and Expenditure	(9,569)	938	18,140	9,509
(56,910)	844	(2,884)	(58,950)	Difference between General Fund (surplus) and Comprehensive Income and Expenditure Statement (surplus)	6,446	(472)	18,350	24,324

Notes to the Core Financial Statements

8 Adjustments between accounting basis and funding basis under regulations

2020/21	General Fund	Capital Receipts	Capital Grants	Unusable Reserve
	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the CIES:				
Charges for depreciation, impairment and revaluation losses	(10,148)			10,148
Movements in the market value of Investment Properties	(4,350)			4,350
Revenue Expenditure Funded from Capital Under Statute	(5,922)			5,922
Amortisation of intangible assets	(137)			137
Amounts of non-current assets written off on disposal or sales as part of the gain/loss on disposals	(1,410)			1,410
MRP transfer to CAA	4,109			(4,109)
Capital expenditure finance from revenue balances transferred to the CAA	332			(332)
Adjustments primarily involving the Financial Instrument Adjustment Account:				
Unrealised Gains/(Losses) on Pooled investment funds	2,848			(2,848)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	8,232		(8,232)	
Application of grants to capital financing transferred to the CAA			6,943	(6,943)
Repayment of Loans		(2,329)		2,329
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of gain/loss on disposal to the CIES	0	0		
Capital Receipts applied		1,879		(1,879)
Transfer (from)/to the Deferred Capital Receipts upon receipt of cash				
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	(3,545)			3,545
Employer's pensions contributions and direct payments to pensioners payable in the year	4,017			(4,017)
Adjustments primarily involving the Collection Fund Adjustments Accounts:				
Amount by which council tax & business rates income credited to the CIES is different from statutory requirements	(18,140)			18,140
Adjustments primarily involving the Accumulated Absences Accounts:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from statutory requirements.	(210)			210
	(24,324)	(450)	(1,289)	26,063

Notes to the Core Financial Statements

2019/20	General Fund £'000	Capital Receipts £'000	Capital Grants £'000	Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the CIES:				
Charges for depreciation, impairment and revaluation losses	(9,610)			9,610
Movements in the market value of Investment Properties	(12,464)			12,464
Revenue Expenditure Funded from Capital Under Statute	(1,073)			1,073
Amortisation of intangible assets	(221)			221
Amounts of non-current assets written off on disposal or sales as part of the gain/loss on disposals	(1,288)			1,288
MRP transfer to CAA	83			(83)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the CIES	75,615		(75,615)	
Application of grants to capital financing transferred to the CAA			4,192	(4,192)
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of gain/loss on disposal to the CIES	5,839	(5,839)		
Capital Receipts applied		5,812		(5,812)
Transfer (from)/to the Deferred Capital Receipts upon receipt of cash				0
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the CIES	(4,536)			4,536
Employer's pensions contributions and direct payments to pensioners payable in the year	3,692			(3,692)
Adjustments primarily involving the Collection Fund Adjustments Accounts:				
Amount by which council tax & business rates income credited to the CIES is different from statutory requirements	2,898			(2,898)
Adjustments primarily involving the Accumulated Absences Accounts:				
Amount by which officer remuneration charged to the CIES on an accruals basis is different from statutory requirements.	(14)			14
	58,921	(27)	(71,423)	12,529

Notes to the Core Financial Statements

9 Other Operating Income and Expenditure

2019/20		2020/21
£'000		£'000
(634)	(Gains) on Disposal of Non-Current Assets	(41)
(3,917)	Unattached Capital Receipts	0
(6,184)	Other Operating (Income)	134
(10,735)		93

10 Financing and Investment Income and Expenditure

2019/20		2020/21
£'000		£'000
3,962	Interest Payable and Similar Charges	5,782
1,509	Net Interest on the Net Defined Benefit Liability/(Asset)	938
(5,891)	Interest Receivable and Similar Income	(1,301)
(13,968)	(Income) Relation to Investment Properties	(19,091)
12,464	Investment Properties - Changes in their Fair Value	4,350
(1,924)		(9,322)

11 Taxation and Non Specific Grant Income

2019/20		2020/21
£'000		£'000
(8,975)	Council Tax Income - Includes Collection Fund Deficit	(9,007)
(4,709)	Non-domestic Rates Income and Expenditure	1,244
(721)	Non-ringfenced Government Grants	(6,226)
(3,679)	Capital Grants & Contributions	(8,252)
(90,749)	Contribution in respect of Croxley Business Park	
(108,833)		(22,241)

Notes to the Core Financial Statements

12 Expenditure and Income analysed by Nature

2019/20		2020/21
£'000		£'000
(7,223)	Fees and Charges	(5,658)
(7,395)	Net Interest and Investment Income	(16,042)
(13,684)	Income From Council Tax and Business Rates	(7,763)
(100,850)	Other Income	134
(37,065)	Government Grants and Contributions	(45,553)
(587)	Support Services Recharge	(647)
(166,804)	Total Income	(75,529)
17,355	Employee Costs	14,706
54,391	Other Service Expenditure	54,864
5,171	Depreciation, Amortisation and Impairment	10,284
(634)	(Gains) on disposal of non-current assets	(41)
3,962	Interest Payable and Similar Charges	5,782
1,509	Pensions Adjustments	938
81,754	Total Expenditure	86,532
(85,050)	(Surplus)/Deficit on Provision of Services (I&E)	11,004

Notes to the Core Financial Statements

13 Grant Income

2019/20		2020/21
£'000		£'000
	Credited to Taxation and Non-Specific Grant Income	
(721)	New Homes Bonus	(772)
(3,664)	Section 106 Contributions	(2,987)
(15)	Other	(5,265)
(4,400)	Subtotal Grant Income Credited to Taxation and Non-Specific Grant Income	(9,024)
	Covid Grants	
0	Discretionary Grants	(3,273)
0	Income Guarantee Scheme	(1,250)
	Subtotal Covid-19 Grant Income Credited to Services	(4,523)
	Credited To Services	
(55)	Arts Council - Lottery	0
(17)	Building Safer Communities	0
(15)	CCTV	(17)
(112)	Housing & Council Tax Benefit Administration Grant	(100)
(97)	Highways	(102)
(29,838)	DWP Housing Benefit Grant	(28,717)
(67)	Partnerships and Performance	0
(512)	Elections	(56)
(62)	Environmental Health	(399)
(271)	Housing - Homelessness	(1,650)
(52)	Housing Refugees	(46)
0	Other LA/Public Bodies	(56)
(194)	New Burdens	(59)
(176)	NNDR - Cost of Collection Grant	(162)
(27)	Public Health & Nuisance	0
(298)	Planning	(137)
(54)	Little Cassiobury	(74)
(42)	Sports Development	(6)
(32)	Taxi Marshall Scheme	(2)
(45)	Town Centre Special Events	(35)
(699)	Waste Management	(388)
(32,665)	Subtotal Grant Income Credited to Services	(32,006)
(37,065)	Total Grant Income	(45,553)

14 Joint Operations

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

Notes to the Core Financial Statements

15 External Audit Costs

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections for 2019/20 and 2020/21 by Ernst & Young.

