WATFORD
BOROUGH COUNCIL

STATEMENT OF ACCOUNTS

2011/2012

CONTENTS

INTRODUCTION

Welcome to Watford Borough Council's Statement of Accounts for the year ending 31st March 2012.

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

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

Bernard Clarke CPFA
Head of Strategic Finance

Watford Borough Council
Town Hall
Watford
Hertfordshire
WD17 3EX

STATEMENT OF RESPONSIBILITIES

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

The Authority's Responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority the Chief Financial Officer is the Head of Strategic Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Head of Strategic Finance is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Head of Strategic Finance has:

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

The Head of Strategic Finance has also:

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

The Statement of Accounts presents a true and fair view of the financial position of Watford Borough Council as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Signed ……….………………………….. **Date: 25 September 2012**
Bernard Clarke CPFA
Head of Strategic Finance

Signed ……….………………………….. **Date: 25 September 2012**
Ian Brown
Chairman of Audit Committee

EXPLANATORY FOREWORD

1. Introduction

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

2. The Core Financial Statements

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

Statement of Movements in Reserves

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

Comprehensive Income and Expenditure Account

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

Balance Sheet

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

Cash Flow Statement

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

3. Changes to the Statement of Accounts

Accounting Policies

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

The major changes to accounting policies in this year's statement are:-

- the valuation of property, plant and equipment has been performed in accordance with International Accounting Standard 16. This has meant that the use of such assets has been considered to ensure they have been properly classified between operational, investment, assets held for sale and surplus assets. Also, consideration has been given to whether assets have significant component parts so that they may be separately valued if they have different useful lives.

- the Code requires the recognition of heritage assets for the first time. These assets are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. These include works of art, musical equipment, sculptures, statues, war memorials and civic regalia, which are reported at insurance valuations.

- the Code has become more stringent on the accounting for grants. The amount of any grant is recognised immediately unless any conditions have not been met which might result in the money being repaid.

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

Changes in Functions

With effect from 1 April 2011, the administration of concessionary fares was handed over to Hertfordshire County Council & government funding of £1.100m has been taken from Watford (but only £0.750m of funding had been previously allocated) and this has left a permanent financing shortfall of £0.350m. No other changes in function occurred.

4. Contingent Assets and Liabilities

Note 33 to the Core Financial Statements gives details of contingent assets and liabilities. No exceptional or unusual items of income or expenditure have occurred. No material events affecting the accounts occurred after the year end up to 27 June 2012.

5. Revenue Activities

Revenue Out-turn 2011/2012

For accounting purposes, the Council distinguishes between 'revenue' and 'capital' activities. (Capital activities are covered at Section 6 later). Revenue activities are included in the Comprehensive Income and Expenditure Account and cover the day to day income and expenditure involved in providing services to the public. The Council holds a General Fund Balance and specific Reserves, shown in the Statement of Movement in Reserves and on the Balance Sheet, which are available to support revenue expenditure if necessary.

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

It was estimated that there would be a deficit for the year of £0.013m. The actual outturn showed a surplus of £0.493m, a variance in the year of £0.506m.

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

2010/11 Finance Digest £000		2011/12 Original Net Budget £000	2011/12 Outturn £000
	Service Area		
858	Corporate Services	473	654
8,333	Community Services	8,701	8,277
6,613	Environmental Services	6,199	5,734
4,286	Planning	2,305	2,855
1,506	Corporate Management	1,360	1,764
(3,215)	Legal and Property Services	(3,576)	(3,211)
580	Shared Services Implementation	30	31
(21,048)	Strategic Finance	5,184	21,791
18,530	Capital, FRS17 and Other Adjustments	(6,095)	(23,063)
16,443	**Net General Fund**	**14,581**	**14,832**
	Funding		
(8,115)	Council Tax	(8,188)	(8,367)
0	Council Tax Freeze Grant	(205)	(205)
(1,024)	Revenue Support Grant	(1,429)	(1,429)
(284)	Area Based Grant	0	0
(31)	Collection Fund surplus	(179)	177
(7,048)	NNDR	(4,622)	(4,622)
0	Capital Adjustments	0	(1,448)
0	Homelessness Grant	(95)	(95)
0	New Homes Bonus	0	(542)
(17,449)	**Total Funding**	**(14,718)**	**(16,531)**
(1,006)	Net General Fund less total funding	(137)	(1,699)
0	Surplus/deficit for year	(13)	(493)
1,352	Transfers To / (From) Reserves	150	2,192
346	**Change To General Fund Balance**	**0**	**0**
1,350	**General Fund Balance**	**1,350**	**1,350**

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

The level of the Council's Reserves has however increased by the above £1.699m (see Section/ Note 34 later in this Statement where there is a slight £48k difference due to a small element of the reserves being used to finance capital expenditure).

The main variances were:

Favourable:

- New Homes Bonus—grant of £0.542m was received from the Government after the original budget was set.
- Additional council tax of £0.179m was received during the year due to an increase in the council tax base (the actual levels of council tax were unchanged).
- Reduction in provision for bad debts of £0.794m following a comprehensive end of year review.
- Capitalisation of building enhancements of £0.500m (this was effectively financed from capital receipts rather than from the revenue account).
- Additional income of £0.272m from hostels, waste re-cycling, land charges and investment interest.
- Community safety-receipt of additional grant of £0.081m.

Adverse:

- Additional homelessness costs of £0.150m.
- Loss of commercial rent income of 0.720m (due to economic downturn).
- Use of earmarked reserves for specific projects of £0.358m.
- Salaries increased cost of £0.060m (on a total salaries base of £17.260m).

Future Revenue Expenditure & its Funding

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

The Medium-Term four year Financial Strategy (MTFS) is reviewed at key times during the year and is informed by the monthly Finance Digest monitoring process. The Strategy assumes reductions in government grant of £0.837m (13.8%) for 2012/13 and further percentage reductions of 5.4% have been assumed for the remaining two years of the governments spending review period (2013/14 and 2014/15). This is likely to be deemed extremely optimistic when the MTFS is reviewed in July 2012 with larger cuts expected. Council tax has not increased for Watford services for the past three years and the MTFS currently assumes a 2.5% year on year increase for the three years 2013/2016. Major changes to the way local authorities are to be financed in 2013/2014 onwards will be of critical importance to Watford's MTFS and the need to produce a sustainable budget.

6. Capital Activities

Capital Out-turn 2011/2012

Capital expenditure is incurred on assets that benefit the community over a number of years. Capital expenditure for 2011/12 is shown below:-

	Current Budget £000	Actual Out-turn £000	Variance (under) / over spend £000
Key Projects	4,937	5,144	207
Environmental Services	321	267	(54)
Community & Leisure Services	269	279	10
Housing Services	779	779	0
Parking Services	48	48	0
Asset Management	1,603	1,556	(47)
Information, Communication & Technology	102	102	0
Information, Communication & Technology - Shared Services	164	196	32
Corporate / Service Project Management	413	413	0
Section 106 Funded Schemes	1,331	1,282	(49)
Total	**9,967**	**10,066**	**99**

Key capital projects include the Health Campus, Colosseum refurbishment, contribution to Croxley Rail link, Charter Place redevelopment, Cultural Quarter and a green spaces strategy. In addition to the above the Council also spent £1.282m on improvements to green areas which have been funded from Section 106 developer contributions. Investment within Watford is seen as a key priority if the Council is to move forward and has been totally financed from internal resources (mainly capital receipts) and government grant as at 31st March 2012.

In 2012/2013 up to £10m of external borrowing may occur in order to progress the Health Campus development project.

Future Capital Expenditure and its Funding

The Council plans to spend £24.7m on future capital schemes up to March 2015. The majority of this funding will be derived from current and future holdings of capital receipts. The Council has an active asset disposal programme to ensure funding will be available.

Borrowing Facilities and Capital Borrowing

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

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

7. Pensions

The Council has disclosed its full liabilities to the Hertfordshire Pension Fund and this is covered within note 32 to the Statement of Accounts and is in accordance with International Accounting Standard 19. The balance sheet shows a net liability to the Fund at 31 March 2012 of £57.499m and has increased from £43.983m at 31 March 2011 and reflects actuarial losses due largely to reduced investments returns. There are statutory arrangements for funding the deficit that protect the Council’s financial position and which should improve due to changes announced to local government pensions arrangements and a hoped for increase in the wider investment market.

8. Conclusion

The Council’s Overall Financial Position

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

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

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

In the meantime, reserves & balances are healthy. The General Fund balance & available usable reserves totalled £9,395m representing 64% of the 2011/12 budget requirement. The Council held £18.384m in capital receipts available to meet its capital programme aspirations.

The Council is constantly looking to improve its financial management and internal control. The Annual Governance Statement shows the steps the Council is taking to achieve this.

9. Further Information

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

Bernard Clarke CPFA
Head of Strategic Finance

ANNUAL GOVERNANCE STATEMENT

1.0 Scope of responsibility

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

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

1.3 Watford Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework Delivering Good Governance in Local Government. A copy of the code is on our website at www.watford.gov.uk or can be obtained from the Head of Legal and Property Services.

1.4 This Governance Statement explains how Watford Borough Council has complied with the code and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2.0 The purpose of the governance framework

2.1 The governance framework comprises the systems and processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community and enables the authority to monitor the achievement of its vision and strategic objectives.

2.2 The framework needs to add real value with a corporate ownership at the very highest levels of management and needs to respond to evolving governance issues as they occur. The framework has been fundamentally reviewed and highlights significant issues and weaknesses that have and need to be addressed.

2.3 A key component of the Governance framework is the underlying system of internal control which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

2.4 The governance framework has been in place at Watford Borough Council for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts for the 2011/2012 financial year.

3.0 Strategic Aims and Objectives

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

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

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

3.2 Underpinning these over arching priorities are a series of measurable, SMART objectives so that every member of staff and our community can feel fully engaged in the process. These objectives were reviewed by Cabinet on 20th March 2012 within the Council's Corporate Plan and covers the period up to 2016 (and can be accessed on the Council's web site).

3.3 The Council, under its statutory duty, also plays a major role in the Local Strategic Partnership, One Watford, which is made up of key stakeholders such as Hertfordshire County Council, Hertfordshire Police Authority, West Herts College, Watford and West Herts Chamber of Commerce, Watford Council for Voluntary Service, Hertfordshire NHS, Watford Community Safety Partnership, Watford's Children and Young People's Forum (formerly District Children's Trust Partnership), John Lewis plc, Wenta, Watford Community Housing Trust and Herts Valleys Clinical Commissioning Group. One Watford has produced the borough's Sustainable Community Strategy which cascades down to the Council's Corporate Plan.

4.0 Decision Making Structures

4.1 Watford Borough Council has a directly elected Mayor, which means that the community elect the person to lead the Council. The Mayor is supported by a Cabinet that plays a key role in determining the overall budget and policy framework of the Council. Each member of the Cabinet has a Portfolio for which they are responsible and they can make decisions within their area of responsibility.

4.2 The major check upon executive decisions taken by the Mayor and Cabinet is the Council and key decisions such as setting the Annual Budget and establishing the Constitutional Framework can only be approved by Council.

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

4.4 At an officer level, the senior management comprises the Managing Director and two Executive Directors (to be reduced to one in 2012/2013) and is supported by Heads of Service. This combined management comprise the Leadership Team who meet fortnightly to review and progress the key objectives of the Council. There is also an Executive Group comprising the Managing Director, Executive Director and Head of Strategic Finance which meets regularly to review the strategic aims and ambitions of the Council. The Council has two statutory officers (both Heads of Service) with responsibility for monitoring all governance and financial matters.

5.0 The governance framework

5.1 The Council has approved a Code of Corporate Governance which identifies community focus, service delivery arrangements, structures and processes, risk management, internal control arrangements and standards of conduct.

5.2 The key documents driving the governance framework are included in the Council's Constitution (published in full on the Council's website www.watford.gov.uk). This sets out how the Council takes decisions, roles and responsibilities of members and officers, codes of conduct and procedure rules and also sets out the rights of citizens. A wide range of detailed policy and procedure documents supplement this for operational use by officers. Both the Constitution and these supplementary documents are kept under review and updated as necessary. Training is provided for Members and staff on relevant changes.

5.3 Council, Cabinet and Committee/ Scrutiny meetings are open to the public and written reports are available to the public through the website. Information is only treated as confidential when it is necessary to do so for legal/ commercial reasons or as a matter of proper practice in accordance with the legal constraints of the Local Government Act 1972 (as amended).

5.4 Each year, Council meetings review the Constitution and set key policies and objectives, including the corporate plan and the budget, as well as individual strategies for key activities.

