



PRE AUDIT

**The Three Rivers & Watford
Shared Services Joint Committee**

**Statement Of Accounts
2010/2011**

EXPLANATORY FOREWORD

1. Introduction

The purpose of the Statement of Accounts is to give information to interested parties on how the Joint Committee has used the resources available to it to provide services to Three Rivers and Watford councils. The Shared Services arrangement commenced on the 1 April 2009 for the provision of Finance, Human Resources, ICT and Revenues & Benefits services.

This foreword gives a brief explanation of what is included within the Statement of Accounts, as well as providing a summary of the main financial results for 2010/11.

Page	Contents
1	The Comprehensive Income and Expenditure Account This account summarises the resources that have been generated and consumed in providing and managing the shared services during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.
1	Statement of Movement in Reserves Each council raises council tax on a different accounting basis to the way financial performance is measured in the Comprehensive Income and Expenditure Account. In each council's accounts, this Statement shows the movement in the year on different reserves held by the Council and which contribute to their General Fund balances. There are no adjustments needed to the shared services income and expenditure account before consolidation into the accounts of the two councils, therefore there is nothing to record in this account.
2	The Balance Sheet The Balance Sheet represents the Council's overall financial position. In addition to containing the revenue balances and reserves at the Council's disposal, it shows its long-term indebtedness and the fixed and net current assets employed in its operations.
2	The Cash Flow Statement The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
3	Notes to the Core Financial Statements These include the Statement of Accounting Policies which explains the basis upon which the figures in the accounts have been prepared. Further explanatory notes explain in more detail the contents of the core financial statements.
7	The Statement of Responsibilities for the Statement of Accounts This statement sets out the respective responsibilities of the Joint Committee and its Finance Officer for the Statement of Accounts.
8	Annual Governance Statement This statement is required by <i>The Accounts and Audit Regulations (England) 2003</i> .

The Joint Committee 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.

EXPLANATORY FOREWORD

2. Accounting Framework

The *Code of Practice on Local Authority Accounting in the United Kingdom* defines the proper accounting practices for local authorities in England. The *Code has been published by the Chartered Institute of Public Finance and Accountancy (CIPFA)* based on International Financial Reporting Standards (IFRS). The Accounts and Audit Regulations (England) 2011 define the Three Rivers and Watford Shared Services Joint Committee as a Larger Relevant Body.

3. Changes in Functions

There have been no significant changes in functions of Shared Services during 2010/11.

4. Revenue Activities

Revenue Out-turn 2010/11

Revenue expenditure is the day-to-day expenditure incurred by the Councils to deliver shared services. Total revenue expenditure amounted to £7.02m. The Three Rivers and Watford Shared Services Joint Committee is not a separate legal entity and does not have capacity to enter into contracts of employment or contracts for goods and services. The Joint Committee has no employees, assets or liabilities - these are the responsibility of the constituent councils. Shared Services costs and incomes are reported separately to the Joint Committee for management, performance and accounting purposes.

Comparison of the revised budget with the out-turn for each of the shared services:-

	2010/11 Revised Estimate £000s	2010/11 Out-turn £000s	2010/11 Variance £000s
ICT	1,483	1,468	(15)
Finance	1,629	1,611	(18)
Human Resources	765	779	14
Revenues & Benefits	2,996	3,161	165
	6,873	7,019	146

Comparison of the revised budget with the out-turn analysed against the CIPFA subjective classification:-

	2010/11 Revised Estimate £000s	2010/11 Out-turn £000s	2010/11 Variance £000s
Employees	5,673	5,818	145
Premises	0	1	1
Transport	52	46	(6)
Supplies and Services	1,057	1,072	15
Agency and Contracted	96	94	(2)
Income	(5)	(12)	(7)
	6,873	7,019	146

EXPLANATORY FOREWORD

Comparison of the income from the partner councils in the revised budget with the out-turn:-

	2010/11 Revised Estimate £000s	2010/11 Out-turn £000s	2010/11 Variance £000s
Three Rivers District Council	2,684	2,741	57
Watford Borough Council	4,189	4,278	89
	<u>6,873</u>	<u>7,019</u>	<u>146</u>

The variance between the expenditure and the revised budget agreed in December 2010 results predominantly from the employment of additional benefits assessors to address an increasing workload resulting from the economic climate.