2019/20		2020/21
£'000		£'000
40	Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor for the year.	60
11	Fees payable for other services provided by external auditors during the year.	8
51		68

16 Members' Allowances

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

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

Notes to the Core Financial Statements

17 Officers' Remunerations

The Council is required to disclose the number of employees in the accounting period whose remuneration fell in each bracket of a scale in multiples of £5,000, starting with £50,000. For completeness, the Council has included the senior officers' remuneration (excluding pensions) from the second table of this note, in the first table of this note, detailed below:-

2019/20		2020/21
No of Employees	Remuneration Band	No of Employees
11	£50,000 - £54,999	12
6	£55,000 - £59,999	5
3	£60,000 - £64,999	5
0	£65,000 - £69,999	2
1	£70,000 - £74,999	2
2	£75,000 - £79,999	2
3	£80,000 - £84,999	4
0	£85,000 - £89,999	1
0	£90,000 - £94,999	1
0	£95,000 - £99,999	0
1	£100,000 - £104,999	0
0	£105,000 - £109,999	0
1	£110,000 - £114,999	0
0	£115,000 - £119,999	1
0	£120,000 - £124,999	0
0	£125,000 - £129,999	0
0	£130,000 - £134,999	0
0	£135,000 - £139,999	1
1	£140,000 - £144,999	0
0	£145,000 - £149,999	0
0	£150,000 - £154,999	0
0	£155,000 - £159,999	0
29		36

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

Notes to the Core Financial Statements

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

2020/21 Post	Salary Including Fees and Allowances	Expenses Allowances	Compensation for Loss of Office	Pension Contribution	Total Remuneration
	£	£	£	£	£
Managing Director	138,713	0	0	25,246	163,959
Group Head of Place Shaping	94,766	0	0	17,247	112,013
Group Head of Community & Environmental Services	82,768	0	0	15,064	97,832
Group Head of Transformation	84,765	0	0	15,427	100,192
Group Head of Democracy & Governance (Monitoring Officer)	85,461	0	0	15,554	101,015
Group Head of Commercial	49,495	0	30,000	8,535	88,030
Executive Head of Strategy and Communications	79,852	0	0	14,533	94,385
Executive Head of HR and Organisational Development	83,390	0	0	15,177	98,567
Total	699,210	0	30,000	126,783	855,993

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

Notes to the Core Financial Statements

18 Termination Benefits

Exit Package cost band (including special payments)	Nuner of Compulsory Redundancies		Number of Other Departures Agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
£0 - £20,000	6	0	0	0	6	0	69,426	0
£20,001 - £40,000	1	2	0	0	1	2	32,652	62,928
£40,001 - £60,000	2	0	0	1	2	1	94,762	41,913
£60,001 - £80,000	0	1	0	0	0	1	0	62,021
£150,001 - £200,000	1	0	0	0	1	0	156,485	0
Total cost included in bandings and in the CIES	10	3	0	1	10	4	353,325	166,862

19 Related Party Transactions

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

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

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

Name	Role	Position	Name of Entity	Details
Stephen Bolton	Councillor	Board Member	Groundwork East	Occasional transactions in the normal course of business
Alan Gough	Head of Community & Customer Services	Director	Hart Homes LLP	Council has a 50% stake
Alison Scott	Head of Finance/Director of Finance	Director		

Notes to the Core Financial Statements

Matthew Turmaine	Councillor	Project Manager	Hertfordshire County Council	Occasional transactions in the normal course of business
Peter Taylor	Mayor	Board Member	Hertfordshire Growth Board	Occasional transactions in the normal course of business
Peter Taylor	Mayor	Board Member	Hertfordshire Local Enterprise Partnership	Occasional transactions in the normal course of business
Tim Williams	Councillor	Representative	Hertfordshire Sustainability Forum	Occasional transactions in the normal course of business
			Hertfordshire Waste Management Group	Occasional transactions in the normal course of business
Iain Sharpe	Councillor	Declaration of Interest	New Hope	Occasional transactions in the normal course of business
Peter Taylor	Mayor	Declaration of Interest	Parochial Church Council – St Matthews Church	Occasional transactions in the normal course of business
Alison Scott	Director of Finance	Board Member	Riverwell Joint Venture LABV	Occasional transactions in the normal course of business
Tim Williams	Councillor	Representative	The Palace Theatre	Occasional transactions in the normal course of business
Karen Collett		Board Member		
Mark Watkin	Councillor	Representative	Val Mirugan Hindu Temple Trust	Occasional transactions in the normal course of business
Donna Nolan	Managing Director	Board Member	Watford BID	Occasional transactions in the normal course of business

Notes to the Core Financial Statements

Stephen Bolton	Councillor	Board Member	Watford Citizens Advice Bureau	Occasional transactions in the normal course of business
Andrew Cox	Group Head of Transformation	Board Member	Watford Commercial Services Ltd	Wholly owned subsidiary of Council
Alison Scott	Head of Finance/Director of Finance	Director		
Iain Sharpe	Councillor	Declaration of Interest	Watford FC Community Sports & Education Trust	Occasional transactions in the normal course of business
Donna Nolan	Managing Director	Board Member	Watford Health Campus Partnership LLP	Set up in 2013, the Council is in partnership with Kier Property Investment Ltd in a LABV (Local Asset Backed Vehicle). This is developing a large site next to Watford hospital which has many complex issues to resolve and will take well over a decade to complete all aspects. The Council's financial input relates to providing land and equity (Loan Notes A). The equity required varies between years in line with the needs of the developments within the overall scheme. In 2018/19 the net equity at the year-end was £7.078m including accrued interest.
Peter Taylor	Mayor	Board Member	Watford Town Centre Business Improvement District	Occasional transactions in the normal course of business
Tim Williams	Councillor	Representative	Watford Workshop	Occasional transactions in the normal course of business

Notes to the Core Financial Statements

Stephen Bolton	Councillor	Board Member	Wellspring Church	Occasional transactions in the normal course of business
Maggie Parker				
Donna Nolan	Managing Director	Clerk	West Herts Crematorium	An Agreement existing between neighbouring authorities (Hertsmere, St Albans, Dacorum, Three Rivers & Watford) to constitute a Joint Committee under the Local Government Act 2000. In 2020/21, Watford received a contribution of £50,000 (2019/20 £50,000)
Karen Collett	Councillor	Board Member		
Darren Walford	Councillor	Committee Member	West Herts Golf Club Consultative Committee	Rent Received from West Herts Golf Club of £54,000 per annum (2019/20 £70,000) as well as occasional transactions in the normal course of business
Jagtar Dhindsa				

Notes to the Core Financial Statements

20 Partnership Working

2019/20		2020/21		
Total Net Cost		Provided by TRDC	Provided by WBC	Total Net Cost
£'000	Services	£'000	£'000	£'000
1,474	Local Tax Collection	1,679		1,679
1,486	Housing Benefits	1,632		1,632
1,397	Finance	1,375		1,375
668	HR		888	888
1,201	ICT		1,280	1,280
6,226	Net Cost of Services / Operating Expenditure	4,686	2,168	6,854
(3,747)	Paid by Watford Borough Council	(1,905)	(796)	(2,701)
(2,479)	Paid by Three Rivers District Council	(2,781)	(1,372)	(4,153)
0	(Surplus) / Deficit for the year	0	0	0