5.5 The Council publishes its Corporate Plan annually, which sets out key service improvement priorities for the medium term, with targets for performance and deadlines for achievement. This has been informed by public consultation on the Sustainable Community Strategy and agreed by the Local Strategic Partnership, One Watford, and by consultation and surveys carried out on a range of topics. It is also informed by a detailed analysis and understanding of Watford in terms of what are the key issues and factors influencing the context of the borough. Feedback from members and external review organisations is also taken into account as is the Council's budget and financial planning.

5.6 The Corporate Plan is publicised and published on the Council's website and distributed in hard copy to various premises. Progress on the Plan is reported to the public through About Watford, including an 'annual report' on the Council's achievements and how well it has delivered its commitments within the Plan.

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

5.8 The scrutiny function within a local authority provides a necessary check upon the role of the Executive and is a key component of corporate governance. At Watford it is co-ordinated through the Overview and Scrutiny Committee, which can review Cabinet decisions and service performance. In addition the Standards Committee was chaired by an Independent representative during 2011/2012 (but will need to change in 2012/2013 as a consequence of the Localism Act), and the Budget Panel is chaired by a member of an opposition party. The Panel considers many financial issues at the request of, and prior to consideration by, Cabinet. In addition, 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 as well as Annual Accounts and Treasury Management policies.

5.9 The Council's protocols and procedures are reviewed and updated on a regular basis for standing orders, financial regulations, a scheme of delegation and supporting procedure notes/ manuals clearly defining how decisions are taken and the process and controls required to manage risks. Compliance with established policies, procedures, laws and regulations is achieved through a combination of: training events, written policy and procedural documentation, authorisation procedures, managerial supervision, review by internal and external audit and use of the disciplinary procedure where appropriate.

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

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

5.11 The Head of Legal & Property Services is the Council's Monitoring Officer and her duties include: maintaining the Council's Constitution; reporting on any potential or actual illegality or maladministration; and giving advice to the Mayor and councillors on the Constitution or issues of maladministration, financial impropriety or probity.

5.12 The Head of Strategic Finance is the statutory Chief Finance Officer. His duties include: overall responsibility for financial administration; reporting on any actual or potential instances of illegality in expenditure, including unlawful loss or deficiency or illegal items of account; and giving advice to the Mayor, councillors and officers on the Budget and Medium Term Financial Strategy or issues of maladministration, financial impropriety or probity.

6.0 Operational Issues

6.1 The Council is committed to delivering value for money, and has published its Value for Money Strategy and Action Plan 2008/2014. The principles underpinning this Strategy were applied in developing a detailed Service Prioritisation budgeting process during 2010/11 which identified £3m of efficiencies over a 3 year period (£2.6m is anticipated to be delivered). This work has been further developed with the production of a 'Roadmap' to identify what the Council will look like in the future and which seeks to anticipate and manage change. Service Reviews have commenced and will be used to identify a further £2m of efficiencies which includes exposing some services to potential external providers. The outcomes of this review programme will be used to deliver real improvements in the efficient, effective and economic delivery of services and to inform the development of future budget proposals and the Medium Term Financial Strategy for 2012/2016.

6.2 The Council seeks to ensure continuous improvement through:

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

6.3 Budget monitoring reports are produced monthly as a Finance Digest and distributed to all members of the Council. They are also submitted quarterly to Cabinet and six times a year to the Budget Panel and are discussed at quarterly review meetings between Executive Directors, Portfolio Holders and Heads of Service. These reports also include performance data which is also considered monthly by Leadership Team under a ‘managing the business’ agenda.

6.4 The Council has a complaints procedure, and reports on complaints and compliments are circulated to senior officers and discussed at quarterly review meetings and annually at Leadership Team. Similarly a record is kept of all Freedom Of Information requests and this is continuously monitored to ensure compliance and reported to the Audit Committee.

6.5 A revised anti-fraud and corruption strategy (including the whistle blowing policy) was reviewed by Watford’s Audit Committee in January 2010 and has subsequently been ‘complemented’ by a report from the Council’s Fraud Manager which was considered by Leadership Team on 17th April 2012 and Audit Committee on 27th June 2012. Both papers bring together best practice and also includes reference to fraud in partnering organisations and the voluntary sector. The Intranet (under Learning and Development) include E Learning modules for Anti Fraud, Money Laundering, and Fraud Awareness. Hard copies are available at Wiggenhall Road Depot for staff without access to the intranet and are referred to in the Council’s Induction Training Programmes. Fraud reporting arrangements for residents have been improved with new entries in an updated version of the A to Z of Council services which has been distributed to all homes in the Borough.

6.6 The development needs of senior officers in relation to their strategic roles are identified within a learning and development process including a comprehensive ‘Step Up To Leadership’ programme and is supplemented with one to one interviews and review by HR managers. Similarly, member training is well advanced with an individual personal development planning process for every member having been established. The Council continue to meet the IDeA criteria for member development.

7.0 Performance Management

7.1 The Council has developed an effective performance management system that underpins the delivery of its priorities and improved outcomes for residents. The development, implementation and review of the Council's key plans and strategies is a key element of its performance management system. As part of this process the Council develops a four year medium term strategy, which it reviews annually and which is published in its Corporate Plan. This, in turn informs the four year service delivery plans for all its services, which are developed through workshop sessions and in discussion with relevant portfolio holders. Performance targets are identified in the Corporate Plan to reflect corporate priorities and disseminated through the service delivery plans, unit plans to individual performance appraisals.

7.2 During the year performance is monitored regularly through a number of channels. The council services not within the shared services programme, report performance quarterly as part of the Council's Quarterly Review process when progress against service plans is evaluated with the relevant portfolio holder and Executive Director. Performance of key indicators is also discussed along with financial performance. These reviews include consideration of complaints and progress against the Council's equalities agenda. For those services within shared services, this quarterly monitoring is achieved through reports to a fortnightly meeting of a Shared Services Officer Management Board, regular meetings of lead officers and shared services portfolio holders and more formally through the Shared Services Joint Committee.

7.3 Leadership Team receives quarterly updates on progress against the Council's key performance indicators and monthly against 'managing the business' indicators, which are identified each year to measure key priorities and areas relating to the corporate health of the organisation. Quarterly performance reports with updates on all corporate projects and indicators have been reported to Overview and Scrutiny Committee for discussion and, where necessary, relevant heads of service and portfolio holders are invited to attend.

7.4 The Council keeps residents and stakeholders informed of its progress through an Annual Report. This is published at the end of the financial year in the Council's magazine so that local people are kept well-informed as to how their Council is performing.

8.0 Data Quality and Risk Management

8.1 The need to develop policies and guidance on data quality and assurance is essential in order to promote consistency and awareness across the organisation. To that end, the Council has a senior member of staff who acts as the Senior Information Risk Officer (SIRO) who is concerned with identifying and managing the information risks to the organisation and with its business partners.

8.2 There is a Council wide Data Quality Champions Group which meets periodically and adopts a risk based approach to data quality recognising that poor quality can seriously hinder the decision making process. The Council also has a Data Quality Policy and an Information Security Policy (both of which are held on the intranet). A data asset register is in place which provides a framework to monitor the councils information assets and assess risk in relation to these assets against loss, quality and/or achievement of targets. Information management training modules are also available for staff on the intranet.

8.3 All senior managers, staff responsible for Key Performance Indicators (KPIs) and staff with a strong information focus have received information governance training which has very much focussed upon accuracy, validity, reliability, timeliness, relevance and completeness. Members of the scrutiny committees have also received this training.

8.4 The Council's approach to risk management is governed by its Risk Management Strategy which was updated and reviewed and approved by Leadership Team on 22 February 2011 and by the Audit Committee on 16 March 2011. This Strategy underpins the Strategic Risk register which was updated in March 2012 following approval by Leadership Team and the Audit Committee. This process is overseen by the Risk Management and Business Continuity Steering Group which meets six times a year and ensures a consistent approach to risk management across the Council.

8.5 Business Continuity is another key aspect within the corporate governance framework and this again falls within the remit of the Risk Management Corporate group. A revised Business Continuity Plan was approved by this Group at its meeting in June 2012 and is now deposited on the Council's intranet. Disaster 'scenarios' test the efficiency of continuity and emergency planning with the most recent being 'Exercise Brigg' held on 28th February 2012. The report and recommendations of that exercise appear on the Council's intranet along with the Risk Management Strategy; Risk Registers and minutes of each Steering Group Meeting.

8.6 Training has been provided in the past for the Audit Committee and key staff in which risk management and the Whistle blowing Policy were presented. The Fraud manager has reported to the Audit Committee on 27th June 2012 upon latest guidance relating to the prevention of fraud.

8.7 The risk management section within the Partnership Framework has been revised and all committee reports contain a 'risk implications' section as an aid to decision taking.

9.0 Shared Services with Three Rivers District Council

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

9.2 The Joint Committee is required to produce its own statutory Statement of Accounts which are subject to audit by Watford Borough Council's external auditors. This process clearly provides a degree of comfort to both constituent authorities that good governance practices are being followed.

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

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

9.4 In addition to these embedded controls an assessment of key risks is considered as part of the fortnightly meetings of the officer Shared Services Management Board which also considers Internal Audit reports affecting shared services.

9.5 During 2011/12 Internal Audit carried out 198 days of planned audits into the activities of Shared Services and anticipates within the Internal Audit Plan for 2012/2013 allocating 202 audit days in auditing systems and financial administration within the Shared Services operations.

10.0 Community Engagement

10.1 The Council exercises community leadership and effectively engages with local people and stakeholders, including partnerships, to ensure accountability, encourage community involvement in decision-making and to strengthen relationships and a sense of belonging within the community. The directly elected Mayor takes the lead in ensuring there is open and effective community leadership and provides an effective means for people, communities, businesses and organisations to engage with the Council. The Mayor is also the Chair of the borough's Local Strategic Partnership, One Watford, which developed the Sustainable Community Strategy through extensive consultation and engagement and which is communicated through its own website and that of the Council. The Community Engagement Strategy provides an overarching framework and key principles for effective engagement.

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

10.3 The Council has established clear channels of communication with all sections of the community and other stakeholders. It provides citizens and business with information about the Council and its spending through a leaflet that is distributed with council tax and business rate bills and the publication of a summary of its key financial information through the Council magazine 'About Watford', which is distributed to every home in the borough. The magazine is published four times a year and one edition includes an 'Annual Report' so local people can see how well the Council is doing in terms of delivering against its priorities.

10.4 The Council's Corporate Plan, which runs for four years, is published both on the website and in paper format and articulates its purpose and vision and shows how consultation and engagement with the local community has shaped its priorities.

10.5 The Council has established the 'One Watford Equality Panel', which provides an opportunity for traditionally harder to reach groups to take an active part in Council decision-making and feedback on areas and issues that might impact on their quality of life.

10.6 A range of consultation and engagement projects are undertaken annually. This includes a regular 'Community Survey' with the borough's Citizens' Panel, which incorporates the Council's annual budget survey. The Citizens Panel has been completely refreshed to ensure it is representative of the Watford community. Local residents are also invited to attend the Mayor's annual information seminars, which help build understanding about Council finances and the implications for future service delivery. A young people's online forum has been set up to support the Council's engagement with what is often a harder to reach group. The Watford Compact provides an agreement between the statutory and voluntary sectors in Watford to clarify and strengthen their relationship and to achieve better outcomes for individuals and for the Watford community. All signatories to this document adhere to the national Compact standards.

10.7 The Council has a strong track record of working in partnership and is increasingly acting in partnership with other organisations in delivering its services and in pursuing its strategic objectives and efficiency targets. It has identified its strategic partnerships and its work within these is supported with a partnership framework, which ensures there are clear and robust governance and management arrangements and accountabilities. The framework ensures that any partnership arrangements are proportionate and strike the right balance between delivering value for money, protecting public funds and minimising risks and ensuring that benefits from organisations collaborating such as innovation and flexibility are realised.

10.8 Other community engagement activities undertaken in 2011/2012 include working with the Police and Watford Community Housing Trust to progress Neighbourhood Agreements; the Environmental Services Service Improvement Group; the Friends of Parks Groups; various Pub Watch and Off (license) Watch Groups, the Cultural Leaders Forum and the Business Advisory Group.

11.0 The Role of Audit

11.1 It is essential to appreciate that the governance framework and its compliance mechanisms must be distinguished from the role of audit which is to review the effectiveness of the compliance framework, not to be a substitute for it.