5 *Future Revenue Expenditure & its Funding*

Expenditure on the services is under the control of the partner councils. The four shared services reported their estimated latest budgeted net expenditure for the four financial years from 2010/11 through to 2013/14 to the Joint Committee in December 2010. These estimates were agreed and incorporated into the partner councils medium term financial plans. The Joint Committee receives quarterly financial and performance monitoring reports. Arrangements are in place to refer variances to the councils.

6. **Governance**

This Statement of Accounts is one way in which the Three Rivers and Watford Shared Services Joint Committee tries to demonstrate that it is making good use of public funds and providing value for money. The Councils are constantly looking to improve financial management and internal control within the Shared Services arrangement. The External Auditor carries out value for money reviews in partner councils as part of their reporting.

7. **Further Information**

Further information on the joint service accounts is available from the Head of Finance (Shared Services) based at Three Rivers Council Offices, Northway, Rickmansworth, Herts., WD3 1RL. Information on both councils policies, their Medium Term Financial Plans and Statements of Accounts can be found on their websites or in hard copy by request. Please visit www.threerivers.gov.uk and www.watford.gov.uk

Alan Power
Head of Finance
Shared Services
30 June 2011

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the Shared Service during the last year. It includes all day-to-day expenses and related income on an accruals basis.

2009/10 Net Expenditure /Income £000s		2010/2011		
		Gross Expenditure £000s	Gross Income £000s	Net Expenditure /(Income) £000s
	Services			
1,336	Local Tax Collection	1,381	(46)	1,335
1,533	Housing Benefits	1,826	0	1,826
4,338	Central Support Services (HR, Finance & ICT)	3,870	(12)	3,858
7,207	NET COST OF SERVICES/ NET OPERATING EXPENDITURE	7,077	(58)	7,019
(2,848)	Income from Three Rivers District Council			(2,741)
(4,359)	Income from Watford Borough Council			(4,278)
0	(SURPLUS)/DEFICIT FOR THE YEAR			0

STATEMENT OF MOVEMENT IN RESERVES

The Income and Expenditure Account (I&E) shows the Joint Committee's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. Each Council is required to raise Council Tax on a different accounting basis.

There are no adjustments required to the Shared Service Income and Expenditure Account before consolidation into the accounts of each Council's General Fund Balances.

BALANCE SHEET AS AT 31 MARCH 2011

31 March 2010 £000s		Note	31 March 2011 £000s	
			£000s	£000s
	Current Assets			
77	Debtors	5	463	
47	Cash & Bank (Three Rivers DC)		113	
0	Cash & Bank (Watford BC)		68	644
124				
	Current Liabilities			
(94)	Creditors	6	(644)	
(30)	Bank Overdrawn (Watford BC)		0	(644)
0	Total Assets Less Liabilities			0
	Financed By			
0	Revenue Fund Balance			0

Brian White
 Chairman
 Three Rivers and Watford
 Shared Services Joint Committee
 12 September 2011

Alan Power
 Head of Finance
 Shared Services
 12 September 2011

CASH FLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2009/2010 £000s		2009/2010 £000s
	Revenue Activities	
	Cash Outflows	
7,302	Operating Cash Payments	6,527
	Cash Inflows	
(7,319)	Cash Received for Goods And Services	(6,691)
(17)	(Increase)/Decrease In Cash	(164)

NOTES TO THE CORE FINANCIAL STATEMENTS

1. Statement Of Accounting Policies

The Statement of Accounting Policies explains the basis for the recognition, measurement and disclosure of transactions and other events in the Accounts.

1.1 General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by The Accounts and Audit (England) Regulations 2011, which require these to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS). 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 Debtors and Creditors, Income and Expenditure

The accounts of the Council are shown on an accruals basis in accordance with the Code of Practice. That is to say, actual expenditure and income incurred during the year is recorded in the accounts, rather than the cash sums paid or received. Where actual costs are not available, accruals are made on a best estimate basis.