21 Property, Plant and Equipment

(a) Movement of Property, Plant and Equipment

2020/21	Assets Under Constr'n	Land & Building	Plant & Equipment	Infra-Structure	Surplus	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 April 2020	1,331	359,453	33,505	3,196	2,600	400,085
Additions - Capital Programme	187	7,521	2,369	207	167	10,451
Additions - Finance Leases						0
Revaluation increases / (decreases) recognised in the Revaluation Reserve		(4,192)			(22)	(4,214)
Revaluation increases/ (decreases) recognised in the Surplus / Deficit on the provisions of services		(2,095)	0			(2,095)
Derecognition - Disposals		(1,543)	(1,001)	0		(2,544)
Assets reclassified		0	0	0		0
At 31 March 2021	1,518	359,144	34,873	3,403	2,745	401,683
Accumulated Depreciation & Impairment						
At 1 April 2020	0	(9,786)	(21,831)	(3,071)	0	(34,688)
Depreciation Charge	0	(6,327)	(1,401)	(58)	0	(7,786)
Depreciation written out to the Revaluation Reserve		1,238			0	1,238
Depreciation Written out on Disposal		4	1,002		0	
Other Adjustment		15				
At 31 March 2021	0	(14,856)	(22,230)	(3,129)	0	(41,236)
Balance Sheet Value at 31 March 2021	1,518	344,288	12,643	274	2,745	361,468
Balance Sheet Value at 1 April 2020	1,331	349,667	11,674	125	2,600	362,797

Notes to the Core Financial Statements

2019/20	Assets Under Constr'n	Land & Building	Plant & Equipment	Infra-Structure	Surplus	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1 April 2019	2,238	103,532	26,292	3,249	2,146	137,458
Additions - Capital Programme	336	2,656	7,752	148	0	10,892
Additions - Finance Leases	0	236,890	0	0		236,890
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	17,214	0	0	0	17,214
Revaluation increases/ (decreases) recognised in the Surplus / Deficit on the provisions of services	(343)	(467)	(539)	(202)	(458)	(2,009)
Derecognition - Disposals	0	(28)	0	0	(384)	(412)
Assets reclassified	(900)	(344)	0	0	1,296	52
At 31 March 2020	1,331	359,453	33,505	3,196	2,600	400,085
Accumulated Depreciation & Impairment						
At 1 April 2019	0	(7,963)	(20,748)	(2,691)	0	(31,402)
Depreciation Charge	0	(2,678)	(1,083)	(380)	0	(4,141)
Depreciation written out to the Revaluation Reserve	0	855	0	0	0	855
At 31 March 2020	0	(9,786)	(21,831)	(3,071)	0	(34,688)
Balance Sheet Value at 31 March 2020	1,331	349,667	11,674	125	2,600	362,797
Balance Sheet Value at 1 April 2019	2,238	95,569	5,544	559	2,146	103,910

(b) Revaluations

The Council carried out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations are carried out externally 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 Statement of Accounts 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.

(c) Information About Depreciation Methodologies

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

22 Heritage Assets

The Council's Heritage Assets are reported in the Balance Sheet at insurance valuations which are based on market values. These insurance values are reviewed and updated as part of the rolling five year plan. The Council has a rolling programme of repair and restoration of its heritage assets

Notes to the Core Financial Statements

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.

2020/21	Musical Instrument	Statues, Sculptures & War Memorials	Works of Art	Civic Regalia	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2020	400	647	1,297	265	2,609
Revaluation increases recognised in the Revaluation Reserve			(35)		(35)
At 31 March 2021	400	647	1,262	265	2,574

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

23 Investment Properties and Surplus Assets

(a) Movement of Investment Properties

Notes to the Core Financial Statements

2020/21	Investment Properties
	£'000
At 1 April 2020	161,448
Additions	1,727
Revaluation increases recognised in the surplus/deficit on the provision of services	(4,350)
Revaluation increases/ (decreases) recognised in the Surplus / Deficit on the provisions of services	
Derecognition - disposals	0
Derecognition - Other	
Assets reclassified	0
At 31 March 2020	158,825
Balance Sheet Value at 31 March 2021	158,825
Balance Sheet Value at 1 April 2020	161,448
2019/20	Investment Properties
	£'000
At 1 April 2019	171,711
Additions	3,129
Revaluation increases recognised in the surplus/deficit on the provision of services	(12,464)
Derecognition - disposals	(875)
Derecognition - Other	(1)
Assets reclassified	(52)
At 31 March 2020	161,448
Balance Sheet Value at 31 March 2020	161,448
Balance Sheet Value at 1 April 2019	171,711

Fair Value Hierarchy

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

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

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

Notes to the Core Financial Statements

Valuers

The investment property portfolio has been valued at 31 March 2021 in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution for Chartered Surveyors. The assets were valued by Avison Young, the Council's valuing agents.

(b) Accounted for in Comprehensive Income and Expenditure Statement

2019/20		2020/21
£'000		£'000
536	Leases rolling over regularly	510
16,180	Not later than one year	18,351
64,847	Later than one year and not later than five years	71,576
184,836	Later than five years	188,535
266,398	Balance as at 31 March carried forward	278,972

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

24 Capital Expenditure, Financing and Commitments

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

Notes to the Core Financial Statements

2019/20 Restated		2020/21
£'000		£'000
31,117	Opening Capital Financing Requirement	273,862
	Capital Investment	
247,782	Property, Plant and Equipment	10,451
3,129	Investment Properties	1,727
221	Intangible Assets	137
4,532	Revenue Expenditure Funded from Capital Under Statute	5,922
225	Long Term Debtors	3,760
259,506		21,997
	Sources of Finance	
(5,811)	Capital receipts	(1,879)
(4,192)	Government Grants and Other Contributions (including S106)	(6,943)
	Revenue	(333)
(6,000)	Long Term Debtors	0
(83)	Minimum Revenue Provision	(4,109)
(16,761)		(13,264)
273,862		282,594

At 31 March 2021 the Council had contractual commitments totalling £22.781m (31 March 2020: £35.719m)

Notes to the Core Financial Statements

25 Leases

Operating Leases – The Council as Lessor

The Council leases out property under operational leases.

The future minimum leases payments receivable are:

2019/20		2020/21
£'000		£'000
536	Leases rolling over regularly	510
16,180	Not later than one year	18,351
64,847	Later than one year and not later than five years	71,576
184,836	Later than five years	188,535
266,398	Balance as at 31 March carried forward	278,972

26 Debtors & Investments - Long Term

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

Restated 2019/20		Net Movements in Year	2020/21
£'000		£'000	£'000
	Long Term Debtors		
8	Loan to YMCA	0	8
150	Watford Muslim Youth	0	150
7	Charges Registered to Properties	0	7
2,000	Watford Health Hospital Trust	0	2,000
10,051	Watford Health Campus LABV	(303)	9,748
6,000	Hart Homes Watford LTD - Loan	119	6,119
	Hart Homes Development LLP - Loan	4,509	4,509
225	Everyone Active - Leisure Centres	0	225
18,441		4,325	22,766
	Long Term Investments		
2,400	Hart Homes Watford	0	2,400
20	Municipal Bonds Agency & Local Capital Finance Company	0	20
450	Watford Commercial Services	(450)	0
2,870		(450)	2,420
21,311		3,875	25,186

Notes to the Core Financial Statements

27 Debtors - Short Term

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

2019/20		2020/21
£'000		£'000
3,675	Central Government Bodies	1,718
594	Local Authorities	4,735
12,832	Other Entities and Individuals	15,332
223	Payments in Advance	456
17,323		22,241
(5,640)	Less: Provision for Bad Debts / Impairment	(6,322)
11,684	Total	15,919

28a Cash and Cash Equivalents

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

2019/20		2020/21
£'000		£'000
	Current Assets	
35	Cash held by the Authority	5
9,830	Bank Current Accounts	16,888
9,865		16,893
	Current Liabilities	
0	Bank overdrafts	0
9,865	Total	16,893