11.2 The Council's internal audit team carry out a programme of reviews during the year which are based upon a fraud risk assessment. As part of these audits, any failures to comply with legislation, council policy and practice or best practice guidance issued by a relevant body is identified and reported. Circulation of reports to senior officers, reports to the Audit Committee and follow-up procedures ensure action is taken on priority improvements. Progress on implementing internal audit recommendations is reported to quarterly reviews and to Leadership Team.

11.3 The Annual Report of the Audit Manager has been reported to the Audit Committee at its meeting on 27th June 2012 and included the following statement….''Audit Opinion: Having reviewed the work undertaken by Internal Audit to date I am able to give a satisfactory assurance of the adequacy and effectiveness of the internal control environment. There have been no significant new concerns arising from the majority of the audits undertaken in 2011/2012 that would necessitate an adverse overall opinion''.

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

11.5 The Audit Committee's terms of reference are consistent with CIPFA's guidance. It approved the annual plan of internal audit, and receives the quarterly and annual reports of the Audit Manager. It approves the Statement of Accounts, the annual governance statement and the review of the effectiveness of the internal audit system. It receives reports on risk management and reviews the operation of Treasury Management. It also received the annual letter from the Ombudsman and considers regular reports upon Freedom of Information requests.

11.6 The 2011/12 Statement of Accounts is due to be formally approved by the Audit Committee on 25th September 2012 (the Draft Accounts having been considered on 27th June 2012).

12.0 Review of Effectiveness

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

12.2 The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report and also by comments made by the external auditors and other review agencies and inspectorates. The Mayor and Portfolio Holders maintain a continuous review of the Council's policies, activities and performance of officers both through quarterly reviews and on a day to day basis. The subsequent paragraphs in this section of the report highlight those issues where there are potential governance issues.

12.3 The governance of special projects has raised a number of issues both relating to procurement and evaluation of financial and service offers. In these cases external specialist advice has been sought in order to protect the Council's interests. These projects include the Watford Health Campus, Charter Place re-development, and market testing of waste, refuse, street cleansing, parks and open spaces. All of these projects are ongoing in 2012/2013 when market testing of property and facilities management and the ICT Shared Service will also take place.

12.4 The majority of administrative processes occur within the Shared Services environment and it is not surprising that the majority of potential governance issues have arisen in this area and include attempted fraud by an external party, the need for up to date bank reconciliations, and the recording of all government changes to the benefits system and as notified through the 'ATLAS' process. These are all covered in more detail within the next section of the Governance Statement.

12.5 It is worthy of note however that Shared Services introduced a new Income Management System without issue and received the plaudits of Internal Audit. In addition the processes for the production of Final Accounts are far advanced than in the previous year. Finally Watford and Three Rivers are the first authorities within Hertfordshire to carry out a comprehensive review of those individuals claiming single persons council tax discount. Early indications are that 5% of claimants were in fact making fraudulent claims.

12.6 Outside of the shared services arena, Watford BC has successfully re-tendered its utilities contracts until 2016 with a large consortium (and so should achieve economies relating to bulk purchasing). Vehicle maintenance and treasury management have also been successfully re-tendered and telecoms contracts are currently out to tender. These processes do help to demonstrate that value for money is being sought.

13.0 Significant Governance Issues

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

No.	Issue	Action	Lead	Update
1	Revenues and Benefits reconciliations within Academy and between Academy and the Cedar Finance Management System need to be completed for 2011/2012.	External help has been engaged to bring this up to date. BY: Immediate	Head of Revenues and Benefits Shared Services.	This was an issue in 2010/2011. Great progress has been made and it just requires one last effort to remove this as a governance issue.
2	Revenues and Benefits received a detailed Health Check report in Summer 2010. A few recommendations have still to be achieved.	Solid progress has been made but the Revenues and Benefits health check should continue to be revisited until all accepted recommendations are completed. BY: 31st December 2012.	Head of Revenue and Benefits Shared Services.	Until all recommendations have been actioned the service will continue to be ‘average’ at too high a cost.
3	Revenues and Benefits received an Inspection from the Department of Works and Pensions at year end. The report indicated good progress had been made but highlighted two issues of concern. The first issue related to the fact that notification of regulation amendments from the DWP (ATLAS) have not been actioned since July 2011. This will increase the probability of overpayments being made. The second issue relates to the fact that the Shared Services ‘local authority error’ for Watford is higher than acceptable levels.	Retrospective action needs to be taken to action all ATLAS notifications. BY: Immediate Improvements in timescales for dealing with outstanding benefit claimants should result in the level of local authority error falling to acceptable levels. BY: September 2012.	Head of Revenues and Benefits Shared Services.	ATLAS work has now commenced. Improvement in turn around times for claimants is being maintained.

No.	Issue	Action	Lead	Update
4	The incidence of Fraud has increased across the economy generally. This fraud includes false supplier details, syndicates submitting fictitious benefits claims, cyber crime by hacking into ICT systems, and the lack of proper vetting procedures relating to key staff appointments.	The most vulnerable areas of Council activity have been reviewed but all financial procedure rules need to be reviewed. ICT security systems need a 'health check' to ensure they are robust to cyber hacking. Additional staff vetting procedures should be introduced when appointing ICT or Benefits staff in particular. BY: 30th September 2012	Head of Finance Shared Services. Head of ICT Shared Services. Head of HR Shared Services.	Immediate vulnerable areas such as payment of creditors has been addressed. A comprehensive review now needs to take place.
5	Issues relating to the ICT operating platforms need to continue to be addressed so that there is greater resilience for all users.	Progress has been made in improving server resilience and issues relating to the 'thin client' environment. This progress needs to continue. BY: October 2012	Head of ICT Shared Services.	An Action Plan has been developed. The service is being market tested during 2012/2013 with the evaluation criteria having a heavy emphasis on 'quality of product'.

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

Signed ……..…………………………….. **Date: 25 September 2012**
Mayor

Signed ……..…………………………….. **Date: 25 September 2012**
Managing Director

STATEMENT OF MOVEMENT IN RESERVES

	General Fund Balance £000	Housing Revenue Surplus Reserve £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 1 April 2010 - Restated	**(1,696)**	**(1,250)**	**(9,295)**	**(26,646)**	**(38,887)**	**(71,390)**	**(110,277)**
Movement in Reserves during 2010/11							
(Surplus) or deficit on provision of services	(19,527)	0	0	0	**(19,527)**	0	**(19,527)**
Other Comprehensive Expenditure and Income	(18,432)	0	0	0	**(18,432)**	0	**(18,432)**
Total Comprehensive Expenditure and Income	**(37,959)**	**0**	**0**	**0**	**(37,959)**	**0**	**(37,959)**
Adjustments between accounting basis & funding basis under regulations							
Charges for depreciation of long-term assets	(2,440)	0	0	0	**(2,440)**	2,440	**0**
Revaluation Losses on Property, Plant & Equipment	(887)	0	0	0	**(887)**	887	**0**
Movement in market value of Investment Properties	6,824	0	0	0	**6,824**	(6,824)	**0**
Capital grants & contributions applied to capital financing	1,323	0	0	0	**1,323**	(1,323)	**0**
Revenue Expenditure Funded from Capital under Statute	(1,932)	0	0	0	**(1,932)**	1,932	**0**
Council's share of Movement in Collection Fund Surplus/(Deficit)	31	0	0	0	**31**	(31)	**0**
Unattached capital receipts	1,432	0	0	(1,514)	**(82)**	82	**0**
Lease mitigation	214	0	0	0	**214**	(214)	**0**
Accrued Employee benefits	(26)	0	0	0	**(26)**	26	**0**
Employer's contributions payable to the Herts County Council Pension Fund and retirement benefits payable direct to pensioners	3,209	0	0	0	**3,209**	(3,209)	**0**
Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities	20,730	0	0	0	**20,730**	(20,730)	**0**
(Surplus) / Deficit on revaluation of Property, Plant and Equipment	(2,298)				**(2,298)**	2,298	**0**
Net charges made for retirement benefits in accordance with FRS 17	10,772	0	0	0	**10,772**	(10,772)	**0**
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	0	**1**	(1)	**0**
Net increase / decrease before transfers to earmarked reserves	**(1,006)**	**0**	**0**	**(1,514)**	**(2,520)**	**(35,439)**	**(37,959)**

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Housing Revenue Surplus Reserve £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Transfers to/from earmarked reserves							
Area Based Grant Reserve	(256)	0	256	0	**0**	0	**0**
Budget Carry Forward Reserve	194	0	(194)	0	**0**	0	**0**
Capital Fund Reserve	350	0	(350)	0	**0**	0	**0**
Car Parking Zones Reserve	(361)	0	557	0	**196**	(196)	**0**
Charter Place Tenants Reserve	(219)	0	219	0	**0**	0	**0**
Climate Change Reserve	(39)	0	39		**0**	0	**0**
Concessionary Fares Reserve	(100)	0	100	0	**0**	0	**0**
Development Sites Decontamination Reserve	60	1,251	(1,311)	0	**0**	0	**0**
Economic Impact Reserve	750	0	(750)	0	**0**	0	**0**
Housing Benefit Subsidy Reserve	367	0	(367)	0	**0**	0	**0**
Housing Planning Delivery Grant Reserve	(31)	0	31	0	**0**	0	**0**
Insurance Fund Reserve	100	0	(100)	0	**0**	0	**0**
Invest to Save Reserve	41	0	(41)	0	**0**	0	**0**
LA Business Growth Incentive Reserve	(56)	0	56	0	**0**	0	**0**
Leisure Structured Maintenance Reserve	183	0	(183)	0	**0**	0	**0**
Multi-Storey Car Park Repair Reserve	26	0	(26)	0	**0**	0	**0**
Pension Funding Reserve	300	0	(300)	0	**0**	0	**0**
Performance Reward Grant	(58)	0	104	0	**46**	(46)	**0**
Recycling Reserve	(50)	0	50	0	**0**	0	**0**
Usable Capital Receipts	0	0	0	8,747	**8,747**	(8,747)	**0**
Vehicle Replacement Reserve	150	0	(150)	0	**0**	0	**0**
Transfers to/from earmarked reserves	**1,352**	**1,251**	**(2,360)**	**8,747**	**8,989**	**(8,989)**	**0**
Increase / Decrease in 2010/11	**346**	**1,251**	**(2,360)**	**7,233**	**6,469**	**(44,428)**	**(37,959)**
Balance as at 31 March 2011 - Restated	**(1,350)**	**0**	**(11,655)**	**(19,413)**	**(32,418)**	**(115,818)**	**(148,236)**

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Housing Revenue Surplus Reserve £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 1 April 2011 - Restated	**(1,350)**	**0**	**(11,655)**	**(19,413)**	**(32,418)**	**(115,818)**	**(148,236)**
Movement in Reserves during 2011/12							
(Surplus) or deficit on provision of services	9,401	0	0	0	**9,401**	0	**9,401**
Other Comprehensive Expenditure and Income	11,648	0	0	0	**11,648**	0	**11,648**
Total Comprehensive Expenditure and Income	**21,049**	**0**	**0**	**0**	**21,049**	**0**	**21,049**
Adjustments between accounting basis & funding basis under regulations							
Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:							
Charges for depreciation of long-term assets	(2,248)	0	0	0	**(2,248)**	2,248	**0**
Revaluation losses on long-term assets	(9,322)	0	0	0	**(9,322)**	9,322	**0**
(Surplus) / Deficit on revaluation of long-term assets	1,317	0	0	0	**1,317**	(1,317)	**0**
Capital grants & contributions applied	1,634	0	0	0	**1,634**	(1,634)	**0**
Revenue expenditure funded from capital under statute	(2,170)	0	0	0	**(2,170)**	2,170	**0**
Lease mitigation	154	0	0	0	**154**	(154)	**0**
Adjustments primarily involving the Capital Receipts Reserve							
Use of capital receipts reserve to finance new capital expenditure	0	0	0	8,384	**8,384**	(8,384)	**0**
Unattached capital receipts	1,640	0	0	(1,843)	**(203)**	203	**0**
Adjustments primarily involving the Collection Fund Adjustment Account:							
Collection Fund adjustment in accordance with statutory requirements	(177)	0	0	0	**(177)**	177	**0**
Adjustments primarily involving the Accumulated Absences Reserve:							
Accrued employee benefits adjustment in accordance with statutory requirements	15	0	0	0	**15**	(15)	**0**
Adjustments primarily involving the Pensions Reserve:							
Employer's pension contributions and direct payments to pensioners payable in the year	2,877	0	0	0	**2,877**	(2,877)	**0**
Actuarial (gains) / losses on pension fund assets / liabilities	(12,965)	0	0	0	**(12,965)**	12,965	**0**
Reversal of items relating to retirement benefits debited or credited to the CI&E	(3,507)	0	0	0	**(3,507)**	3,507	**0**
Adjustments primarily involving the Financial Instruments Adjustment Account:							
Differences between amounts payable/receivable to be recognised under statutory provisions relating to soft loans	1	0	0	0	**1**	(1)	**0**
Net increase / decrease before transfers to earmarked reserves	**(1,702)**	**0**	**0**	**6,541**	**4,839**	**16,210**	**21,049**