1.3 Support Services

The policies adopted for Shared Services by Three Rivers and Watford Councils is to charge costs directly to partner councils.

1.4 Basis of Preparation

No separate accounting records are kept by the Shared Services Joint Committee. As a result the accounts have been prepared from the records maintained by Three Rivers District Council and Watford Borough Council.

1.5 Value Added Tax

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues and Customs and all VAT paid is recoverable from them.

VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

NOTES TO THE CORE FINANCIAL STATEMENTS

2. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However decisions about resource allocation are taken by the Joint Committee on the basis of budget reports analysed across services, as below:

SERVICE AREA	2010/11 £000
Information Technology	1,468
Finance	1,611
Human Resources	779
Revenues & Benefits	3,161
Net Shared Services	7,019
FUNDING	
Three Rivers District Council Contribution	(2,741)
Watford Borough Council Contribution	(4,278)
Total Funding	(7,019)
Net Expenditure Less Funding	0
Surplus/Deficit Shared Services	0

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

As the shared service accounts do not include any adjustments under Statute, the figures presented to the Joint Committee agree to those shown on the face of the Comprehensive Income and Expenditure Account, so no reconciliation of the figures is required.

3. Local Authorities Goods and Services Act 1970

The Shared Service provides HR support to the West Herts Crematorium Joint Committee. The income received in 2010/11 was £5,200.

NOTES TO THE CORE FINANCIAL STATEMENTS

4. Related Parties

The Shared Service is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Joint Committee or to be controlled or influenced by the Joint Committee. Disclosure of these transactions in this Statement of Accounts allows the readers to assess the extent to which the Joint Committee 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 Joint Committee.

A related party transaction is the transfer of assets or liabilities or the performance of services by, to, or for a related party irrespective of whether a charge is made.

Related parties to the Joint Committee would include:

- ◆ central government;
- ◆ local authorities and other bodies precepting or levying demands on the council tax;
- ◆ its councillors;
- ◆ its chief officers; and
- ◆ its pension fund.

The Three Rivers and Watford Shared Services Joint Committee has been established under the Local Government Act 1972 and the Local Government Act 2000. The Agreement between the two councils was to establish and facilitate the joint delivery of certain functions in accordance with the terms of the Agreement. The Joint Committee is empowered to arrange for the discharge of these functions. Three Rivers and Watford councils have each nominated three Members with full voting rights to the Joint Committee.

5. Debtors

Balance at 31 March 10 £000s		Balance at 31 March 11 £000s
77	Sundry Debtors	463
77		463

There is no provision for bad debts, as all of the debts are less than a year old.

The Shared Service considers that the carrying amount of trade and other debtors approximates to their fair value.

NOTES TO THE CORE FINANCIAL STATEMENTS

6. Creditors

Balance at 31 March 10 £000s		Balance at 31 March 11 £000s
94	Sundry and Other Creditors	644
94		644

Sundry and Other Creditors are the Shared Service's trade creditors and payments in advance.

7. Disclosure of Audit Costs

In 2010/11 the Joint Committee incurred the following Audit Commission fees relating to external audit

2009/10 £000s		2010/11 £000s
11	Audit Fees	11
11		11

8. Authorisation Of The Accounts For Issue

The Statement of Accounts will be authorised for issue by Alan Power, the Shared Services Finance Officer in June 2011

9. Events After The Balance Sheet Date

There are no post balance sheet events requiring disclosure. In determining if an event requires disclosure consideration has been given to events occurring up until 30 June 2011.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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

The Joint Committee's Responsibilities

The Joint Committee is required:

- (a) 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. For the Shared Services Joint Committee the Finance Officer is the Head of Finance for Shared Services.
- (b) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (c) To approve this Statement of Accounts.

Councillor Brian White
Chairman
Three Rivers and Watford Shared Services Joint Committee
12 September 2011

The Finance Officer's Responsibilities

The Joint Committee's Finance Officer is responsible for the preparation of the Joint Committee's Statement of Accounts in accordance with proper practices as set out in the Code of Practice.