28b Short Term Investments

2019/20		2020/21
£'000		£'000
	Short Term Investments	
0	CBP Pooled Funds	92,848
94,413	Short Term Deposits	0
94,413	Total	92,848

29 Cash Flow Statement- Operating, Investing and Financing Activities

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

Notes to the Core Financial Statements

2019/20			2020/21	
£'000	£'000		£'000	£'000
		Note 29a - Operation Activities		
1,347		Interest received	3,738	
(4)		Interest paid	(1,290)	
4,550		Dividend/Profit Received	351	
	5,893			2,799
4,141		Depreciation	7,786	
1,983		Impairment and downward valuations	2,361	
221		Amortisation	137	
111		Increase/(decrease) in impairment of bad debts	0	
4,871		Increase/(decrease) in creditors	4,816	
(3,089)		(Increase)/decrease in debtors	86	
(3)		Decrease in inventories	5	
844		Movement in pensions liability	(472)	
1,288		Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	1,540	
9,505		Other non-cash items charged to the provision of services	2,252	
	19,872			18,511
379,963		Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	94,450	
(5,839)		Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(130)	
(75,615)		Any other items for which the cash effects are investing or financing cash flows	(8,231)	
	298,509			86,089
	324,274			107,399
		Note 29B- Investing Activities		
(14,247)		Purchase of property, plant, equipment, investment property and intangible assets	(12,293)	
(472,676)		Purchase of st and It investments	(89,550)	
(3,542)		Other payments for investing activities	(3,760)	
5,838		Proceeds from the sale of property, plant, equipment, investment property and intangible assets	130	
0		Proceeds from st and It investments	2,199	
81,615		Other receipts from investing activities	13,691	
	(403,013)			(89,583)
		Note 29c- Financing Activities		
0		Other receipts from financing activities	(2,558)	
15,000		Cash receipts of short and long term borrowing	31,250	
(2,488)		Cash payments - Finance Leases	(3,690)	
(498)		Other payments for financing activities	(8,002)	
(7,500)		Repayments of st and It borrowing	(13,985)	
	4,514			3,015

Notes to the Core Financial Statements

30 Creditors - Short Term

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

2019/20		2020/21
£'000		£'000
	Short-term creditors	
(5,092)	Central Government Bodies	(10,352)
(5,079)	Local Authorities	(932)
0	NHS	0
0	Public Corporations	0
(7,844)	Other Entities and Individuals	(11,318)
(2,495)	Receipts in Advance less than 1 year	(3,200)
(3,690)	Deferred Liabilities (obligations under finance leases)	0
(24,200)	Total	(25,802)
	Short-term borrowing	
(15,000)	Loans repayable within one year	(20,011)
(39,200)	Total	(45,813)

31 Creditors - Long Term

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

2019/20		2020/21
£'000		£'000
(230,614)	Deferred Liabilities (obligations under finance leases)	(227,852)
(6)	Capital Grants receipts in advance	(5,466)
0	Section 106 Contributions receipts in advance	0
(1,292)	Receipts in advance more than 1 year	
	Deferred Income	(190)
	Long-Term Borrowing	
(231,912)	Total	(233,508)

32 Provisions

Provisions are accumulated funds held where the Council has an obligation which is likely to lead to a payment as a result of a past event, but the exact amount and/or timing of the payment is unknown.

Notes to the Core Financial Statements

2019/20		Change	Used	Unused Reversal	Unwinding Discounting	2020/21
£'000		£'000	£'000	£'000	£'000	£'000
(77)	Property Searches	0	0	0	0	(77)
(48)	Municipal Mutual Insurance	0	0	0	0	(48)
(74)	Contractual Provision	0	0	0	0	(74)
(2,788)	NDR Appeals	(2,889)	2,139	0	0	(3,538)
(2,987)	Total	(2,889)	2,139	0	0	(3,737)

Property Searches

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

Municipal Mutual Insurance

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

Contractual Provision

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

NDR Appeals

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

33 Defined Benefit Pension Scheme

Participation in Pension Scheme

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

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

Notes to the Core Financial Statements

appointed by the Investment sub-committee of HCC and consist of the fifteen Investment Fund Managers.

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

Transactions relating to Retirement Benefits

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

2019/20 Restated		2020/21
£'000		£'000
	Comprehensive Income and Expenditure Statement (CI&ES)	
	Costs of Service	
	<i>Service cost comprising:</i>	
3,027	current service cost	2,607
0	past service cost	0
	<i>Financing and Investment Income and Expenditure</i>	
1,509	Net Interest Expense	938
4,536	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,545
	Other Post Employment Benefit Charged to the CI&ES	
	<i>Remeasurement of the net defined benefit liability comprising:</i>	
(9,238)	Return on plan assets	(24,062)
0	Actuarial gains and losses arising on changes in demographic assumptions	36,990
0	Actuarial gains and losses arising on changes in financial assumptions	2,461
(12,468)	Other	(2,029)
(21,706)	Total Remeasurement recognised in Other CI&ES	13,360
(17,170)	Total Post Employment Benefit Charged to CI&ES	16,905
	Movement in Reserves Statement	
(4,536)	Reversal of net charges made to the Provision of Services for post employment benefits in accordance with the Code	(3,545)
3,692	Employers' contributions payable to the scheme	4,017
3,692	Actual amount charged against the General Fund Balance for pensions in the year	4,017

Pensions Assets and Liabilities Recognised in the Balance Sheet

Notes to the Core Financial Statements

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

2019/20 Restated		2020/21
£'000		£'000
(167,147)	Present value of the defined benefit obligation	(205,204)
124,956	Fair value of plan assets	150,125
(42,191)	Total	(55,079)

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

2019/20		2020/21
£'000		£'000
115,147	Opening fair value of scheme assets at 1 April	124,956
2,743	Interest (income)/expenditure	2,867
	Remeasurement gain/(loss):	
9,238	Return on plan assets	24,062
3,692	Contributions from employer	4,017
523	Contributions from employees into the scheme	582
(6,387)	Benefits paid	(6,359)
0	Other	0
124,956	Closing fair value of scheme assets at 31 March	150,125

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

2019/20 Restated		2020/21
£'000		£'000
(178,200)	Opening Balance at 1 April	(167,147)
(3,027)	Current service costs	(2,607)
0	Past service costs	0
(4,252)	Interest cost	(3,805)
(523)	Contributions from scheme participants	(582)
	<i>Remeasurement (gains) and losses:</i>	
0	Actuarial gains and losses arising from changes in demographic assumptions	(2,461)
12,468	Actuarial gains and losses arising from changes in financial assumptions	(36,990)
0	Other	2,029
	<i>Past service costs</i>	
0	Losses/(gains) on curtailments	0
6,387	Benefits paid	6,359
(167,147)	Closing Balance at 31 March	(205,204)