STATEMENT OF MOVEMENT IN RESERVES

-continued

	General Fund Balance £000	Housing Revenue Surplus Reserve £000	Earmarked Reserves £000	Capital Receipts Reserve £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Transfers to/from earmarked reserves							
Budget Carry Forward Reserve	(49)	0	49	0	**0**	0	**0**
Car Parking Zones Reserve	219	0	(171)	0	**48**	(48)	**0**
Charter Place Tenants Reserve	(197)	0	197	0	**0**	0	**0**
Climate Change Reserve	(19)	0	19	0	**0**	0	**0**
Economic Impact Reserve	289	0	(289)	0	**0**	0	**0**
Housing Benefit Subsidy Reserve	629		(629)	0	**0**	0	**0**
Invest to Save Reserve	(74)	0	74	0	**0**	0	**0**
LA Business Growth Incentive Reserve	(54)	0	56	0	**2**	(2)	**0**
Le Marie Centre Repairs Reserve	(1)	0	1	0	**0**	0	**0**
New Homes Bonus Reserve	542	0	(542)	0	**0**	0	**0**
Pension Funding Reserve	75	0	(75)	0	**0**	0	**0**
Performance Reward Grant	72	0	(72)	0	**0**	0	**0**
Recycling Reserve	(6)	0	6	0	**0**	0	**0**
Vehicle Replacement Reserve	275	0	(275)	0	**0**	0	**0**
Transfers to/from earmarked reserves	**1,701**	**0**	**(1,651)**	**0**	**50**	**(50)**	**0**
Increase / Decrease in 2011/12	**(0)**	**0**	**(1,651)**	**6,541**	**4,890**	**16,160**	**21,050**
Balance as at 31 March 2012	**(1,350)**	**0**	**(13,306)**	**(12,872)**	**(27,528)**	**(99,658)**	**(127,186)**

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

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

2010/11 GROSS EXPEND-ITURE £000	2010/11 GROSS INCOME £000	2010/11 NET EXPEND-ITURE £000		Note	2011/12 GROSS EXPEND-ITURE £000	2011/12 GROSS INCOME £000	2011/12 NET EXPEND-ITURE £000
			Expenditure on Continuing Services				
			Central services to the public:				
1,557	(726)	831	Local Taxation Collection		1,347	(309)	1,038
1,120	(427)	693	Other Central Services		935	(363)	572
			Cultural, Environmental, Regulatory & Planning Services:				
5,503	(571)	4,932	Leisure Services		5,056	(376)	4,680
467	(178)	289	Cemeteries and Crematoria		614	(230)	384
1,905	(396)	1,509	Environmental Health		3,097	(455)	2,642
6,248	(1,459)	4,789	Waste Collection and Disposal		4,831	(1,489)	3,342
4,303	(702)	3,601	Planning and Development		3,894	(696)	3,198
2,065	(169)	1,896	Other Services		1,537	(22)	1,515
4,818	(4,358)	460	Highways and Transport Services		2,469	(2,461)	8
43,745	(40,553)	3,192	Other Housing Services		43,101	(41,675)	1,426
4,821	(330)	4,491	Corporate and Democratic Services		4,194	(190)	4,004
126	(126)	0	Central Support Services		162	(162)	0
0	(15,775)	(15,775)	Non-distributed Costs		125	0	125
76,678	**(65,770)**	**10,908**	**Cost of Services**		**71,362**	**(48,428)**	**22,934**
			Other Operating (Income) & Expenditure				
		0	(Gains) or losses on disposal of long-term assets				0
		(1,432)	Unattached capital receipts				(1,640)
			Financing & Investment (Income) & Expenditure				
		118	Interest payable and similar charges				63
		2,422	Pension interest costs & expected return on assets				1,314
		(4,779)	(Surplus) or deficit on trading undertakings not included in Net Cost of Services	9			(5,205)
		(1,043)	Interest receivable and similar income				(436)
		(6,825)	(Income) or expenditure in relation to investment properties and changes in their fair value				8,833
		(1,448)	Other Investment (Income) or expenditure				69
			Taxation & Non-Specific Grant Income				
		(8,146)	Council Tax Income				(8,189)
		(7,048)	Non-domestic Rates redistribution	8			(4,622)
		(1,308)	Non-ringfenced Government Grants	8			(2,066)
		(946)	Capital Grants and Other Contributions	8			(1,654)
		(19,527)	**(Surplus) or Deficit on Provision of Services**	7			**9,401**
		2,298	(Surplus) / Deficit on revaluation of long-term assets				(1,317)
		(20,730)	Actuarial (gain)/loss on pension fund assets/liabilities	32			12,965
		(18,432)	**Other Comprehensive (Income) and Expenditure**				**11,648**
		(37,959)	**Total Comprehensive (Income) and Expenditure**				**21,049**

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

BALANCE SHEET

Restated 31 Mar 10 £000	Restated 31 Mar 11 £000		Note	31 Mar 12 £000	31 Mar 12 £000
		Property, Plant and Equipment			
40,709	41,020	Land and Buildings	17	40,840	
3,332	4,897	Vehicles, Plant and Equipment	17	5,383	
1,971	2,112	Infrastructure Assets	17	2,238	
1,668	1,668	Heritage Assets	18	2,045	
47,680	**49,697**				**50,506**
		Other Long-Term Assets			
101,998	109,873	Investment Properties	20	106,529	
2,235	2,045	Surplus Assets	20	1,160	
1,599	1,660	Long-Term Debtors	23	1,373	
105,832	**113,578**				**109,062**
153,512	**163,275**	**LONG-TERM ASSETS**			**159,568**
		CURRENT ASSETS			
0	0	Assets Held for Sale	24	885	
37	40	Inventories	25	28	
17,397	12,302	Short Term Debtors	26	7,532	
34,827	31,874	Short Term Investments	36	29,112	
396	483	Cash and Cash Equivalents	27	722	
52,657	44,699				38,279
206,169	**207,974**	**TOTAL ASSETS**			**197,847**
		CURRENT LIABILITIES			
(12,025)	(10,654)	Short Term Creditors	29	(5,218)	
(2,234)	(1,288)	Short Term Borrowing	27	(1,500)	
(14,259)	(11,942)				(6,718)
191,910	**196,032**	**TOTAL ASSETS LESS CURRENT LIABILITIES**			**191,129**
		LONG-TERM LIABILITIES			
(1,811)	(3,386)	Government Grants & Other Contributions Received in Advance	30	(6,094)	
(286)	(427)	Deferred Liabilities	30	(350)	
(812)	0	Provisions	31	0	
(29)	0	Long-Term Creditors	30	0	
(78,694)	(43,983)	Liability related to Defined Benefit Pension Scheme	32	(57,499)	
(81,632)	(47,796)				(63,943)
110,278	**148,236**	**NET ASSETS**			**127,186**

BALANCE SHEET

-continued

Restated 31 Mar 10 £000	Restated 31 Mar 11 £000		Note	31 Mar 12 £000	£000
		FINANCED BY:			
		USABLE RESERVES			
26,646	19,413	Capital Receipts Reserve	34b	12,872	
9,295	11,655	Earmarked Reserves	34c	13,306	
1,696	1,350	General Fund Balance	34d	1,350	
1,251	0	Housing Revenue Surplus Reserve	34e	0	
38,888	32,418				27,528
		UNUSABLE RESERVES			
(100)	(126)	Accumulated Absences Reserve	35b	(111)	
122,320	149,139	Capital Adjustment Account	35c	144,644	
147	178	Collection Fund Adjustment Account	35d	2	
(97)	(187)	Deferred Capital Payments	35e	(450)	
1,683	1,738	Deferred Capital Receipts	35f	2,572	
(78)	(77)	Financial Instruments Adjustment Account	35g	(76)	
(78,694)	(43,983)	Pensions Reserve	32	(57,499)	
26,209	9,136	Revaluation Reserve	35i	10,576	
71,390	115,818				99,658
110,278	**148,236**	**TOTAL RESERVES**			**127,186**

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

Signed ……….………………………….. **Date: 25 September 2012**

Bernard Clarke CPFA
Head of Strategic Finance

Signed ……….………………………….. **Date: 25 September 2012**

Ian Brown
Chairman of Audit Committee

CASH FLOW STATEMENT

2010/11 £000	2010/11 £000		Note	2011/12 £000	2011/12 £000
(19,527)		**Net (surplus) or deficit on the provision of services**		**9,401**	
14,174		Adjustments to net surplus or deficit on the provision of services for non cash movements	28	(12,165)	
2,357		Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities	28	2,013	
	(2,996)				**(751)**
118		Interest element of finance lease payments		63	
(1,043)		Interest received		(436)	
	(925)				**(373)**
	(3,921)	**Net cash flows from Operating Activities**			**(1,124)**
		Investing and Financing Activities			
8,379		Purchase of Long Term Assets	21	3,377	
(2,953)		Purchase of short term and long term investments	36	(2,762)	
1,932		Other payments for investing activities	21	6,689	
(82)		Proceeds from the sale of Long Term Assets	34b	(203)	
(676)		Capital grants received		(4,156)	
(214)		Other payments for capital element of finance leases		(154)	
(1,432)		Other receipts from investing activities	34b	(1,640)	
	4,954				**1,151**
	1,033	**Net increase/(decrease) in cash and cash equivalents**			**27**
	(1,838)	**Cash and Cash equivalents at the beginning of the reporting period**			**(805)**
	(805)	**Cash and Cash equivalents at the end of the reporting period**	27		**(778)**

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

1 Accounting Policies

1.1 General Principles

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

1.2 Accruals of Income and Expenditure

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

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

1.3 Cash and Cash Equivalents

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

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

1.4 Exceptional Items

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

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

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

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

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

1.6 Charges to Revenue for Non-Current Assets

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

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

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

1.7 Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits

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

The Local Government Pension Scheme

- The Local Government Scheme is accounted for as a defined benefits scheme.
- The liabilities of Hertfordshire County Council Pension Fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method — i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the indicative rate of return on high quality corporate bonds).
- The assets of Hertfordshire County Council (HCC) Pension Fund attributable to the Authority are included in the Balance Sheet at their bid value as required by International Accounting Standard (IAS)19. The assets are:
    - Equities
    - Bonds
    - Property
    - Cash

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

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

- Current service cost — the increase in liabilities as a result of years of service earned this year — allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- Past service cost — the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years — debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

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

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

Discretionary Benefits

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

1.8 Events After the Balance Sheet Date

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

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

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

1.9 Financial Instruments

Financial Liabilities

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

Financial Assets

Financial assets are classified into two types:
- Loans and receivables — assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets — assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

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

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

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

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

1.10 Government Grants and Contributions

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

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

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

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

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

1.11 Intangible Assets

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

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

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

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

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

1.12 Inventories and Long Term Contracts

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

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

1.13 Investment Property

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

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

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

1.14 Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

1.15 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011/12 (SERCOP). The total absorption costing principle is used — the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

1.16 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (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 Authority does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

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

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

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Capital receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for either new capital investment or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

1.17 Heritage Assets

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

The Heritage Assets are relatively static and acquisitions, donations and disposals are rare. Where acquisitions do occur, they are initially recognised at cost and donations are recognised at valuation ascertained by insurance officers, museum curators or external valuers. Proceeds from the disposal of Heritage Assets are accounted for in accordance with the Authority's general policies relating to the disposals of property, plant and equipment. The Authority 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 Authority does not consider it necessary to charge depreciation.

The Authority'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 Authority's general policy on impairment.

1.18 Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (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 authority settles the obligation.

Contingent Liabilities

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

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

Contingent Assets

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

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

1.19 Reserves

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

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

1.20 Revenue Expenditure Funded from Capital under Statute

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

1.21 Value Added Tax (VAT)

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

2 Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

Accounting Standard IFRS 7 Financial Instruments: Disclosures (transfers of financial assets) has not yet been adopted. This Standard is likely to be adopted in 2012/13 and details will be included within the 2012/13 Code of Practice.

