



# STATEMENT OF ACCOUNTS

2011/2012



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# 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 Director of Corporate Resources & Governance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

## The Chief Financial Officer's Responsibilities

The Director of Corporate Resources & Governance 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 Director of Corporate Resources & Governance has:

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

The Director of Corporate Resources & Governance 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 Three Rivers District Council as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Signed .....  
**David Gardner CPFA**  
**Director of Corporate Resources & Governance**

**Date: 27 September 2012**

Signed .....  
**Councillor Sarah Nelmes**  
**Chairman of Audit Committee**

**Date: 27 September 2012**

# 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.

# EXPLANATORY FOREWORD

## 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. Expenditure was £0.440m in 2010/11. A compensating reduction in government grant occurred in 2011/12. 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 22 June 2012.

# EXPLANATORY FOREWORD

## 5. Revenue Activities

### **Revenue Out-turn 2011/2012**

For accounting purposes, the Council distinguishes between 'revenue' and 'capital' activities. (Capital activities are dealt with below). 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, shown in the Statement of Movement in Reserves and on the Balance Sheet, which is available to support revenue expenditure and to which surpluses are added and from which any deficits are met.

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 and detailed estimates of income and expenditure. A comparison of outturn figures to budgets, therefore, often provides a better indication of financial stewardship than comparison to the prior year.

It was estimated that there would be a deficit for the year of £0.257m. The actual outturn showed a surplus of £0.231m, a variance in the year of £0.488m.

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

|   | 2011/2012<br>Original<br>Budget<br>Gross<br>£000 | 2011/2012<br>Original<br>Budget<br>Net<br>£000 | 2011/2012<br>Actual<br>Out-turn<br>Gross<br>£000 | 2011/2012<br>Actual<br>Out-turn<br>Net<br>£000 | 2011/2012<br>Variance<br>Net<br>£000 |
|---|--|--|--|--|--------------------------------------|
| General Fund Balance Brought Forward at 1 April 2011    |  | (6,446)  |  | (7,933)  | (1,487)                              |
| Local Tax Collection                                    | 1,060  | 707  | 1,022  | 723  | 16                                   |
| Housing Benefits  | 27,207   | 412  | 29,234   | 704  | 292                                  |
| Other Services  | 1,363  | 661  | 2,074  | 824  | 163                                  |
| Leisure   | 3,206  | 2,612  | 4,339  | 3,652  | 1,040                                |
| Environmental Health                                    | 1,626  | 1,230  | 1,347  | 948  | (282)                                |
| Waste Collection & Disposal                             | 3,687  | 2,022  | 3,524  | 1,809  | (213)                                |
| Planning & Economic Development                         | 2,039  | 1,142  | 1,887  | 1,148  | 6                                    |
| Other Environmental Services                            | 225  | 140  | 248  | 134  | (6)                                  |
| Highways & Transportation                               | 1,603  | 1,235  | 1,918  | 1,625  | 390                                  |
| Housing: Other Services                                 | 1,400  | 1,267  | 1,621  | 1,294  | 27                                   |
| Corporate and Democratic Core                           | 2,260  | 2,250  | 2,212  | 2,150  | (100)                                |
| Central Support Services                                | 816  | 4  | 257  | 0  | (4)                                  |
| Non Distributed Costs                                   | 114  | 114  | 72   | 72   | (42)                                 |
| Cost of District Services                               | 46,606   | 13,796   | 49,755   | 15,083   | 1,287                                |
| Parish Councils' Net Budget                             | 1,426  | 1,426  | 1,426  | 1,426  | 0                                    |
| Interest Income   | 0  | (607)  | 0  | (529)  | 78                                   |
| Collection Fund Deficit                                 | 41   | 41   | 41   | 41   | 0                                    |
| Adjustment for Capital Charges                          | (2,489)  | (2,093)  | (4,560)  | (4,174)  | (2,081)                              |
| Adjustment for Pensions Costs                           | (166)  | (166)  | (34)   | (34)   | 132                                  |
| Other Income  | 0  | 0  | 0  | (380)  | (380)                                |
| Transfers from Earmarked Reserves                       | 0  | (37)   | 0  | (53)   | (16)                                 |
| Transfers to Earmarked Reserves                         | 14   | 14   | 506  | 506  | 492                                  |
| Revenue Support Grant & Redistributed Non-Domestic Rate | 0  | (4,705)  | 0  | (4,705)  | 0                                    |
| Income from Council Tax Payers                          | 0  | (7,412)  | 0  | (7,412)  | 0                                    |
| Other Income & Expenditure                              | (1,174)  | (13,539)                                       | (2,621)  | (15,314)                                       | (1,775)                              |
| Surplus (-) / Deficit (+) for Year                      | 45,432   | 257  | 47,134   | (231)  | (488)                                |
| General Fund Balance Carried Forward at 31 March 2012   |  | (6,189)  |  | (8,164)  | (1,975)                              |