In preparing this Statement of Accounts the Head of Finance Shared Services has:

- (a) Selected suitable accounting policies and then applied them consistently;
- (b) Made judgements and estimates that were reasonable and prudent;
- (c) Complied with the Code of Practice (except where disclosed otherwise);
- (d) Kept proper accounting records which were up to date; and
- (e) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

CERTIFICATE OF THE FINANCE OFFICER

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Joint Committee at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

Alan Power
Finance Officer
Head of Finance
Shared Services
12 September 2011

1. Scope of Responsibility

The Three Rivers and Watford Shared Services Joint Committee 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, and used economically, efficiently and effectively. The Joint Committee 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.

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

Three Rivers District Council and Watford Borough Council have approved and adopted codes of corporate governance, which are consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework 'Delivering Good Governance in Local Government'. Copies of both codes can be found on the websites for Three Rivers

<http://www.threerivers.gov.uk/Default.aspx/Web/CorporateGovernance>

and Watford

<http://www.watford.gov.uk/ccm/content/finance/local-code-of-corporate-governance.en>

or be obtained from the councils.

These statements explain how the Councils have complied with the Code and also meet the requirements of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Joint Committee is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Joint Committee to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Joint Committee's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework described in the reports to Audit Committees for Three Rivers and for Watford have been in place at the Councils for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The key elements of the systems and processes that comprise the Joint Committee's governance arrangements are:-

- Identifying and communicating the vision of the Shared Services Joint Committee's purpose and intended outcomes for citizens and service users.
- Reviewing the councils' vision and its implications for the governance arrangements of the Shared Services Joint Committee.
- Measuring the quality of services for users and ensuring they are delivered in accordance with the Joint Committee's objectives for ensuring they represent the best use of resources.
- Defining and documenting roles and responsibilities of the Joint Committee and officer functions with clear delegation arrangements and protocols for effective communication.
- Developing, communicating and embedding codes of conduct for standards of behaviour for members and staff.
- Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes which clearly define how decisions are taken and the process and controls to manage risks.
- Undertaking the core functions of an audit committee as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities.
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
- Whistle-blowing and arrangements for receiving and investigating complaints from the public.
- Identifying the development needs of members and senior officers.
- Establishing clear channels of communication with all sections of the community.
- Incorporating good governance arrangements in respect of partnerships

4. Review of Effectiveness

The Joint Committee has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers who have responsibility for the development and maintenance of the governance environment, the Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

ANNUAL GOVERNANCE STATEMENT

The Councils have procedures in place to ensure the maintenance and review of the effectiveness of the governance frameworks which includes reports to and reviews by the following:-

- The Audit Committee of Three Rivers, the Audit Committee of Watford and the Standards Committee of each Council.
- Internal Audit and External Audit.
- Other review / assurance mechanisms.

5. Significant Governance Issues

5.1 Three Rivers District Council

The Council proposes over the coming year to take steps to address the following matters to further enhance its governance arrangements. It is satisfied that these steps will address the need for improvements that were identified in its review of effectiveness and will monitor their implementation and operation through regular reporting to the Audit Committee.

<i>Action</i>	<i>Priority</i>	<i>Responsibility</i>	<i>Action to date / Action Required</i>	<i>Resolved</i>	<i>Original Implementation Date</i>
Members should consider reintroducing an Annual Report	Medium	Management Board		x	March 2012
The Business Continuity Plan should be regularly tested and in include shared services	Medium	Emergency Planning & Risk Manager		x	March 2012
Members should review building control procedures in the light of new shared service arrangements	Medium	Chief Building Control Surveyor		x	March 2012
The Audit Committee should continue to receive progress reports from officers on the implementation of internal audit recommendations	High	Heads of Service		x	March 2012
Members should monitor the progress towards achieving the future cost reductions included in the budget	High	Management Board		x	March 2012
Members should monitor the major changes brought about by the introduction of shared services and seek assurance that the weaknesses identified in revenues and benefits procedures, reconciliations, ICT provision and income management are addressed	High	Director of Corporate Resources & Governance		x	March 2012