3 Critical Judgements In Applying Accounting Policies

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

4 Prior Period Adjustments

There are no prior period adjustments included in the statement other than those relating to the change in the accounting treatment of Heritage Assets (see note 18).

5 Events After The Reporting Period

The Statement of Accounts was authorised for issue by the Head of Strategic Finance on 27 June 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statement and notes have been adjusted in all material respects to reflect the impact of this information.

6 Assumptions Made About The Future And Other Major Sources Of Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2012 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ From Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to the individual assets. The current economic climate makes it possible that the Authority will be able to sustain its current spending on repairs and maintenance, bringing in to doubt the useful lives assigned to assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in the retirement ages, mortality rates and expected returns on pension assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects of these individual assumptions can have a major impact on the pension liability calculation resulting in major increases or decreases in the Authorities pension obligation.
Arrears	At 31 March 2012, the Authority had a short term sundry debtor balance of £6.691 million. A review of significant balances suggested a provision of £4.309 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate an increasing level of doubtful debts would require an additional amount to be set aside as a bad debt provision or additional bad debt write offs.

7 Amounts Reported For Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice 2011/12 (SERCOP). However decisions about resource allocation are taken by the Authority's Cabinet on the basis of Finance Digest budget reports analysed across directorates. These reports are produced several times a year to inform senior management and members about the current and forecasted financial position of the Council. They are prepared on a different basis from the accounting policies used in the financial statement. In particular:

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

Finance Digest (FD)- Actuals

2010/11 Finance Digest £000		2011/12 Finance Digest £000
	Service Area	
858	Corporate Services	654
8,333	Community Services	8,277
6,613	Environmental Services	5,734
4,286	Planning	2,855
1,506	Corporate Management	1,764
(3,215)	Legal and Property Services	(3,211)
580	Shared Services Implementation	31
(21,048)	Strategic Finance	21,791
18,530	Capital, FRS17 and Other Adjustments	(23,063)
16,443	**Net General Fund**	**14,832**
	Funding	
(8,115)	Council Tax	(8,367)
0	Council Tax Freeze Grant	(205)
(1,024)	Revenue Support Grant	(1,429)
(284)	Area Based Grant	0
(947)	Non-Specific Grant To Fund Capital	(1,448)
(31)	Collection Fund surplus movement	177
(7,048)	NNDR	(4,622)
0	Homelessness Grant	(95)
0	New Homes Bonus	(542)
(17,449)	**Total Funding**	**(16,531)**
(1,006)	Net General Fund less total funding	(1,699)
1,352	Transfers To / (From) Reserves	1,699
346	**Change To General Fund Balance**	**0**

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

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

2010/11 Finance Digest £000	2010/11 Not Inc. In FD £000	2010/11 CI&E £000	Subjective Analysis	2011/12 Finance Digest £000	2011/12 Not Inc. In FD £000	2011/12 CI&E £000
(75,746)	0	(75,746)	Fees, Charges and Other Service Income	(15,384)	0	(15,384)
(975)	0	(975)	Interest and Investment Income	(436)	0	(436)
(8,115)	0	(8,115)	Income From Council Tax	(8,366)	0	(8,366)
(9,334)	0	(9,334)	Government grants and Contributions	(49,185)	0	(49,185)
0	0	0	Transfer from reserves	(735)	735	0
(94,170)	**0**	**(94,170)**	**Total Income**	**(74,106)**	**735**	**(73,371)**
16,250	0	16,250	Employee Expenses	19,106	0	19,106
(16,402)	0	(16,402)	IAS19 Adjustments	(684)	0	(684)
69,943	(16)	69,927	Other Service Expenses	51,473	0	51,473
(400)	0	(400)	Support Service Recharges (From Capital)	(408)	0	(408)
5,260	0	5,260	Depreciation, Amortisation and Impairment	2,460	0	2,460
8	0	8	Interest Payments	63	0	63
1,432	(1,432)	0	Gain or Loss on Disposal of long-term assets	0	0	0
18,425	(18,425)	0	Other Items in Budget Monitoring	(338)	11,100	10,762
0	0	0	Transfer to reserves	2,434	(2,434)	0
94,516	**(19,873)**	**74,643**	**Total Expenditure**	**74,106**	**8,666**	**82,772**
346	**(19,873)**	**(19,527)**	**(Surplus)/Deficit on Provision of Services / General Fund Movement**	**0**	**9,401**	**9,401**

8 Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

2010/11 £000		2011/12 £000
	Credited To Taxation and Non-Specific Grant Income	
7,048	Non-domestic Rates redistribution	4,622
1,024	Revenue Support Grant	1,429
724	Section 106	1,031
0	New Homes Bonus	542
0	Council Tax Freeze Grant	205
0	Leisure Grant	150
64	Other Local Authorities	127
0	Homelessness Grant	95
0	Performance Reward Grant	72
13	Events Market	67
99	Recycling	2
284	Area Based Grant	0
46	Local Authority Business Growth Incentive	0
9,302		8,342
	Credited To Services	
37,632	DWP Housing Benefit Grant	39,999
694	Council Tax Benefit Administration Grant	712
295	Waste Management	416
296	Housing Private Sector	124
117	Elections	93
0	Play Rangers	85
98	Building Safer Communities	80
0	Miscellaneous Highways	59
37	Street Cleansing	51
65	Performance and Engagement	47
52	Housing and Planning Delivery Grant	43
27	Sports Development	29
25	Taxi Marshall Scheme	28
189	Housing - Homelessness	24
22	Cemeteries	22
88	Parks Development	15
34	CCTV	15
33	Other	21
11	Community Sports Network	0
170	NNDR Cost of Collection Grant	0
148	Concessionary Travel	0
13	Procurement	0
76	Big Lottery	0
21	Challenge and Innovation fund	0
40,143		41,863
49,445	**Total**	**50,205**

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

2010/11 £000		2011/12 £000
719	Other Government Grants	582
5,898	Section 106	5,512
6,617	**Total**	**6,094**

9 Trading Operations

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

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

2010/11				2011/12		
Expend-iture £000	Income £000	Net £000		Expend-iture £000	Income £000	Net £000
1,989	(6,889)	(4,900)	Property	1,912	(7,137)	(5,225)
550	(429)	121	Market	518	(498)	20
2,539	**(7,318)**	**(4,779)**		**2,430**	**(7,635)**	**(5,205)**

10 External Audit Costs

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

2010/11 £000		2011/12 £000
120	Fees payable to the audit commission with regard to external audit services carried out by the appointed auditor for the year, Grant Thornton.	114
18	Fees payable to Grant Thornton for the certification of grant claims and returns for the year	22
138	**Total**	**136**

11 Members Allowances

The Local Authorities (Members' Allowances) (England) Regulations 2003 provide for the circumstances in which allowances are payable to members and to the maximum amounts payable in respect of certain allowances.

The total of Members' Allowances paid in the year was £434,000 (2010/11: £435,000).

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

12 Officers Remuneration

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

2010/11 No. of employees	Remuneration Band	2011/12 No. of employees
4	£50,000 - £54,999	7
2	£55,000 - £59,999	1
1	£60,000 - £64,999	0
5	£65,000 - £69,999	5
1	£70,000 - £74,999	1
1	£75,000 - £79,999	0
0	£80,000 - £84,999	1
0	£85,000 - £89,999	0
0	£90,000 - £94,999	0
2	£95,000 - £99,999	2
0	£100,000 - £104,999	0
0	£105,000 - £109,999	0
0	£110,000 - £114,999	0
0	£115,000 - £119,999	0
0	£120,000 - £124,999	0
0	£125,000 - £129,999	0
0	£130,000 - £134,999	0
1	£135,000 - £139,999	1
17		**18**

The number of officers whose total remuneration exceeded £50,000 has increased from 17 in 2010/11 to 18 in 2011/12.

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.

2010/11 **Post**	Salary Including Fees and Allowances **£**	Compens-ation For Loss of Office **£**	Total Remun'n excluding Pension Contrib'n **£**	Pension Contrib-ution **£**	Total Remuner-ation **£**
Managing Director	135,105	0	135,105	36,208	**171,313**
Executive Director - Services	98,915	0	98,915	26,509	**125,424**
Executive Director - Resources	98,914	0	98,914	26,509	**125,423**
Head of Strategic Finance	78,953	0	78,953	0	**78,953**
Head of Legal & Property Services	72,262	0	72,262	19,366	**91,628**
Head of Corporate Services	66,862	0	66,862	17,919	**84,781**
Head of Environmental Services	66,857	0	66,857	17,918	**84,775**
Head of Human Resources	65,546	0	65,546	17,562	**83,108**
Head of Planning & Transportation	65,510	0	65,510	17,557	**83,067**
Head of Community Services	65,509	0	65,509	17,556	**83,065**
Head of Information, Communication & Technology	64,307	0	64,307	0	**64,307**
	878,740	**0**	**878,740**	**197,104**	**1,075,844**

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

13 Termination Benefits

The authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £559,415 (2010/11: £86,249). Of this total, £489,797 (2010/11: 60,694) was payable in the form of compensation for loss office and £69,617 (2010/11: £25,555) in enhanced pension benefits as part of the Authority's rationalisation of Services.

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

2010/11 Total number of exit packages	2010/11 Total cost of exit packages	Cost Band	2011/12 Total number of exit packages	2011/12 Total cost of exit packages
6	55,291	£0 - £20,000	11	71,862
1	30,958	£20,001 - £40,000	9	232,906
0	0	£40,001 - £60,000	2	94,168
0	0	£60,001 - £80,000	1	77,435
0	0	£80,001 - £100,000	1	83,044
7	**86,249**		**24**	**559,415**

14 Related Parties Transactions

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

a) Central Government & Other Local Bodies

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

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

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

b) Members and Chief Officers

The Council is one of five Districts (the others being Dacorum, Hertsmere, St Albans and Three Rivers) that oversee the operation of the West Hertfordshire Crematorium. Watford provides the Honorary Clerk to the Joint Committee (the Managing Director, Manny Lewis, undertakes this role). Councillor Ian Brown is the Council's Member representative on the Joint Committee. In 2011/12, as in 2010/11, no contribution towards the running of the Crematorium was required from the Council. The Crematorium practice is to meet all running costs from its own income, and build up reserves to meet future capital improvement costs. Should a deficiency contribution from Watford Borough be necessary, the contribution would be calculated in proportion to its population. The net current assets of the Joint Committee as at 31 March 2012 were £6.44 million (31 March 2011: £6.43 million). However, Watford's share of the net assets excludes property acquired or constructed for the purpose of Cremation which belong to and are vested in the Authority where the Crematorium is sited.

Councillors Kareen Hastrick and Derek Scudder are members of the Citizens Advice Bureau (CAB) Management Board and Council representatives and Councillor Andy Wylie's wife is treasurer for the CAB. Councillor George Derbyshire is also a member of the CAB. The board was paid an amount of £174,192 in grant and £47,891 in rent support during 2011/12 (£174,192 and £36,576 for grant and rent respectively in 2010/11). Councillor Derek Scudder is on the management board of the Watford Sheltered Workshop who lease a premises from Watford rent free and also on the Board of the United Sustainable Energy Agency.

Councillor George Derbyshire is a Director and Council representative on the Watford Palace Theatre Trust. The Trust received £257,728 in grant aid and £32,500 in rent support from the Council in 2011/12 (£257,728 and £32,500 respectively in 2010/11).

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

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

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

Councillors' Nigel Bell and Mo Mills are trustees of the West Watford Community Association who received a grant from the Council. Councillor Jackie Connal is a Council representative on the Hertfordshire Association of Museums.

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

c) **Hertfordshire Pension Fund**

The details of the transactions with the Council's pension fund are provided in Note 32 to the Core Financial Statements.

15 Partnership Working

Since April 2009, Watford Borough Council and Three Rivers District Council have been participating in Joint Services, provided by the Joint Shared Services Committee. During 2011/12 the services that have been provided jointly are Human Resources, Finance, Revenue and Benefits, and the ICT function. These services are jointly provided with an aim to making efficiencies for both Authorities.

The net expenditure of the shared services is apportioned between the Councils based on the Shared Service Agreement. The table below shows the total expenditure and income of the Joint Committee of which Watford Borough Council's share is £4.067million.