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The General Fund balance of £8.164m at 31 March 2012, was £1.975m more than anticipated when setting the original budget.

The main variances were:-

- An underspend in the 2010/11 financial year of £1.487m reported in last year's Statement of Accounts after the 2011/12 budget had been set.
- Expenditure on Council Tax and Housing Benefits which exceeded the original gross estimate by £2.027m due to the increased number of claims resulting from the recession. However, the government reimburses the Council for nearly all of this expenditure.
- Additional capital charges included in the net cost of district services, especially Leisure, which are reversed out of the accounts as part of the 'Adjustment for Capital Charges'.
- Other variances in the net cost of district services derive from charges for central, departmental and technical support, the incidence of which changed after the original estimate was prepared but which have no impact on the total.
- Other income of £0.380k relates to money received from third parties towards council expenditure and alongside new homes bonus grant received from the government contributes towards the additional £0.492m paid into reserves.

### ***Future Revenue Expenditure & its Funding***

The Council ensures that its strategic, 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 Strategic Plan. This is based on the themes 'sustainable' and 'safe' communities derived from the Community Strategy developed with the Council's partners. The Strategic Plan is supported by individual Service Plans. There is a performance management framework which measures how the Council is performing against these plans.

The Medium-Term Three Year Financial Plan is continually updated by monthly budget monitoring. The plan assumes reductions in government grant of £0.695m (14.8%) for 2012/13 and further percentage reductions of 7.1% have been assumed for the remaining two years of the governments spending review period (2013/14 and 2014/15). Following an average council tax reduction of 0.66% in 2012/13, the council is budgeting for council tax increases of 1.98% in subsequent years. The levels of council tax and government grant are critical to the Council's future revenue streams. The Government contributed 39% of the Council's budget requirement in 2011/12, but this is estimated to fall to 30% by 2014/15, the balance coming from council tax payers.



# EXPLANATORY FOREWORD

## 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:-

|   | Original<br>Budget | Actual<br>Out-turn | Variance<br>(Under) /<br>Over<br>Spend |
|---|--------------------|--------------------|--|
|   | £000               | £000               | £000                                   |
| Leisure Facilities                          | 2,236              | 1,046              | (1,190)                                |
| Asset Management                            | 512                | 610                | 98                                     |
| Waste Collection & Recycling                | 972                | 932                | (40)                                   |
| Footpaths, Cycle Paths, Roads and Car Parks | 503                | 406                | (97)                                   |
| Private Sector Housing                      | 730                | 623                | (107)                                  |
| Information & Communication Technology      | 647                | 369                | (278)                                  |
| Other                                       | 475                | 457                | (18)                                   |
| <b>Total</b>                                | <b>6,075</b>       | <b>4,443</b>       | <b>(1,632)</b>                         |

The Council planned to complete schemes valued at £6.075m in 2011/12. The Council completed and funded £4.443m worth of work, £4.132m of which was funded from capital receipts, and £0.311m from government grants, contributions from third parties and reserves. The creation of assets adds to their value and reduces cash holdings in the top half of the balance sheet. Their funding reduces the value of usable reserves and increases the value of unusable reserves in the bottom half of the balance sheet.