Notes to the Core Financial Statements

Local Government Pension Scheme assets comprised

2019/20				2020/21		
Quoted active market	Quoted non-active market	Total		Quoted active market	Quoted non-active market	Total
£'000	£'000	£'000		£'000	£'000	£'000
2,713	0	2,713	Cash and cash equivalents	4,245	0	4,245
			Equity instruments: by industry type			
2,398	0	2,398	Consumer	1,340	0	1,340
1,914	0	1,914	Manufacturing	1,182	0	1,182
0	0	0	Energy and Utilities	0	0	0
1,840	0	1,840	Financial Institutions	966	0	966
1,130	0	1,130	Health and Care	597	0	597
4,303	0	4,303	Information Technology	3,438	0	3,438
206	0	206	Other	134	0	134
14,503	0	14,503	Sub-total equity	7,657	0	7,657
			Bonds: by sector			
0	0	0	Corporate Bonds (inv. grade)	0	0	0
0	0	0	UK Government	7,725	0	7,725
0	3,255	3,255	Other	0	3,440	3,440
0	3,255	3,255	Sub-total bonds	7,725	3,440	11,165
			Property: by type			
0	3,798	3,798	UK Property	0	8,343	8,343
0	7,496	7,496	Overseas Property	0	6,948	6,948
0	11,293	11,293	Sub-total property	0	15,291	15,291
			Private Equity:			
0	6,720	6,720	All	0	9,063	9,063
0	6,720	6,720	Sub-total private equity	0	9,063	9,063
			Other Investment Funds:			
39,074	0	39,074	Equities	69,361	0	69,361
41,180	0	41,180	Bonds	24,382	0	24,382
0	0	0	Commodities	0	0	0
0	116	116	Infrastructure	0	63	63
1,059	8,536	9,596	Other	1,395	8,211	9,606
81,313	8,652	89,965	Sub-total other investment funds	95,138	8,274	103,412
			Derivatives:			
0	(133)	(133)	Foreign exchange	0	(60)	(60)
0	(133)	(133)	Sub-total derivatives	0	(60)	(60)
95,817	29,787	125,604		114,764	36,009	150,773

Notes to the Core Financial Statements

Basis for Estimating Assets and Liabilities

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

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

The significant assumptions used by the actuary have been:

31 Mar 20		31 Mar 21
-1.3%	Total Returns from 1 April 2020 to 31 March 2021	21.6%
	Mortality Assumptions	
	Longevity at 65 for current pensioners	
21.9	Men	22.1
24.1	Women	24.5
	Longevity at 65 for future pensioners	
22.8	Men	23.2
25.5	Women	26.2
2.3%	Rate of increase in salaries	3.3%
1.9%	Rate of increase in pensions	2.9%
2.3%	Rate for discounting scheme liabilities	2.0%

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

2019/20		2020/21
£'000		£'000
3-5%	Longevity (increase in 1 year)	3-5%
746	0.1% increase in the Salary Increase Rate	190
12,833	0.1% increase in the Pension Increase Rate (CPI)	3,191
13,648	0.1% decrease in Real Discount Rate	3,416
27,227	Total	6,797

Notes to the Core Financial Statements

Information about the Defined benefit obligation

Funding levels are monitored on an annual basis, and the latest triennial review is based on 31 March 2019 data. The fund liability may go up or down based on this review, and a sensitivity analysis is set out within this note under "impact on the defined benefit obligation in the scheme". The total value of contributions expected to be made by the Council in 2021/22 is £4.040m.

34 Contingent Assets and Liabilities

There are no contingent assets or liabilities for 2020/21.

35 Usable Reserves

(a) Movement in Usable Reserves

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

Balance at 31-Mar-20		Net Movement in Year	Balance at 31-Mar-21
£'000		£'000	£'000
(28)	Capital Receipts Reserve	(450)	(478)
(44,626)	Earmarked Reserves	(14,823)	(59,449)
(2,292)	General Fund Balance	252	(2,040)
(75,651)	Capital Grants Unapplied	(1,289)	(76,940)
(122,597)	Total Net Worth	(16,310)	(138,907)

(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.

2019/20		2020/21
£'000		£'000
(1)	Balance brought forward at 1 April	(28)
	Received in year:	
(1,922)	Proceeds from sale of long-term assets	0
0	Transfer from Deferred Capital Receipts upon receipts of cash	0
(3,917)	Unattached Capital Receipts	0
0	Loan repayments (Unattached Capital Receipt)	(2,199)
(5,839)		(2,199)
	Applied in year:	
5,812	Applied to Capital Adjustment Account to finance new capital expenditure	1,879
5,812		1,879
(28)	Usable Reserves	(348)

Notes to the Core Financial Statements

(c) Earmarked Reserves

This note sets out the amounts set aside from the General Funding earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2020/21.

For each Reserve established the Council identifies:

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

Balance at 01-Apr-19	Appropriations to Reserve	Appropriations From Reserve	Balance at 31-Mar-20		Appropriations to Reserve	Appropriations From Reserve	Balance at 31-Mar-21
£'000	£'000	£'000	£'000		£'000	£'000	£'000
(86)	0	0	(86)	Grants and Contributions	(3,292)	86	(3,292)
(1,302)	(1,975)	1,344	(1,933)	Budget Carry Forward	(827)	1,934	(826)
(615)	0	615	0	Capital Fund	0	0	0
(641)	(56)	0	(697)	Car Parking Zones	0	465	(232)
(93)	0	0	(93)	Charter Place Tenants	0	93	0
(56)	8	0	(48)	Climate Change	0	48	0
(150)	0	0	(150)	Crematorium	0	0	(150)
0	0	0	0	Development Sites Decontamination	0	0	0
(3,650)	0	670	(2,980)	Economic Impact	(278)	255	(3,003)
0	0	0	0	Recovery and Renewal Fund (new reserve)	(1,315)	279	(1,036)
(997)	0	0	(997)	Housing Benefit Subsidy	0	0	(997)
(266)	0	0	(266)	Housing Planning Delivery Grant	0	0	(266)
(689)	0	0	(689)	Invest to Save	0	689	0
(11)	(2)	2	(11)	Le Marie Centre Repairs	0	11	0
(423)	0	0	(423)	Leisure Structured Maintenance	0	366	(57)
(178)	0	0	(178)	Local Development Framework	0	0	(178)
(181)	0	0	(181)	Multi-Storey Car Park Repair	0	0	(181)
(2,521)	0	2,224	(297)	NNDR Collection Fund	(19,567)	2,604	(17,260)
(60)	0	0	(60)	Parks, Waste & Street Strategy	60	0	0
(2,248)	0	0	(2,248)	Pension Funding	0	0	(2,248)
(141)	0	0	(141)	Performance Reward Grant (Capital)	0	0	(141)
(28)	0	0	(28)	Performance Reward Grant (Revenue)	0	28	0
(411)	52	60	(299)	Project and Programme Management	0	223	(76)
(100)	0	0	(100)	Rent Deposit Guarantee Scheme	0	0	(100)
(3,942)	(3,392)	0	(7,334)	Riverwell	0	812	(6,522)
(182)	0	0	(182)	Vehicle Replacement	0	0	(182)
(83)	0	0	(83)	Weekly Collection Support Grant	0	53	(30)
0	(25,506)	1,251	(24,255)	Croxley Park Reserve	0	2,296	(21,960)
0	(32)	0	(32)	Grounds Maintenance	0	17	(15)
(438)	(397)	0	(835)	HB Equalisation Reserve	0	139	(696)
(19,492)	(31,300)	6,166	(44,626)	Total	(25,219)	10,398	(59,448)

Notes to the Core Financial Statements

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

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

Notes to the Core Financial Statements

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

(d) General Fund Reserves

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

2019/20		2020/21
£'000		£'000
(2,000)	Balance brought forward at 1 April	(2,292)
(26,101)	Net increase/(decrease) before transfers to earmarked reserves	(13,320)
25,809	Transfer (to)/from earmarked reserves	13,572
(2,292)	Balance carried forward at 31 March	(2,040)