2010/11				2011/12		
Gross Expend-iture £000	**Gross Income £000**	**Net Cost £000**	**Services**	**Gross Expend-iture £000**	**Gross Income £000**	**Net Cost £000**
1,381	(46)	1,335	Local Tax Collection	1,400	(1)	1,399
1,826	0	1,826	Housing Benefits	1,567	0	1,567
3,870	(12)	3,858	Central Support Services	3,703	(5)	3,698
7,077	(58)	7,019	**Net Cost of Services / Operating Expenditure**	6,670	(6)	6,664
		(2,741)	Income from Three Rivers District Council			(2,597)
		(4,278)	Income from Watford Borough Council			(4,067)
		0	**(Surplus) / Deficit for the year**			**0**

16 Intangible Assets

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

During 2011/12 no capital expenditure was recorded in this category.

17 Property, Plant and Equipment

a) Information on Assets Held

The Property of the Council comprises of:

31 Mar 11 No. / area		31 Mar 12 No. / area
	Property, Plant and Equipment	
1	Museum	1
5	Community Centres	5
1	Assembly Hall	1
2	Play Facilities	2
2	Theatres	2
3	Council Offices	3
2	Depot	2
4	Car Parks	4
2	Cemeteries	2
2	Leisure Pools	2
	Community Assets (see note below)	
915 acres	Parks and Open Spaces	915 acres
9	Allotments	9

Community Assets are held for the community in perpetuity. They are often assets that have been in the community for a long period, and little if any record exists of their original cost. The assets are not expected to be sold and have a nominal value in the accounts of £1 per asset, giving a total value of £93 for the 93 assets held by the Council (2010/11: £93).

b) Movement of Property, Plant and Equipment

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

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

c) Revaluations

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

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

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure £000	Total £000
Carried at historical cost	0	12,848	2,613	15,461
Valued at current value as at:				
31/03/2012	12,078	0	0	12,078
31/03/2011	28,261	0	0	28,261
31/03/2010	2,226	0	0	2,226
31/03/2009	279	0	0	279
31/03/2008	408	0	0	408
Total Cost or Valuation	**43,252**	**12,848**	**2,613**	**58,713**

d) Information About Depreciation Methodologies

Depreciation has been provided for all assets with a finite useful life. Freehold land, investment properties, Surplus Assets and Heritage Assets are not depreciated. On all other assets where depreciation has been provided, assets have been depreciated on the following basis:

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

18 Heritage Assets

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

	Musical Instrument £000	Statues, Sculptures & War Memorials £000	Works of art £000	Civic Regalia £000	Total £000
Cost or valuation					
At 1 April 2010 - Restated	400	368	700	200	1,668
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Revaluations increases / (decreases)	0	0	0	0	0
At 31 March 2011 - Restated	**400**	**368**	**700**	**200**	**1,668**

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

19 Change In Accounting Policy Required By The Code Of Practice For Local Authority Accounting In The United Kingdom

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. As set out in our accounting policies, the Authority now requires heritage assets to be carried in the balance sheet at valuation.

For 2011/12 the Authority is required to change its accounting policy for heritage assets and recognise them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. Community Assets (that are now to be classified as heritage assets) that were donated to the authority were held at nominal valuation as a proxy for historical cost. The Authority's accounting policies for recognition and measurement of heritage assets are set out in the Authority's accounting policies (Note 1, Section 1.17).

In applying the new accounting policy, the Authority has recognised an additional £1.668 million for heritage assets that were not previously recognised in the Balance Sheet. This increase is also recognised in the Revaluation Reserve. The 1 April 2010 and 31 March 2011 Balance Sheets and 2010/11 comparative figures have thus been restated in the 2011/12 Statement of Accounts to apply the new policy.

The effects of the restatement are as follows:

- At 1 April 2010 the carrying amount of the Heritage Assets is presented at its valuation at £1.668 million. The Revaluation Reserve has increased by £1.668million.
- The fully restated 1 April 2010 Balance Sheet is provided in the Core Financial Statements. The adjustments that have been made to that Balance Sheet over the version published in the 2010/11 Statement of Accounts are as follows:

Adjustments to Balance Sheet Items for Heritage Assets	**Opening Balance 01 Apr 10 £000**	**Restate -ment Required 01 Apr 10 £000**	**Restated Opening Balance 01 Apr 10 £000**
Property, Plant and Equipment - Heritage Assets	0	1,668	1,668
Long-term Assets	151,844	1,668	153,512
Total Net Assets	108,610	1,668	110,278
Unusable Reserves - Revaluation Reserve	69,722	1,668	71,390
Total Reserves	108,610	1,668	110,278

Except for the restatement to the 2010/11 opening balances shown above, there were no other restatements for the year ended 31 March 2011.

20 Investment Properties And Surplus Assets

a) Information on Assets Held

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

31 Mar 11 No. / area		**31 Mar 12 No. / area**
209	Commercial Properties	209
1	Old Woolworths Store	1
1	Business Park	1
250,000 sq.ft	Charter Place Shopping Area	250,000 sq.ft
1	Market	1
7% of net profit	Share in Harlequin Shopping Centre	7% of net profit
1	Cardiff Road Industrial Estate	1
2	Surplus Assets	2

b) Movement of Investment Properties and Surplus Assets

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

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

c) Accounted for in Comprehensive Income and Expenditure Statement

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

2010/11 £000		2011/12 £000
7,318	Rental income from Investment Property	7,635
(2,539)	Direct operating expenses arising from Investment property	(2,430)
4,779	**Net income / (expenditure)**	**5,205**

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

d) Revaluations

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

	Investment Properties £000	Surplus Assets £000	Total £000
Valued at current value as at:			
31/03/2012	80,981	1,160	82,141
31/03/2011	10,569	0	10,569
31/03/2010	12,561	0	12,561
31/03/2009	2,247	0	2,247
31/03/2008	170	0	170
Total Cost or Valuation	**106,528**	**1,160**	**107,688**

21 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

2009/10 £000	2010/11 £000		2011/12 £000
3,544	3,384	Opening Capital Financing Requirement	3,340
		Capital Investment	
7,107	8,379	Property, Plant and Equipment	3,377
428	0	Investment Properties	4,519
1,352	1,932	Revenue Expenditure Funded from Capital Under Statute	2,170
8,887	10,311		10,066
		Sources of Finance	
(7,721)	(8,747)	Capital receipts	(8,384)
(1,123)	(1,322)	Government grants and other contributions	(1,632)
(5)	0	Direct Revenue contributions	0
(38)	(242)	Reserves	(50)
(8,887)	(10,311)		(10,066)
(160)	(44)	Minimum Revenue Provision	(366)
3,384	**3,340**	**Closing Capital Financing Requirement**	**2,974**

Commitments Under Capital Contracts

At 31 March 2012 the Council had contractual commitments totalling £1.415 million (31 March 2011: £1.955 million) relating to the following capital schemes for which the Council has in place the necessary funding.

Commit-ments 31 Mar 11 £000		Period over which expenditure will take place	Commit-ments 31 Mar 12 £000
0	Playing Fields and open spaces	2012-13	607
291	Other Capital Projects	2012-13	379
0	Cardiff Road Health Campus	2012-13	155
0	Repairs to Council Buildings	2012-13	149
0	Renovation Grants	2012-13	125
1,664	Colosseum Refurbishment	n/a	0
1,955	**Total**		**1,415**

22 Leases

a) Authority as Lessee

i) Operating Lease

The Council entered into a number of operating leases with three significant lease arrangements relating to operational land and buildings, vehicles and plant and equipment. The total amount paid under these arrangements in 2011/12 was £104,632 (2010/11: £130,280) as follows:

2010/11 £000		2011/12 £000
63	Operational Land and Buildings	30
67	Vehicles, Plant and Equipment	75
130	**Total**	**105**

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

2010/11 Land & Buildings £000	2010/11 Vehicles, Plant & Equipment £000	2010/11 Total £000		2011/12 Land & Buildings £000	2011/12 Vehicles, Plant & Equipment £000	2011/12 Total £000
0	17	17	Not later than one year	0	19	19
0	36	36	Later than one year and not later than five years	0	47	47
30	0	30	Later than five years	30	0	30
30	**53**	**83**	**Total Liability**	**30**	**66**	**96**

ii) Finance Leases

Vehicle Plant and Equipment includes vehicles and machinery that have been acquired in 2011/12 under finance leases for delivery of services at a fair value of £154,000 (2010/11: £260,000). The following table shows the values of assets held under finance by the Authority accounted for under Vehicle Plant and Equipment:

2010/11 £000		2011/12 £000
	Vehicles, Plant and Equipment	
582	Book value at 1 April	527
260	Additions	154
(315)	Depreciation	(360)
527	**Book value at 31 March**	**321**

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

31 Mar 11 £000		31 Mar 12 £000
	Finance lease liabilities (net present value of minimum lease payments):	
231	Annual Payments	284
519	Finance costs payable in future years	70
750	**Minimum lease payments**	**354**

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

31 Mar 11 £000		31 Mar 12 £000
	Vehicles, Plant and Equipment	
45	Not later than one year	4
705	Later than one year and not later than five years	350
750	**Total**	**354**

The aggregate finance charges made under these finance leases during the year amounted to £35,600 (2010/11: £41,260). This amount has been charged to the Income & Expenditure Account as interest payable and similar charges.

b) Authority as Lessor

i) Operating Leases

The Authority leases out various investment property under operating leases. The gross value of assets which were held under operating leases was £105.381 million (31 March 2011: £108.633 million). The total rental received under these lease agreements and credited to services was £7.637 million (2010/11: £7.532 million).

ii) Finance Leases

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

23 Debtors - Long Term

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

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
243	243	Watford Irish Association	237
14	13	Loan to YMCA	12
1,206	1,269	Rent to Mortgage	1,021
136	135	Finance Leases as Lessor	340
1,599	1,660		1,610
0	0	less: provision for bad debts / impairment	(237)
1,599	**1,660**	**Total**	**1,373**

24 Assets Held For Sale

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

2009/10 Total £000	2010/11 Total £000		Current £000	Long-Term £000	2011/12 Total £000
		Cost or valuation			
0	0	At 1 April	0	0	0
0	0	Assets reclassified from operational land and buildings	194	0	194
0	0	Assets reclassified from surplus assets	885	0	885
0	0	Disposals	(194)	0	(194)
0	**0**	**At 31 March**	**885**	**0**	**885**

25 Inventories

The following inventories were held as at 31st March 2012:

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
1	0	Community Centres (Food & Drink Stocks)	0
1	1	Watford Museum (Saleable Items)	5
1	1	Civic Gifts	0
3	0	Colosseum (Bar Stock)	0
13	11	Printing Section (Paper, inks, etc.)	9
18	27	Fuel Stock	14
37	**40**	**Total**	**28**

There was no work-in-progress as at 31st March 2012.

26 Debtors - Short Term

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

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
9,847	5,360	Government Departments	1,990
3,978	4,676	Local Authorities	2,937
5,985	4,788	Sundry Debtors	6,691
293	195	Payments in Advance	223
20,103	15,019		11,841
(2,706)	(2,717)	less: provision for bad debts / impairment	(4,309)
17,397	**12,302**	**Total**	**7,532**

27 Cash, Cash Equivalents And Short Term Borrowing

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

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
		Current Assets	
9	10	Cash held by the Authority	3
387	473	Bank current accounts	719
396	483		722
		Current Liabilities	
(2,234)	(1,288)	Short term borrowing	(1,500)
(1,838)	**(805)**	**Total**	**(778)**

28 Adjustments To Net Surplus Or Deficit On The Provision Of Services For Non Cash Movements And Investing And Financing Activities

2010/11 £000	2010/11 £000		2011/12 £000	2011/12 £000
		Adjustments for non-cash transactions		
3,102		Adjustments involving the Capital Adjustment Account and Revaluation Reserve	(11,952)	
31		Adjustments involving the Collection Fund Adjustment Account	(177)	
(26)		Adjustments involving the Accumulated Absences Reserve	15	
13,981		Net charges made for retirement benefits in accordance with FRS17	(630)	
812		Movement in Provisions	(237)	
	17,900			**(12,981)**
		Items on an accruals basis		
3		Increase / (Decrease) in Inventories	(12)	
(5,095)		Increase / (Decrease) in Debtors and Payments in Advance	(4,770)	
1,371		(Increase) / Decrease in Creditors and Receipts in Advance	5,436	
(5)		Other Accruals	162	
	(3,726)			**816**
		Investing and Financing Activities		
(118)		Interest payable and similar charges	(63)	
1,043		Interest receivable	436	
1,432		Adjustments involving the Capital Receipts Reserve	1,640	
	2,357			**2,013**
	16,531	**Total**		**(10,152)**

29 Creditors - Short Term

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

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
302	456	Government Departments	383
2,610	1,936	Local Authorities	782
4,855	4,707	Sundry Creditors	3,612
346	324	Receipts in Advance	441
3,912	3,231	Government Grants and Other Contributions Unapplied	0
12,025	**10,654**	**Total**	**5,218**

30 Creditors - Long Term

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

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
286	427	Deferred Liabilities (obligations under finance leases)	350
1,811	3,386	Government Grants and Other Contributions Unapplied	6,094
29	0	Other Long Term Creditors	0
2,126	**3,813**	**Total**	**6,444**

31 Provisions

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

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
812	0	Housing Benefit Subsidy repayment	0
812	**0**	**Total**	**0**

32 Defined Benefit Pension Scheme

Participation in Pension Scheme

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

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

Transactions relating to Retirement Benefits

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

2010/11 £000		2011/12 £000
	Comprehensive Income and Expenditure Statement (CI&E)	
	Cost of Services:	
2,324	current service cost	1,998
(15,525)	past service costs	22
7	settlements and curtailments	94
	Financing and Investment Income and Expenditure	
8,135	interest cost	7,001
(5,713)	expected return on assets in the scheme	(5,687)
(10,772)	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**3,428**
	Other Post Employment Benefit Charged to the CI&E:	
(20,730)	actuarial gains and losses	12,965
(31,502)	**Total Post Employment Benefit Charged to the CI&E**	**16,393**
	Movement in Reserves Statement	
31,502	reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(16,393)
3,209	employers' contributions payable to the scheme	2,877
3,209	**Actual amount charged against the General Fund Balance for pensions in the year**	**2,877**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2012 is a loss of £43.577 million (2010/11: £30.610 million).