The underspend mainly related to leisure schemes. There were delays in carrying out works at the Aquadrome, Oxhey Pavilion, and to new play areas, which will be completed in 2012/13.

### **Future Capital Expenditure and its Funding**

The Council plans to spend £4.913m on further capital schemes in 2012/13. Of this £4.639m is to be funded from capital receipts and £0.274m from government grants, contributions from third parties and reserves.

### **Borrowing Facilities and Capital Borrowing**

The Council has no plans to borrow in the medium or longer term and will finance capital expenditure from existing resources. It will remain debt free for the foreseeable future, although it has operational short-term borrowing facilities up to £5m. All historic capital expenditure has been fully funded and therefore there is no capital financing requirement (internal debt).

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.

# EXPLANATORY FOREWORD

## 7. Pensions

The Council has disclosed its full liabilities to the Hertfordshire Pension Fund. The Income and Expenditure Account includes the charges made for retirement benefits in accordance with International Accounting Standard 19 and the Statement of Movement in the General Balance shows how this is adjusted for the actual amount paid to the Fund in the year (i.e. the amount met from council tax). The balance sheet shows a net liability to the Fund at 31 March 2012 of £18.716m. This has increased from £12.529m at 31 March 2011 and reflects actuarial losses. There are statutory arrangements for funding the deficit that protect the Council's financial position. Note 32 to the Core Statements of Account provides further information.

## 8. Conclusion

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

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

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, balances are still healthy. The General Fund balance at 31 March 2012 was £8.164m representing 68% of the 2011/12 budget requirement. The Council held £14.372m at 31 March 2012 in capital receipts and capital grants available for new capital expenditure.

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 in a 'Guide to the Finances of Three Rivers District Council and the Financial Plan' which is available on the Council's website or in hard copy by request.

*D.A.Gardner*  
*Director of Corporate Resources and Governance*  
*22 June 2012.*

# ANNUAL GOVERNANCE STATEMENT

## 1. Scope of Responsibility

Three Rivers District 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, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / the Society of Local Authority Chief Executives (SOLACE) Framework 'Delivering Good Governance in Local Government'. A copy of the code is on our website at:

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

or can be obtained from:-

Three Rivers District Council  
Democratic Services  
Three Rivers House  
Northway  
Rickmansworth  
WD3 1RL

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4 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 authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority 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 Council'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 below has been in place at the Council for the year ended 31 March 2012 [and up to the date of approval of the statement of accounts].

# ANNUAL GOVERNANCE STATEMENT

## 3. The Governance Framework

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

### ***Identifying, communicating and reviewing the council's vision***

The Council and Executive Committee meet regularly to set the strategic direction of the Council and together with the Audit Committee, and the Policy and Scrutiny Committees, monitor service delivery. The Council has carried out public consultation to inform the objectives within the Community Strategy (undertaken by the Local Strategic Partnership) and its own Strategic Plan.

The Council updates its Strategic Plan every February as part of its consideration of strategic, service and financial planning for the medium three year term. For 2011/12 it identified as its main focus the themes of Safer and Sustainable Communities, plus a section on Customer Service. In February 2012, while retaining the customer service theme, the Council amended the safer communities theme to 'safety & well-being', renamed the sustainable communities theme 'clean & green', and added a further theme 'economic opportunities' to reflect the economic situation. Under each of these themes, the Strategic Plan sets out the Council's aims and objectives along with the measures by which success will be measured. A target is set for each measure and the Plan details the lead service or partnership responsible for delivering the required outcomes. These are then included in service plans and cascaded to individual employees via the council's appraisal system.

### ***Measuring the quality of services and ensuring they represent the best use of resources***

The Council has a performance management framework linked to the Council's priorities. The framework is based on the collection and interpretation of data in the form of performance indicators. The Council is committed to using accurate data to inform its decisions and has prepared a Data Quality Strategy to achieve this. The Council's policy and scrutiny committees report the Council's achievements against the targets it set for improvements.