(e) Capital Grant Unapplied

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

2019/20		2020/21
£'000		£'000
(4,228)	Balance brought forward at 1 April	(75,651)
(579)	Section 106- grants held for future use (new in year)	(107)
322	Section 106- grants applied (to Capital Adjustment Account)	1,454
3,870	Capital Grants applied	2,488
(71,928)	Capital Grants received	(5,247)
0	Community Infrastructure Levy - applied (to Capital Adjustment Account)	3,000
(3,108)	Community Infrastructure Levy - held	(2,877)
0	Other	0
(75,651)	Balance carried forward at 31 March	(76,940)

Notes to the Core Financial Statements

36 Unusable Reserve

(a) Movement in Unusable Reserves

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

Balance at 31-Mar-20		Net Movement in Year	Balance at 31-Mar-21
£'000		£'000	£'000
126	Accumulated Absences Reserve	211	336
(191,316)	Capital Adjustment Account	11,054	(180,263)
(788)	Collection Fund Account	18,139	17,351
123	Deferred Capital Payments	0	123
(225)	Deferred Capital Receipts	0	(225)
76	Financial Instruments Account	0	76
0	Pooled Fund Investment Adjustment Account	(2,848)	(2,848)
42,191	Pensions Reserve	12,888	55,079
(78,048)	Revaluation Reserve	2,982	(75,066)
(227,862)	Total Net Worth	42,426	(185,436)

(b) Capital Adjustment Account

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

The Account contains accumulated gains/losses on Investment Properties.

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

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

Notes to the Core Financial Statements

2019/20		2020/21
£'000		£'000
(204,320)	Balance brought forward at 1 April	(191,316)
	Reversal of items relating to capital expenditure debited/credited to the CIES	
4,141	Charges for depreciation	7,786
809	Impairment of non-current assets	215
221	Amortisation of Intangible Assets	137
1,174	Revaluation (Gain) \ losses on PPE and Surplus Assets	2,146
4,532	Revenue Expenditure Funded from Capital under Statute	5,922
1,288	Amounts of non-current assets w/o on disposal/sale as part of the gain/loss on disposal to the CI&ES	1,540
12,164	Total of reversing entries debited/credited to CIES	17,746
(856)	Adjusting amounts w/o of the Revaluation Reserve	28
11,308	Net w/o amount of the cost of non-current assets consumed in the year	17,774
	Capital financing applied in the year:	
(5,811)	Use of Capital Receipts Reserve to finance new capital expenditure	(1,879)
(4,192)	Capital Grants/Contributions, applied to capital financing	(6,943)
(675)	Earmarked Reserves:	(331)
(83)	Minimum Revenue Provision (MRP)	(4,109)
(10,761)		(13,262)
	Other Movements:	
0	Repayment of Long term debtors	
12,464	Mvmnt in Market value of Investment Properties debited/credited to the CI&ES	4,350
0	Repayment of loans treated as capital receipts	2,199
(8)	Other	(8)
12,456		6,541
(191,316)	Balance carried forward at 31 March	(180,263)

(c) Collection Fund Adjustment Account

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

2019/20		2020/21
£'000		£'000
2,109	Balance brought forward at 1 April	(788)
(2,897)	Amount by which council tax and non-domestic rates income credited to CI&E Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements	18,139
(788)	Balance carried forward at 31 March	17,351

Notes to the Core Financial Statements

(d) Deferred Capital Payments

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

2019/20		2020/21
£'000		£'000
123	Balance brought forward at 1 April	123
123	Balance carried forward at 31 March	123

(e) Deferred Capital Receipts

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

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

2019/20		2020/21
£'000		£'000
(225)	Balance brought forward at 1 April	(225)
0	Deferred Receipts received	0
(225)	Balance carried forward at 31 March	(225)

Notes to the Core Financial Statements

(f) Pension Reserve

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

2019/20 Restated		2020/21
£'000		£'000
63,053	Balance brought forward at 1 April	42,191
(21,706)	Remeasurements of the net defined benefit liability/(asset)	13,360
4,536	Reversal of items relating to retirement benefits debited/(credited) to the Surplus/Deficit on the Provision of Services in the CIES	3,545
(3,692)	Employer's pension contributions and direct payments to pensioners payable in year	(4,017)
42,191	Balance carried forward at 31 March	55,079

(g) Revaluation Reserve

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

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

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

2019/20		2020/21
£'000		£'000
(60,228)	Balance brought forward at 1 April	(78,048)
(25,893)	Upward Revaluation of assets	(12,486)
7,217	Downward Revaluation of assets and impairment losses not charged to the Provision of service	15,496
(18,676)	Net (Surplus) on revaluation of non-current assets not posted to the Provision of services	3,010
804	Difference between fair value depreciation and historical cost depreciation	1,396
52	Revaluation reserve written-off on disposal of asset	(1,424)
856	Amount written off to the Capital Adjustment Account	(28)
(78,048)	Balance carried forward at 31 March	(75,066)

Notes to the Core Financial Statements

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

Financial Instruments – Carrying Values

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

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

The Balance Sheet includes the following financial instruments:

Non-Current	Current		Non-Current	Current
31 Mar 20	31 Mar 20		31 Mar 21	31 Mar 21
£'000	£'000		£'000	£'000
FINANCIAL ASSETS				
Carried at Amortised Cost				
6,450	94,413	Investments		92,848
	10,351	Cash and Equivalents		16,893
12,572	11,684	Debtors	22,766	15,919
19,022	116,448	Total at Amortised Cost	22,766	125,660
Carried at Fair Value through Profit and Loss				
2,420	0	Equity Instruments	2,420	0
2,420	0	Total at Fair Value through Profit and Loss	2,420	0
21,442	116,448	Total Financial Assets	25,186	125,660
FINANCIAL LIABILITIES				
Carried at Amortised Cost				
	(15,000)	Borrowing	(11,250)	(20,011)
	(18,015)	Creditors at Contract Amount		
Carried at Fair Value through Profit and Loss				
(234,214)		PFI and Finance Leases (deferred liabilities)	(227,852)	
(234,214)	(33,015)	Total Financial Liabilities	(239,102)	(20,011)
(212,772)	83,432	Total	(213,916)	105,649
(129,340)			(108,267)	

Notes to the Core Financial Statements

Disclosure of Nature and Extent of Risks arising from Financial Instruments

Long term debtors comprise loans 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 has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £1,000 (2019/20: £1,000) is recorded as a gain in the Comprehensive Income and Expenditure Account and reflected as a reduction in the Financial Instruments Adjustment Account.

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

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

Liquidity Risk

This is the possibility that the Council might not have funds available to meet its commitments to make payments. The Council manages its liquidity position through stringent risk management procedures (the setting and approval of Prudential Indicators and the approval of Treasury and Investment Strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Treasury Management Code of Practice. This seeks to ensure that cash is available when needed.

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.

Market Risk

This is the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. A Treasury Management Strategy is formally approved annually by the Council. This identifies all treasury risks and forms the basis of the day-to-day operating guidance applied by the Treasury Accountant when making decisions on placing any surplus funds (i.e. to whom, for how long, for how much, etc.).

Credit Risk

Credit risk arises from deposits with banks and building societies as well as credit exposure to the Council's customers. The treasury policy at present allows the Council to invest with the main UK Banks and Building Societies, with a FITCH rating of F1 or higher, up to a maximum value of £5m with any one institution. Once again this evidences our prudent approach to lending of surplus funds.

During 2020/21, approval was given by Full Council to maintain a flexible limit on balances held with the Council's bank (Lloyds) to equal that of £10m plus the balance of any emergency grant funds

Notes to the Core Financial Statements

being administered. At 31 March 2021, the total balance being held for the administration of COVID-19 grants to businesses amounted to £4.011m.