Assets and Liabilities in relation to Post-employment Benefits

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

2010/11 £000		2011/12 £000
160,963	Opening balance at 1 April	128,931
2,324	Current service costs	1,998
8,135	Interest cost	7,001
748	Contributions by scheme participants	702
(22,558)	Actuarial gains and losses	9,002
(5,163)	Benefits paid	(6,138)
(15,525)	Past service costs	22
7	Curtailments	94
128,931	**Closing Balance at 31 March**	**141,612**

Reconciliation of fair value of the scheme assets:

2010/11 £000		2011/12 £000
82,268	Opening balance at 1 April	84,947
5,713	Expected rate of return	5,690
(1,828)	Actuarial gains and losses	(3,965)
3,209	Employer Contributions	2,877
748	Contributions by scheme participants	702
(5,163)	Benefits paid	(6,138)
84,947	**Closing Balance at 31 March**	**84,113**

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

The actual return on scheme assets in the year was £1.738 million (2010/11: £7.232 million).

Scheme History

31 Mar 08 £000	31 Mar 09 £000	31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
(105,974)	(102,500)	(160,963)	(128,930)	Present value of liabilities in the Local Government Pension Scheme	(141,612)
82,595	64,262	82,269	84,947	Fair value of assets in the Local Government Pension Scheme	84,113
(23,379)	**(38,238)**	**(78,694)**	**(43,983)**	**Surplus / (deficit) in the scheme**	**(57,499)**

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £57.499 million (2010/11: £43.983 million) has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy.

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

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2013 is £2.733 million.

Basis for Estimating Assets and Liabilities

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

The principal assumptions used by the actuary were:

31 Mar 11		31 Mar 12
5.1%	Rate of increase in salaries	4.8%
2.8%	Rate of increase in pensions	2.5%
5.5%	Rate for discounting scheme liabilities	4.8%
6.8%	Expected Return on Assets	5.5%
50%	Take-up option to convert annual pension into retirement lump sum	50%
	Mortality Assumptions	
	Longevity at 65 for current pensioners	
21.0	• Men	21.0
23.8	• Women	23.8
	Longevity at 65 for future pensioners	
22.9	• Men	22.9
25.7	• Women	25.7

31 Mar 11 %		31 Mar 12 %
	Long-term expected rate of return on assets	
7.5	Equity investments	6.2
4.9	Bonds	4.0
5.5	Property	4.4
4.6	Cash	3.5

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

31 Mar 11 %		31 Mar 12 %
73	Investments	69
19	Bonds	18
4	Property	6
4	Other Assets	7
100		**100**

History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012:

31 Mar 08 %	31 Mar 09 %	31 Mar 10 %	31 Mar 11 %		31 Mar 12 %
(16.7)	(39.7)	13.4	1.8	Difference between the expected and actual returns on assets	7.8
10.8	(16.2)	(33.6)	17.5	Experience gains and losses on liabilities	(6.4)

33 Contingent Assets And Liabilities

a) Contingent Liabilities

Municipal Mutual Insurance

Under Watford Council's agreement with its previous insurer Municipal Mutual Insurance (MMI), the Council is exposed to the possibility of having to repay all or part of its claims already settled, or to be settled, by MMI. This will only apply if MMI cannot achieve a solvent run off of its liabilities. At 31st March 2012 the maximum potential repayment stood at £347,349. No further information regarding the potential repayment is available at this time.

Based upon the figures at 30 September 2011, MMI's Finance Director reported that the run-off projection did not show a break-even point. A Judgement in the Supreme Court in March 2012 has significant implications, not only for MMI and its members, but also for the 729 Scheme Creditors of which Watford Council is one. MMI's Board of Directors is now seeking legal, financial and actuarial advice to determine the full implications of the Judgement and the most appropriate way forward for the company. This appears to indicate an increased level of risk to the Council.

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

b) Contingent Assets

Watford Community Housing Trust - VAT Shelter Agreement

Watford Borough Council employed a VAT structure scheme when the Council's housing stock was transferred to the Watford Community Housing Trust (WCHT). The scheme involves the Council contracting with WCHT for the Trust to deliver works and this enabled the WCHT to recover VAT on those future major works. Both the WCHT and the Council gain by these arrangements. The recovery of VAT on major works will amount to an estimated £18 million, of which the first £1.1 million was paid to Watford Borough Council along with 50% of the remaining £16.9 million. The rate at which this sum is received will depend on the WCHT work programme. However, £1.456 million was received during 2011/12 (2010/11: £0.848 million) leaving a contingent asset of approximately £4.824 million (2010/11: £6.280 million) which will be received in the future.

34 Usable Reserves

a) Movement in Usable Reserves

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

Balance at 31 Mar 10 £000	Net Movement in year £000	Balance at 31 Mar 11 £000	Reserve	Net Movement in year £000	Balance at 31 Mar 12 £000	Further Detail Note
26,646	(7,233)	19,413	Capital Receipts Reserve	(6,541)	12,872	34b
9,295	2,360	11,655	Earmarked Reserves	1,651	13,306	34c
1,696	(346)	1,350	General Fund Balance	0	1,350	34d
1,251	(1,251)	0	Housing Revenue Reserve	0	0	34e
38,888	**(6,470)**	**32,418**	**Total Net Worth**	**(4,890)**	**27,528**	

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.

2009/10 £000	2010/11 £000		2011/12 £000
32,635	26,646	Balance brought forward at 1 April	19,413
		Received in year	
37	7	Loan repayments	6
229	75	Proceeds from sale of long-term assets	194
1,464	1,428	Receipts not related to asset sales	1,643
7	4	Repaid discounts	0
1,737	1,514		1,843
		Applied in year	
(7,726)	(8,747)	Transferred to Capital Adjustment Account to finance new capital expenditure	(8,384)
26,646	**19,413**	**Balance carried forward at 31 March**	**12,872**

c) Earmarked Reserves

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

For each Reserve established the Council identifies:

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

Balance at 31 Mar 10 £000	Balance at 31 Mar 11 £000		Appropriations to Reserve £000	Appropriations from Reserve £000	Balance at 31 Mar 12 £000
341	85	Area Based Grant Reserve	0	0	85
155	349	Budget Carry Forward Reserve	301	(349)	301
1,546	1,896	Capital Fund Reserve	0	0	1,896
963	406	Car Parking Zones Reserve	217	(48)	575
892	672	Charter Place Tenants Reserve	7	(203)	476
107	68	Climate Change Reserve	5	(24)	49
100	0	Concessionary Fares Reserve	0	0	0
0	1,310	Development Sites Decontamination Reserve	0	0	1,310
500	1,250	Economic Impact Reserve	493	(206)	1,537
113	113	Homelessness Prevention Reserve	0	0	113
0	367	Housing Benefit Subsidy Reserve	629	0	996
332	301	Housing Planning Delivery Grant Reserve	0	0	301
0	100	Insurance Fund Reserve	0	0	100
1,452	1,493	Invest to Save Reserve	0	(73)	1,420
752	696	LA Business Growth Incentive Reserve	0	(55)	641
13	13	Le Marie Centre Repairs Reserve	0	(1)	12
238	423	Leisure Structured Maintenance Reserve	0	0	423
313	313	Local Development Framework Reserve	0	0	313
157	183	Multi-Storey Car Park Repair Reserve	0	0	183
0	0	New Homes Bonus Reserve	542	0	542
1,000	1,300	Pension Funding Reserve	75	0	1,375
152	48	Performance Reward Grant Reserve	72	0	120
69	19	Recycling Reserve	0	(6)	13
100	100	Rent Deposit Guarantee Scheme Reserve	0	0	100
0	150	Vehicle Replacement Reserve	275	0	425
9,295	**11,655**	**Total**	**2,616**	**(965)**	**13,306**

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

Reserve	Purpose
Area Based Grant Reserve	This grant was received to encourage initiatives relating to preventing violent extremism and anti social behaviour.
Budget Carry Forward Reserve	This reserve has been created to ‘carry forward’ unspent revenue budgets for use in the proceeding financial year.
Capital Fund Reserve	To provide for funding of key capital projects.
Car Parking Zone Reserve	This is a statutory ring-fenced reserve, for future controlled parking related costs.
Charter Place Tenants Reserve	Tenants’ contributions to meet major works.
Climate Change Reserve	To fund energy saving initiatives to reduce energy consumption.
Development Sites Decontamination Reserve	To provide for the costs of any decontamination of development sites for which the Council may have liability.
Economic Impact Reserve	To provide resources to offset the impact of the potential downturn of the economy and consequent potential overspends to the Council's budget.
Homelessness Prevention Reserve	To assist with homelessness among young people.
Housing Benefit Subsidy Reserve	This reserve has been created to meet any subsidy clawback by DWP.
Housing Planning Delivery Grant Reserve	This grant was introduced to reward authorities for improved delivery of housing and other planning outcomes.
Insurance Fund Reserve	To provide for unforeseen uninsured losses.
Invest to Save Reserve	To support schemes where initial expenditure will produce longer term savings.
LA Business Growth Incentive Reserve	Government grant received in respect of business rate growth.
Le Marie Centre Repairs Reserve	To help meet the Council’s obligation as landlord.
Leisure Structural Maintenance Reserve	To fund future structural maintenance needs not covered within the existing Leisure services contract.
Local Development Framework Reserve	To help fund the costs of the production of the Local Development Plan.
Multi Storey Car Park Repair Reserve	To provide funds towards major structural works.
New Homes Bonus Reserve	Government grant received in respect of new homes built.
Pension Funding Reserve	To meet one off pension costs and redundancy programme.
Performance Reward Grant Reserve	This is grant allocated for use in conjunction with the LSP, based on the achievement of performance targets.
Recycling Reserve	This reserve will help to ‘smooth out’ fluctuations in recycling income in future years.
Rent Deposit Guarantee Scheme Reserve	To assist in the provision of homelessness accommodation.
Vehicle Replacement Reserve	To provide for the replacement of the Council's refuse freighters.

d) General Fund Balance

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

2009/10 £000	2010/11 £000		2011/12 £000
1,696	1,696	Balance brought forward at 1 April	1,350
0	1,006	Net increase / (decrease) before transfers to earmarked reserves	1,702
0	(1,352)	Transfer (to) / from earmarked reserves	(1,702)
1,696	**1,350**	**Balance carried forward at 31 March**	**1,350**

e) Housing Revenue Surplus Reserve

The Department for Communities and Local Government gave the Council permission to close the HRA and the balance was transferred to other reserves in 2010/11.