The Council's Procurement Strategy and its Procurement Policies and Procedures assist it in achieving good value for money. The Council has in place a Value for Money Strategy. Under this strategy the Council proposes to achieve VFM by:

- Measuring service quality against external objective quality standards such as the Customer Services Excellence standard, Investors in People & other external accreditations and against nationally published performance indicators and locally determined indicators;
- Systematically reviewing services for VFM by benchmarking them using comparative data from the private and public sectors;
- Ensuring that its limited resources are allocated to its priorities through a rigorous strategic, service and financial planning process;
- Hitting budgetary targets through tight budgetary control and good project management;
- Maintaining the policy of competitive tendering and adopting best procurement practices;

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- Minimising waste and achieving efficiency improvements year on year;
- Working with the Local Strategic Partnership and other partners;
- Listening to the views of residents, service users, and businesses, and by dealing efficiently with complaints so that problems can be put right quickly;
- Promoting equality of opportunity.

## ***Defining and documenting roles and responsibilities***

The Council has a Constitution which sets out the processes by which its policies are made and its decisions taken.

The Council is responsible for the adoption of the budget and policy framework. It is the responsibility of the Executive Committee to implement it.

The Council's statutory officers are its Chief Executive, who is the Head of Paid Service, the Director of Corporate Resources and Governance who is its Chief Finance Officer, and the Council's Solicitor who carries out the role of Monitoring Officer.

## ***Developing, communicating and embedding codes of conduct for standards of behaviour***

Until 1 July 2012, the Council will have a statutory Standards Committee. Thereafter it will adopt its own local code of conduct for members under the Localism Act 2011, and will have in place its own local arrangements to deal with code of conduct complaints against members, consistent with the Nolan principles. There is also a code of conduct for officers.

## ***Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes***

The Constitution sets out financial and contract procedure rules, the roles and responsibilities of statutory officers and the scheme of delegation to officers. These clearly define how decisions are taken and the process and controls to manage risks. Systems are supported by procedure notes.

## ***The Council's financial management arrangements***

The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

## ***Undertaking the core functions of an audit committee***

Included in the Council's Constitution are the Audit Committee's responsibilities, which are to:-

- Approve (but not direct) internal audit's strategy, plan and performance;
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Consider the reports of external audit and inspection agencies;

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- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti fraud and anti corruption arrangements. Seek assurances that action is being taken on risk related issues identified by auditors and inspectors;
- Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted; and,
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

## ***Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful***

The Council's Constitution sets out how members and officers ensure compliance with policies, procedures and legislation. The Council has adopted a 'Local Code of Corporate Governance' in accordance with the CIPFA/SOLACE Framework for Corporate Governance.

## ***Whistle-blowing and arrangements for receiving and investigating complaints from the public***

An anti-fraud and corruption policy exists and arrangements for whistle-blowing are in place. Any allegations of fraud and corruption are pursued by dedicated staff.

## ***Identifying the development needs of members and senior officers***

Appropriate training is identified to support members and officers in relation to their strategic roles.

## ***Establishing clear channels of communication with all sections of the community***

The Council has a Consultation Strategy and a Communications Strategy which it follows in order to ensure accountability and encourage open consultation with the community and other stakeholders.

## ***Incorporating good governance arrangements in respect of partnerships***

The increasing importance of partnership working means that arrangements for group working need to be reflected in the Council's overall governance arrangements.

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## 4. Review of Effectiveness

### *The Council*

The Council 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.

### *Executive Committee and Policy Panels*

With regard to performance management, quarterly reports have been produced for the Management Board. Members received half-yearly reports and corrective action has been detailed and monitored where necessary. The monthly budget monitoring system incorporated an update on financial and budgetary risks, a quantitative evaluation of fee income, and the position on reserves and balances. Greater emphasis was placed during 2011/12 on how the Council was achieving the reductions in expenditure identified in its budget.