38 Going Concern

The accounts are prepared on a going concern basis; that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future from the date that the accounts are authorised for issue.

The Council carried out a detailed assessment of future financial risks, including the likely ongoing impact of COVID-19 on its financial position and performance when setting the budget and medium term financial strategy. For the purposes of the assessment, the 'foreseeable future' has been interpreted as the medium term financial planning horizon to 2023/24.

This assessment included consideration of the following:

In relation to the ongoing impact of COVID-19:

- Loss of income on a service by service basis due to temporary closures and reduction in demand, and the potential for increased collection losses and reduced tax base growth.
- Additional expenditure on a service by service basis, e.g. provision of new and expanded services in response to and recovery from the crisis such as additional community protection work.
- Changes to government policy, e.g. guidance on supplier relief, additional funding for local authorities, and additional responsibilities which sit alongside this.
- The impact on the Council's capital programme, e.g. delays caused by government restrictions, and whether there is a need to rephase work for other reasons.

In relation to the Council's priorities and funding:

- The estimated impact of changes to funding including the Review of Relative Needs and Resource and 75% business rates retention.

In relation to the overall impact of the above:

- The impact on the Council's cash flow and treasury management, including availability of liquid cash (the Council maintains instant access cash balances of around £8.0m), impact on investment returns, and availability of external borrowing if required.
- The estimated overall impact on the Council's General Fund and Earmarked Reserves balances.

This assessment informed the budget for 2021/22, medium term financial strategy to 2023/24, and Capital Investment Programme to 2023/24 with mitigations and investments included to address risks and issues highlighted in the assessment. The budget was approved by Council on 26 January 2021. At the start of 2021/22, Earmarked Reserves were consolidated to create the Recovery and Renewal Fund. This has been partly utilised in 2021/22 and will continue to be drawn down as needed in 2022/23 to manage the impact of COVID-19.

The Council's General Fund balance as at 31 March 2022 is £2.0m (subject to year-end adjustments and audit), in line with the Council's risk assessed minimum balance. The Council also holds the Economic Impact Reserve and other Earmarked Reserves totalling £25.0m at 31 March 2022 to manage risk and fund specific projects. It is therefore noted that there is significant scope within the General Fund and Earmarked Reserves to absorb the estimated financial impact of COVID-19 and inflation in the short to medium-term and to manage the impact of future changes to funding.

The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription. For this reason and the reasons set out above, the Council does not consider that there is material uncertainty in respect of its ability to continue as

Notes to the Core Financial Statements

a going concern for the foreseeable future. In addition, management are not currently aware of any significant information that is available for the period beyond 2023/24 that would indicate a contrary conclusion.

Notes to the Core Financial Statements

COLLECTION FUND

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

2019/20				2020/21		
£'000	£'000	£'000		£'000	£'000	£'000
NDR	Ctax	Total		NDR	Ctax	Total
			Income receivable:			
	(60,997)	(60,997)	Council Tax receivable		(62,741)	(62,741)
(60,044)		(60,044)	Business Rates receivable	(27,162)		(27,162)
(45)		(45)	Transitional Relief; S13A Reliefs and discount for prompt payment	0	(308)	(308)
			Repayment of previous year's deficit			
(3,411)		(3,411)	Watford Borough Council	0		0
(853)		(853)	Hertfordshire County Council	0		0
(4,263)		(4,263)	Central Government	0		0
(68,616)	(60,997)	(129,613)	Total Income	(27,162)	(63,049)	(90,211)
			Expenditure:			
			Repayment of previous year's surplus			
	250	250	Watford Borough Council	923	154	1,077
	1,257	1,257	Hertfordshire County Council	137	783	920
	156	156	Hertfordshire Police and Crime Commissioner		108	108
		0	Central Government	1,210		1,210
			Precepts			
23,344	8,809	32,153	Watford Borough Council	25,340	9,160	34,500
26,679	44,661	71,340	Hertfordshire County Council	6,335	47,349	53,684
	6,174	6,174	Hertfordshire Police and Crime Commissioner		6,629	6,629
16,675		16,675	Central Government	31,675		31,675
			Charges to the Collection Fund			
851	224	1,075	Increase(Decrease) in Bad Debts Provision	1,716	988	2,704
(6,400)		(6,400)	Increase(Decrease) in Appeals Provision	879		879
167		167	Cost of Collection	161		161
0		0	Transitional Protection Payable	3,328		3,328
61,316	61,531	122,847		71,704	65,171	136,875
(7,300)	534	(6,766)	(Surplus)/Deficit for the year	44,542	2,122	46,664
5,957	(1,825)	4,133	Fund Balance as at 1 April	(1,343)	(1,291)	(2,634)
(1,343)	(1,291)	(2,633)	(Surplus)/Deficit carried forward	43,199	831	44,030
			Fund Balance Allocation			
(599)	(190)	(788)	Watford Borough Council	17,233	118	17,351
234	(967)	(733)	Hertfordshire County Council	4,598	623	5,221
	(134)	(134)	Hertfordshire Police and Crime Commissioner		90	90
(978)		(978)	Central Government	21,368		21,368

Notes to the Core Financial Statements

NOTES TO THE COLLECTION FUND

CF1 Council Tax Payers

The charge for Council Tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts or exemptions apply and is converted into an "equivalent number of Band D dwellings" where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection and contributions in lieu of tax in respect of certain government properties. The table below sets out the calculation of the Council Tax Base for 2020/21.

2019/20		2020/21				
Equivalent Number of Band D Dwellings	Valuation Band	Total Number of Dwellings in Band	Discounts, Exemptions & Disabled Relief	Total Chargeable Dwellings	Conversion Fraction (Proportion)	Equivalent Number of Band D Dwellings
0.00	A (Disabled Relief)	0.00	0	0.00	5/9	0.00
218.13	A	518.00	(138)	379.70	6/9	253.13
2,245.06	B	4,374.00	(1,252)	3,122.20	7/9	2,428.38
10,395.51	C	14,732.00	(2,773)	11,959.40	8/9	10,630.58
10,848.35	D	12,842.00	(1,828)	11,014.00	9/9	11,014.00
3,972.47	E	3,623.00	(355)	3,267.70	11/9	3,993.86
2,958.73	F	2,178.00	(126)	2,051.60	13/9	2,963.42
3,050.00	G	1,904.00	(65)	1,839.30	15/9	3,065.50
168.00	H	81.00	3	83.70	18/9	167.40
33,856.24		40,252.00	(6,534.40)	33,717.60		34,516.27
(1,015.69)	Less Allowance for losses on collection					(1,035.50)
32,840.56	Tax Base for Calculation of Council Tax					33,480.77
	Add: Adjustment for changes during the year for successful appeals against valuations bandings, new properties, demolitions, disabled persons' relief and empty properties					
32,840.56						33,480.77

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 £1,885.79 (£1,816.17 for 2019/20).

2019/20		2020/21
£'000		£'000
(62,741)	Gross Council Tax Charge	(66,964)

Notes to the Core Financial Statements

CF2 Business Rate Payers

The Council collects National Non-Domestic Rates for its area, which are based on local rateable values multiplied by a uniform rate (51.2p or 49.9p for those receiving small business relief for 2020/21). The total amount receivable; less certain reliefs and other deductions is distributed between Central Government, Hertfordshire County Council and Watford Borough Council.