35 Unusable Reserves

a) Movement in Unusable Reserves

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

Restated Balance at 31 Mar 10 £000	Net Movement in year £000	Restated Balance at 31 Mar 11 £000	Reserve	Net Movement in year £000	Balance at 31 Mar 12 £000	Further Detail Note
(100)	(26)	(126)	Accumulated Absences Reserve	15	(111)	35b
122,320	26,819	149,139	Capital Adjustment Account	(4,495)	144,644	35c
147	31	178	Collection Fund Account	(176)	2	35d
(97)	(90)	(187)	Deferred Capital Payments	(263)	(450)	35e
1,683	55	1,738	Deferred Capital Receipts	834	2,572	35f
(78)	1	(77)	Financial Instruments Account	1	(76)	35g
(78,694)	34,711	(43,983)	Pensions Reserve	(13,516)	(57,499)	32
26,209	(17,073)	9,136	Revaluation Reserve	1,440	10,576	35i
71,390	**44,428**	**115,818**	**Total Net Worth**	**(16,160)**	**99,658**	

b) Accumulated Absences Reserve

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

2009/10 £000	2010/11 £000		2011/12 £000
(83)	(100)	Balance brought forward at 1 April	(126)
(17)	(26)	Employee costs accrued	15
(100)	**(126)**	**Balance carried forward at 31 March**	**(111)**

c) Capital Adjustment Account

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

2009/10 £000	2010/11 £000		2011/12 £000
120,749	122,320	Balance brought forward at 1 April	149,139
		Reversal of items relating to capital expenditure debited or credited to the CI&E Statement:	
(5,330)	(2,136)	Charges for depreciation and impairment of long-term assets	(2,102)
126	2,902	Revaluation losses on Long-term Assets	(9,770)
(1,352)	(1,932)	Revenue Expenditure Funded from Capital under Statute	(2,170)
(6,556)	(1,166)		(14,042)
		Capital financing applied in the year:	
7,721	9,007	Capital Receipts Reserve	8,384
347	1,322	Government Grants and Other Contributions	1,632
38	242	Reserves	50
5	0	Direct Revenue Financing	0
16	0	Voluntary revenue contribution for capital financing	366
8,127	10,571		10,432
0	17,414	Transfer from the Revaluation Reserve	0
0	0	Transfer to Deferred Capital Receipts relating to Assets Held For Sale	(885)
122,320	**149,139**	**Balance carried forward at 31 March**	**144,644**

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

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

d) Collection Fund Adjustment Account

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

2009/10 £000	2010/11 £000		2011/12 £000
154	147	Balance brought forward at 1 April	178
(7)	31	Amount by which council tax income credited to CI&E is different from the council tax income calculated for the year in accordance with statutory requirements	(176)
147	**178**	**Balance carried forward at 31 March**	**2**

e) Deferred Capital Payments

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

2009/10 £000	2010/11 £000		2011/12 £000
(98)	(97)	Balance brought forward at 1 April	(187)
1	(90)	Deferred capital payments adjustment	(313)
0	0	Deferred capital payments relating to additional finance leases	50
(97)	**(187)**	**Balance carried forward at 31 March**	**(450)**

f) Deferred Capital Receipts

Deferred capital receipts are amounts representing capital receipts from the sale of long-term assets that will be repaid to the Council in instalments over an agreed number of years. They have arisen from mortgage advances to community groups including the Watford and District Irish Association, which forms part of the mortgages under long term debtors. In addition, equity interest in the rent to mortgage scheme is included in the total deferred credit and amounts to £1.021 million (2010/11: £1.269 million).

2009/10 £000	2010/11 £000		2011/12 £000
1,661	1,683	Balance brought forward at 1 April	1,738
22	55	Deferred capital receipts adjustments	(51)
0	0	Transfer from the Capital Adjustment Account relating to assets held for sale	885
1,683	**1,738**	**Balance carried forward at 31 March**	**2,572**

g) Financial Instruments Adjustment Account

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

2009/10 £000	2010/11 £000		2011/12 £000
(79)	(78)	Balance brought forward at 1 April	(77)
1	1	Financing costs written out	1
(78)	**(77)**	**Balance carried forward at 31 March**	**(76)**

h) Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employments benefits and for funding benefits in accordance with statutory provisions. For further details see Note 32.

i) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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 revaluations 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.

Restated 2009/10 £000	Restated 2010/11 £000		2011/12 £000
23,440	26,209	Balance brought forward at 1 April	9,136
2,425	645	Gains / (Losses) on revaluation of long-term assets	1,287
0	(17,414)	Transfer to Capital Adjustments Account	0
(1,316)	(304)	Historical Cost depreciation adjustment	(212)
(8)	0	Write-out of balances on assets disposed	0
1,668	0	Heritage Asset Revaluations	365
26,209	**9,136**	**Balance carried forward at 31 March**	**10,576**

36 Disclosure Of Nature And Extent Of Risk Arising From Financial Instruments

Financial Instruments - Balances

The Balance Sheet includes the following financial instruments:

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
		Long Term Liabilities	
(1,811)	(3,386)	Government Grants & Other Contributions Unapplied	(6,094)
(286)	(427)	Deferred Liabilities	(350)
		Current Liabilities	
(12,025)	(10,654)	Short Term Creditors	(5,218)
		Long Term Assets	
1,599	1,660	Long Term Debtors	1,373
		Current Assets	
17,397	12,302	Short Term Debtors	7,532
34,827	31,874	Short Term Investments	29,112
39,701	**31,369**	**Total**	**26,355**

Fair Value

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

The Council has a 125 year loan to the Y.M.C.A. in respect of accommodation at less than market rate (soft loan). The interest foregone over the life of the loan is recognised in the Financial Instruments Adjustment Account on the Balance Sheet. Interest of £766 (2010/11: £820) is recorded as a gain in the Comprehensive Income and Expenditure Account and reflected as a reduction in the Financial Instruments Adjustment Account.

Key Risks

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

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

Overall procedures for managing risk

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

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

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

The annual treasury management strategy which incorporates the prudential indicators was approved by the Audit Committee on 16 March 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £7 million (2010/11: £7 million). This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £5 million (2010/11: £5 million). This is the expected level of debt and other long term liabilities during the year.

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

Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Details of the Investment Strategy for 2011/12, which was approved by the Audit Committee on 16 March 2011, can be found on the Council's website.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

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

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

Liquidity risk

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

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

The Council does not generally allow credit for its trade debtors, such that £0.420 million (2010/11: £1.070 million) of the £6.691 million (2010/11: £4.788 million) balance is past its due date for payment. The past due amount can be analysed by age as follows:

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
82	173	Less than 3 months	250
367	664	More than 3 months, less than 1 year	10
205	233	More than 1 year	160
654	**1,070**	**Total**	**420**

Refinancing and Maturity risk

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

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

The maturity analysis of the Council's investments at 31 March 2012 is as follows:-

31 Mar 10 £000	31 Mar 11 £000		31 Mar 12 £000
34,827	31,874	Less than 1 year	29,112
34,827	**31,874**	**Total**	**29,112**

Market Risk

Interest Rate Risk

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

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

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

2009/10 £000	2010/11 £000		2011/12 £000
449	383	Increase in interest receivable on investments with consequential change in Income and Expenditure Account	305

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

Price Risk

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

Foreign Exchange Risk

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

COLLECTION FUND

2010/11 £000			Note	2011/12 £000	£000
		Income			
43,572		Council Tax Payers	*CF1*	44,361	
6,581		Transfers from the General Fund - Council Tax Benefit	*CF1*	6,450	
60,983		Business Rate Payers	*CF2*	62,504	
	111,136	**Total Income**			**113,315**
		Expenditure			
48,589		Precepts and Demands	*CF3*	49,697	
		Business Rates			
60,813		Payments to National Pool	*CF2*	62,336	
170		Cost of Collection		168	
		Bad and Doubtful Debts	*CF4*		
5		Write-offs		316	
702		Increase in Provision		788	
656		Distribution of Previous Year's Surplus		1,082	
	110,935	**Total Expenditure**			**114,387**
	(201)	**(Increase) / Decrease in Collection Fund Balance**			**1,072**
	(881)	Fund Balance - (Surplus) / Deficit at 1 April			(1,082)
	(1,082)	**Fund Balance - (Surplus) / Deficit at 31 March**	*CF4*		**(10)**

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

NOTES TO THE COLLECTION FUND

CF1 Council Tax Payers

The charge for council tax is based on the total number of dwellings in each of eight bands at 1 April 1991 valuations. This is adjusted for dwellings where discounts, exemptions or disabled relief applies and is converted into an “equivalent number of Band D dwellings” where bands below Band D will pay proportionately less than dwellings in higher bands. A further adjustment is made for losses on collection. The table below sets out the calculation of the Council Tax Base for 2011/12.

Valuation Band	Total Number of Dwellings in Band	Discounts, Exemptions & Disabled Relief	Total Chargeable Dwellings	Conversion Faction (Proportion)	Equivalent Number of Band D Dwellings
A	292	(61.25)	230.75	6/9	153.8
B	3,862	(682.25)	3,179.75	7/9	2,473.1
C	13,450	(1,693.00)	11,757.00	8/9	10,450.7
D	11,906	(1,043.00)	10,863.00	9/9	10,863.0
E	3,429	(225.50)	3,203.50	11/9	3,915.4
F	2,051	(120.25)	1,930.75	13/9	2,788.9
G	1,790	(93.50)	1,696.50	15/9	2,827.5
H	75	(5.50)	69.50	18/9	139.0
	36,855	**(3,924.25)**	**32,930.75**		**33,611.4**
Less: Allowance for losses on collection					(840)
Tax Base for Calculation of Council Tax					32,771
Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons' relief and empty properties					734
Council Tax Base for the Year					**33,505**

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

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

2010/11 £000		2011/12 £000
50,153	Gross Council Tax Charge	50,811
(6,581)	Less: Council Tax Benefits	(6,450)
43,572	**Income from Council Tax Payers**	**44,361**

CF2 Business Rate Payers

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

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

The relevant rateable value and multiplier data is shown below:

2010/11 £ / p		2011/12 £ / p
£164,284,500	Total Non-domestic Rateable Value at 31 March	£164,469,825
41.4p	National Non-domestic Rate Multiplier - Standard	43.3p
40.7p	National Non-domestic Rate Multiplier - Small Business	42.6p

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

CF3 Precepts and Demands

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

2010/11 £000		2011/12 £000
	Precepts:	
35,848	Hertfordshire County Council	36,665
4,736	Hertfordshire Police Authority	4,844
	Demand:	
8,005	Watford Borough Council	8,188
48,589	**Total**	**49,697**

CF4 Distribution of Balances

Based on the precepts and demands made in 2011/12, balances relating to the collection fund have been apportioned between the local authorities and are reflected on their balance sheets as follows:

Total 2010/11 £000		Herts County Council £000	Herts Police Authority £000	Watford Borough Council £000	Total 2011/12 £000
4,216	Gross Arrears	3,367	445	752	4,564
(706)	Less: Prepayments	(617)	(81)	(138)	(836)
3,510	Net Arrears	2,750	364	614	3,728
1,800	Provision for Doubtful Debts	1,909	252	427	2,588
1,082	**Collection Fund Balance (Surplus)**	**(7)**	**(1)**	**(2)**	**(10)**

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

GLOSSARY OF TERMS AND ABBREVIATIONS

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

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

Amortisation
The term used to refer to the charging of the value of a transaction or asset (usually related to intangible long-term assets) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; 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 Adjustment Account
A reserve that reflects financing of capital from revenue and capital receipts together with the adjustment of the minimum revenue provision.

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.

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

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

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

GLOSSARY OF TERMS AND ABBREVIATIONS

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

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

Depreciation
The measure of the wearing out, consumption or other reduction in the useful life of a fixed asset.

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

Finance Lease
Arrangement whereby the lessee is treated as the owner of the leased asset, and is required to include such assets within 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 UK GAAP.

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

IFRS
International Financial Reporting Standards.

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

Investments
Deposits for less than one year with approved institutions.

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

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

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

Non Operational Assets
Long-term assets held by an organisation but not directly occupied, used or consumed in the delivery of services. An example of a non operational asset is an investment property or an asset being held pending its sale.

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

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

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

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

Profit on the sale of Long-term Assets
This is a recent accounting requirement for Local Government, and requires the book value of the asset sold to be compared to the net proceeds to calculate the profit or loss on the transaction.

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

Revenue Expenditure Funded from Capital under Statute
Capital expenditure which is allowable by statute to be funded from capital resources but which does not fall within the Code of Practice's definition of long-term assets. Examples include grants and similar advances made to other parties to finance capital investment.

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

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

Opinion on the Authority financial statements

We have audited the financial statements of Watford Borough Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Head of Strategic Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Watford Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

INDEPENDENT AUDITORS' REPORT AND CERTIFICATE

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Watford Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

…………………………………………
Paul Dossett
Senior Statutory Auditor, for and on behalf of Grant Thornton UK LLP

Grant Thornton House
Melton Street
London
NW1 2EP

Date: 25 September 2012

INDEX OF NOTES TO THE CORE FINANCIAL STATEMENT