### *Internal Audit*

The internal audit service has been provided by the Shared Services Joint Committee (with Watford Borough Council) since 1 April 2010. A programme of audits across the whole range of the Council's activities has been carried out during the year. Internal Audit recommendations and the progress made in implementing them have been reported to the Audit Committee. The Internal Audit Manager has provided a satisfactory opinion on the adequacy and effectiveness of the internal control environment for the year ended 31 March 2012. His report highlights the recovery of overpaid benefits, reconciliations to the financial management system, ICT and contract management as being areas where further monitoring is required. These matters are included in the Action Plan below. The Audit Committee has expressed its concern at the delay in implementing internal audit recommendations. The external auditor has commented that high priority recommendations should be implemented within six months of adoption. The Action Plan includes actions to remedy these weaknesses.

### *Other review / assurance mechanisms*

The Council has adopted a Risk Management Strategy which has been updated annually. All of the Council's key objectives, including those in its Strategic Plan, have been cascaded into service plans, and the barriers to their achievement (i.e. the risks) have been identified, assessed and managed through sixteen service plans (including four plans for Shared Services). Risks have been identified and assessed for their impact and likelihood. Where they require managing a risk treatment plan has been prepared which identifies the controls that exist to minimise the risk together with any further action that is required. During 2011/12 Internal Audit have tested the adequacy of the controls to minimise risk, have gained assurances and gathered evidence that the controls are working. Where they have identified any weaknesses the matter has been included in the 2012/13 Internal Audit Plan for detailed consideration. Any assurances that are not obtained in this way will be gathered and evidenced by officers and reported to the Audit Committee to ensure that the internal control framework is robust.

Risks associated with the Council's partners are considered and risk management is embedded throughout the Council.

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The Value for Money Strategy document contains information and evidence, or pointers to evidence, that the Council is achieving value for money. The Council has identified £3.2m revenue efficiency savings since 2005/06.

Like all local councils, Three Rivers has had to react to the reductions in public spending introduced to reduce the national deficit. The Council's grant from government reduced by 17.4% in 2011/12 and by 14.8% for 2012/13. It is planning for further reductions of 7.1% in 2013/14 and 2014/15. The Council's three-year medium-term financial plan includes further cost reductions of £0.9m, £1.4m and £1.6m in 2012/13, 2013/14 and 2014/15 respectively. Tight budgetary control will be needed to ensure these reductions are achieved. This is reflected in the Action Plan.

The introduction of universal credits and the localising of support for council tax will substantially alter the administration of housing and council tax benefits. The 'retention' of national non-domestic rates will alter the way the Council receives government support. These changes are to be implemented within very short timescales and are likely to put considerable strain on the Council's resources. This risk is considered to be of sufficient significance to include in the Action Plan.

As part of the annual review of the effectiveness of its governance framework, including the system of internal control, heads of service provide an assurance statement concerning their activities. These assurances were reported to the Audit Committee on 22 March 2012. There are no significant matters that require inclusion in the Action Plan.

## **External Audit**

The Council's external auditors produced an Annual Report to those Charged with Governance in September 2011. The auditor issued an unqualified opinion on the Council's financial statements and gave an unqualified value for money conclusion. The auditors did, however, state that there are some significant weaknesses within the IT arrangements which require significant change and investment to put right.

The ICT shared service successfully completed in December 2011 a twelve week programme to improve IT infrastructure and identified further work to be carried out. The Shared Services Joint Committee agreed on 5 March 2012 an ICT service specification and arrangements to market test the service.

As part of their audit plan the external auditors agreed to follow up on the IT Strategy review undertaken by the shared service during 2010/11 and provide a quarterly update to the Audit Committee on their assessment of progress.

The monitoring of the ICT service will continue to be a major requirement in the 2012/13 Action Plan.