ANNUAL GOVERNANCE STATEMENT

5.2 Watford Borough Council

The Council proposes 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

No	Issue	Action	Lead	Update
1	Revenues and Benefits reconciliations within Academy and between Academy and the Cedar Finance Management System urgently need to be addressed both for 2010/2011 and going forward	Staff resource needs to be dedicated to carrying out these reconciliations if the Council is to close its accounts on time and using actual outturn figures. BY: Immediate	Head of Revenues and Benefits Shared Services.	Issues that were identified at an early date were not progressed until too late in the financial year. This is a major concern both reputationally and financially.
2	Revenues and Benefits received a detailed Health Check report in Summer 2010. A number of the recommendations have still to be achieved.	Staff resource (or external agency help) needs to be dedicated to achieving the majority of recommendations (it is accepted that some recommendations are of a longer duration). BY: Immediate	Head of Revenue and Benefits Shared Services	Progress is slow and results in an 'average' service at too high a cost.
3	The procedures for changing supplier bank account details need to be urgently reviewed to minimise the risk of external fraud.	The recording of all supplier details for public scrutiny (as required by the Secretary of State for local government) has significantly increased the chances of external fraud. BY: 31/5/11	Head of Finance Shared Services	This has been achieved but may have the consequence of slowing down the payment of invoices as supplier details are double checked.
4	The ICT Operating platforms need to be more robust.	The infrastructure is unreliable and has caused considerable downtime. BY: Immediate	Head of ICT Shared Services	An external review/report has been received and an Action Plan is being developed.

Signed _____
Brian White

Chairman of the Three Rivers and Watford
Shared Services Joint Committee

Signed _____
Dr Steven Halls

Chief Executive
Three Rivers District Council

Date 19 September 2011

GLOSSARY

Accounting Period

The period of time covered by an authority's accounts, normally twelve months, beginning on 1 April. Also known as the Financial Year.

Accounting Policies

The principles, bases, conventions, rules and practices applied that specify how the effects of transactions and other events are reflected in the financial statements.

Accrual

A sum included in the final accounts attributable to that accounting period but for which an actual payment is yet to be made or income received. Accruals are made for revenue and capital expenditure and income.

Asset

An item having measurable value in monetary terms. Assets can be defined as fixed or current. A fixed asset has use and value for more than one year where current assets can be readily converted into cash.

Audit Commission

The body responsible for appointing external auditors to local authorities and for setting the standards that those auditors are required to follow. The Commission will also carry out studies designed to promote the effective and efficient provision of local authority services.

Council Tax

A local tax set by local authorities in order to meet their budget requirements. There are eight Council Tax bands (Band A to Band H); the amount of Council Tax each household pays depends on the value of their homes.

Creditors

Amounts owed by an authority for works done, goods received or services rendered before the end of an accounting period, but for which actual payments had not been made by the end of that accounting period.

Debtors

Amounts due to an authority for works done, goods supplied or service rendered before the end of an accounting period, but for which actual payments had not been received by the end of that accounting period.

Exceptional Items

Material items that derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence.

External Audit

The auditor is appointed by the Audit Commission and is required to verify that all statutory and regulatory requirements have been met during the production of the authority's accounts. There is also a requirement to review the arrangements in place to ensure the economic and effective use of resources.

Extraordinary Items

Material items that derive from events or transactions that fall outside the ordinary activities of the authority.

GLOSSARY

FRS

A statement of accounting practice issued by the Accounting Standards Board in the UK.

General Fund

The common name for the account which accumulates balances for all services except Housing Revenue.

Liability

An amount owed by an authority that will be paid at some time in the future.

Outturn

Actual income and expenditure in an accounting period.

Reserves

This is the accumulated surplus income (in excess of expenditure), which can be used to finance future spending.

Revenue Expenditure

Expenditure on day-to-day running costs such as salaries, heating, printing and stationery and debt charges. Revenue items will either be expended immediately, like salaries, or within one year of purchase.

Support Services

These are functions that provide support to service departments. They include accountancy, internal audit, information technology, human resources, general administration and office accommodation.