The relevant rateable value and multiplier data is shown below:

2019/20		2020/21
£		£
148,291,501	Total Non-Domestic Rateable Value at 31 March	148,565,026
50.4	National Non-Domestic Rate Multiplier - Standard	51.2
49.1	National Non-Domestic Rate Multiplier - Small Business	49.9

Notes to the Core Financial Statements

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2019/20		2020/21		
Net Expenditure	GROUP CIES STATEMENT	Gross Expenditure	Gross Income	Net Expenditure
£000		£000	£000	£000
	Services			
1,234	Corp Strategy & Client Service	6,636	(5,359)	1,277
12,235	Community Services	16,960	(2,853)	14,107
1,946	Democracy & Governance	2,236	(143)	2,093
627	Human Resources	773	(62)	711
10,187	Place Shaping & Performance	23,866	(4,625)	19,241
6,166	Service Transformation	5,832	(608)	5,224
4,046	Strategic Finance	29,077	(29,256)	(179)
36,441	Net Cost of Services	85,380	(42,906)	42,474
(10,735)	Other Operating (Income) and Expenditure			93
(1,924)	Financing and Investment (Income) /Expenditure			(9,322)
(108,833)	Taxation and Non-Specific Grant Income			(22,241)
(85,051)	(Surplus) or Deficit on Provision of Services			11,004
2,404	Share of (Surplus) / Deficit on Provision of Services by Joint Venture			10,943
(82,647)	Group (Surplus) / Deficit			21,947
(18,676)	(Surplus) / Deficit on revaluation of long-term assets			3,011
(21,706)	Actuarial (gains) or losses on pension assets and liabilities			13,360
(40,382)	Other Comprehensive (Income) and Expenditure			16,371
(123,029)	Total Comprehensive (Income) and Expenditure			38,318

Notes to the Core Financial Statements

GROUP BALANCE SHEET

31 March 2020		31 March 2021
£'000		£'000
361,466	Property, Plant and Equipment	357,207
1,331	Assets Undr Construction	1,518
2,609	Heritage Assets	2,574
2,600	Surplus Assets	2,745
161,448	Investment Properties	158,825
3,208	Long Term Investments	12,160
18,441	Long-Term Debtors	2,420
0	Capital Programmes	0
551,103	Total Long term Assets	537,449
0	Assets Held For Sale	0
20	Inventories	15
11,684	Short-Term Debtors	15,919
94,413	Short-Term Investments	92,848
9,865	Cash and Cash Equivalents	16,893
115,982	Total Current Assets	125,675
(24,200)	Short-Term Creditors	(25,802)
(15,000)	Short-Term Borrowing	(20,011)
(39,200)	Total Current Liabilities	(45,813)
(231,912)	Long-Term Creditors	(233,508)
0	Long Term Borrowing	(11,250)
(2,987)	Provisions	(3,737)
(42,191)	Defined Benefit Pension Scheme	(55,079)
(277,090)	Total Long Term Liabilities	(303,574)
350,796	Net Assets	313,735
	Reserves	
(122,934)	Usable Reserves	(128,301)
(227,861)	Unusable Reserves	(185,434)
(350,795)	Total Reserves	(313,735)

Signed:
Alison Scott, CPFA
Director of Finance

Date:

Signed:
Mark Hofman
Chairman of Audit Committee

Date:

GROUP CASH FLOW STATEMENT

2019 (Restated)			2020	
£'000	£'000		£'000	£'000
85,051		Net surplus on the provision of services	(11,004)	
19,872		Adjustments to net surplus or deficit on the provision of services for non cash movements	18,511	
298,509		Adjustments for items that are outflows in provision of services from investing and financing activities	86,089	
	403,432	Net cash inflows from Operating Activities		93,596
		Investing Activities Inflows /(Outflows)		
(14,247)		Purchase of PPE, Investment Property and intangible assets	(12,293)	
(472,676)		Purchase of short term / long term investments	(89,550)	
(3,542)		Other payments for investing activities		
5,838		Proceeds from the sale of PPE, Investment Property and intangible assets	130	
0		Proceeds from short term / long term investments	2,199	
81,615		Other receipts from investing activities	9,931	
	(403,013)			(89,583)
		Financing Activities Inflows /(Outflows)		
0		Other receipts/payments from financing activities	(2,558)	
(7,500)		Cash receipts of short and long term borrowing	(13,985)	
(498)		Other payments for financing activities	(8,002)	
(2,488)		Cash payments - finance leases	(3,690)	
15,000		Cash receipts of short-term / long term borrowing	31,250	
	4,514			3,015
	4,933	Net increase in cash and cash equivalents		7,028
	4,931	Cash and Cash equivalents at the beginning of the reporting period		9,864
	9,864	Cash and Cash equivalents at the end of the reporting period		16,892

NOTES TO THE GROUP ACCOUNTS

1. The Group Accounting Policies

The Group Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2020/21 using the equity method for Joint Ventures under International Accounting Standard 28, Interests in Joint Ventures, and using the line-by-line consolidation method for subsidiaries under International Accounting Standard 27, Consolidated and Separate Financial Statements. There are no material subsidiaries or associated organisations excluded from the Group Accounts. There are no material differences in the accounting policies of the Council or any of the companies or organisations forming part of the Group Accounts.

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

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

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

Watford Borough Council has 100% ownership in Watford Commercial Services Limited (net assets not material as at 31 March 2021) which in turn has 50% ownership in Hart Homes Watford Development LLP (net liabilities not material as at 31 March 2021) and part of joint committee with Wests Herts Crematorium as at 31 March 2021. The aggregate net assets of these companies is not material, and therefore has not been consolidated as part of the group accounts.

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

Group Accounts

2019/20			2020/21	
Watford Health Campus Partnership LLP	Hart Homes (Watford) Limited		Watford Health Campus Partnership LLP	Hart Homes (Watford) Limited
£'000	£'000		£'000	£'000
(14,400)	(368)	Revenue	(8,659)	(373)
12,203	0	Cost of Sales	7,711	0
141	200	Administrative Expenses	168	304
0	128	Finance Cost	0	128
(2,057)	(40)	(Profit)\Loss for the period	(781)	59
0	5,515	Property, Plant and Equipment	0	5,440
5,151	0	Project under Development	5,743	0
5,087	0	Work in Progress (Current Assets)	5,102	0
75	36	Debtors (Current Assets)	134	27
474	69	Cash and Cash Equivalents (Current Assets)	2,569	86
(427)	(99)	Creditors (Current Liabilities)	(3,062)	(153)
(10,051)	(3,090)	Creditors (Long term liabilities)	(9,749)	(3,030)
308	2,430	Net Assets	738	2,370
2,738		TOTAL NET ASSETS	3,108	

3. Related Party Transactions

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

4. WHCP Members' Capital Contributions (Loan Notes)

2019/20		2020/21		
Amounts outstanding at 31 March		New Loans	Repayments	Amounts outstanding at 31 March
£'000		£'000	£'000	£'000
10,051	Loan Note A	1,446	(1,749)	9,748
10,051		1,446	(1,749)	9,748

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

Grant and interest free loans

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

Glossary of Terms

Accounting Period

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

Accruals

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

Amortisation

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

Billing Authority

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

Capital Expenditure

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

Capital Receipts

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

Chartered Institute of Public Finance and Accountancy (CIPFA)

The professional accountancy body concerned with local authorities and the public sector.

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

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

Collection Fund

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

Contingent Assets/Liabilities

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

Depreciation

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

Earmarked Reserves

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

Glossary of Terms

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.

Glossary of Terms

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.