The external auditors, Grant Thornton UK LLP, have published a report "High Pressure System Local Government Governance Review" which has identified that very few councils are achieving more than a basic compliance with the explanatory foreword to their accounts and suggests that they should be fundamentally reviewed from a user perspective. The AGS includes an action to work with the external auditors to improve the explanatory foreword.



# ANNUAL GOVERNANCE STATEMENT

## ***The Audit Committee***

The Audit Committee considered a review of the effectiveness of the governance framework at its meeting on 22 March 2012. The key issues emerging from the review were that:

- Members should continue to monitor internal audit recommendations
- Members should continue to monitor the progress towards achieving the cost reductions included in the budget
- Members should monitor the Council's plans in respect of the localisation of support to council tax, the retention of business rates and changes to universal credit.
- Members should continue to seek assurance that the weaknesses identified in ICT provision are being addressed
- The Director of Corporate Resources and Governance should work with the external auditors to improve the explanatory foreword to the Statement of Accounts

## **5. Significant Governance Issues**

The Council proposes over the coming year to take steps to address the above 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>Officer Responsibility</i>                | <i>Action to date / Action Required</i>  | <i>Resolved</i> | <i>Original Implementation Date</i> |
|---|-----------------|--|--|-----------------|-------------------------------------|
| <p>In continuing to monitor internal audit recommendations, the Audit Committee should:</p> <ul style="list-style-type: none"> <li>• receive progress reports on the time taken to implement high priority recommendations</li> <li>• monitor specifically recommendations concerning the recovery of overpaid benefits, reconciliations to the Financial Management System, ICT and contract management</li> </ul> | High            | Director of Corporate Resources & Governance | <p>Quantum of overpaid benefits confirmed in closing of accounts process and appropriate provision for bad debts made. Plans now required for write-offs where required.</p> <p>SQLs have been written to extract information from the revenues and benefits system to the financial management system enabling finance staff to perform reconciliations more easily.</p> <p>Audit Committee is monitoring the implementation of internal and external audit recommendations and is receiving progress reports from the external auditors.</p> | x               | March 2013                          |
| <p>Members should continue to monitor the progress towards achieving the cost reductions included in the budget</p>   | Medium          | Management Board                             | <p>Monthly budget monitoring reports include progress. Chief Executive's report to the Executive Committee on Restructuring Proposals addressed a shortfall in savings required.</p>   | x               | March 2013                          |

# ANNUAL GOVERNANCE STATEMENT

| <i>Action</i>   | <i>Priority</i> | <i>Officer Responsibility</i>                | <i>Action to date / Action Required</i>   | <i>Resolved</i> | <i>Original Implementation Date</i> |
|---|-----------------|--|---|-----------------|-------------------------------------|
| Members should monitor the Council's plans in respect of the localisation of support to council tax, the retention of business rates and changes to universal credit. | High            | Director of Corporate Resources & Governance | Working Party set up at Annual Council meeting to consider localisation of support to Council Tax. First meeting scheduled for 11 June 2012.  | ✘               | March 2013                          |
| Members should continue to seek assurance that the weaknesses identified in ICT provision are being addressed   | High            | Director of Corporate Resources & Governance | Audit Committee is monitoring the implementation of internal and external audit recommendations and is receiving progress reports from the external auditors. Joint Shared Services Committee has received reports on the progress of tendering the service.  | ✘               | March 2013                          |
| The Director of Corporate Resources and Governance should work with the external auditors to improve the explanatory foreword to the Statement of Accounts            | Low             | Director of Corporate Resources & Governance | Foreword in preparation for inclusion in draft Statement of Accounts. Work carried out to produce clear reconciliation between published budget figures and financial statements included in the accounts have been shared with the auditor, whose publication "Weathering the Storm" includes advice on preparation of the Foreword that is being used in its preparation. | ✔               | September 2012                      |

We have been advised by the Audit Committee on the implications of the review of the effectiveness of the governance framework. We note that an Action Plan to address weaknesses and ensure continuous improvement of the system is in place.

Signed .....  
**Ann Shaw O.B.E.**  
**Leader of the Council**

**Date: 27 September 2012**

Signed .....  
**Dr Steven Halls**  
**Chief Executive**

**Date: 27 September 2012**

## STATEMENT OF MOVEMENT IN RESERVES

|   | General<br>Fund<br>Balance<br>£000 | Earmarked<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital<br>Grants<br>Unapplied<br>£000 | Total<br>Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total<br>Authority<br>Reserves<br>£000 |
|---|------------------------------------|-------------------------------|--|--|-------------------------------------|------------------------------|--|
| <b>Balance at 1 April 2010 - Restated</b>   | <b>(8,232)</b>                     | <b>(4,324)</b>                | <b>(17,486)</b>                        | <b>(15)</b>                            | <b>(30,057)</b>                     | <b>(17,366)</b>              | <b>(47,423)</b>                        |
| <b>Movement in Reserves during 2010/11</b>  |                                    |                               |  |  |                                     |                              |  |
| (Surplus) or deficit on provision of services   | (2,706)                            | 0                             | 0                                      | 0                                      | (2,706)                             | 0                            | (2,706)                                |
| Other Comprehensive Expenditure / (Income)  | (17,362)                           | 0                             | 0                                      | 0                                      | (17,362)                            | 0                            | (17,362)                               |
| <b>Total Comprehensive Expenditure and (Income)</b>   | <b>(20,068)</b>                    | <b>0</b>                      | <b>0</b>                               | <b>0</b>                               | <b>(20,068)</b>                     | <b>0</b>                     | <b>(20,068)</b>                        |
| <b>Adjustments between accounting basis &amp; funding basis under regulations</b>                             |                                    |                               |  |  |                                     |                              |  |
| Charges for depreciation of Long Term Assets  | (1,527)                            | 0                             | 0                                      | 0                                      | (1,527)                             | 1,527                        | 0                                      |
| Revaluation Losses on Property, Plant & Equipment   | (2,192)                            | 0                             | 0                                      | 0                                      | (2,192)                             | 2,192                        | 0                                      |
| Amortisation of intangible Long Term Assets   | (146)                              | 0                             | 0                                      | 0                                      | (146)                               | 146                          | 0                                      |
| Capital grants & contributions applied to capital financing   | 989                                | 0                             | 0                                      | 0                                      | 989                                 | (989)                        | 0                                      |
| Revenue expenditure funded from capital under Statute   | (1,604)                            | 0                             | 0                                      | 0                                      | (1,604)                             | 1,604                        | 0                                      |
| Net gain/(loss) written off on sale or disposal of Long Term Assets   | 208                                | 0                             | (208)                                  | 0                                      | 0                                   | 0                            | 0                                      |
| Disposal of Long Term Assets at Cost  | 0                                  | 0                             | (269)                                  | 0                                      | (269)                               | 269                          | 0                                      |
| Use of Capital Receipts Reserve to finance new capital expenditure  | 0                                  | 0                             | 4,545                                  | 0                                      | 4,545                               | (4,545)                      | 0                                      |
| Contribution from Capital Receipts Reserve to finance payments to the Government Capital Receipts Pool        | (23)                               | 0                             | 23                                     | 0                                      | 0                                   | 0                            | 0                                      |
| Unattached capital receipts   | 951                                | 0                             | (963)                                  | 0                                      | (12)                                | 12                           | 0                                      |
| Lease Mitigation  | (1)                                | 0                             | 1                                      | 0                                      | 0                                   | 0                            | 0                                      |
| Accrued Employee benefits   | (58)                               | 0                             | 0                                      | 0                                      | (58)                                | 58                           | 0                                      |
| Employer's contributions payable to the HCC Pension Fund and retirement benefits payable direct to pensioners | 1,446                              | 0                             | 0                                      | 0                                      | 1,446                               | (1,446)                      | 0                                      |
| Net charges made for retirement benefits in accordance with FRS 17  | 4,976                              | 0                             | 0                                      | 0                                      | 4,976                               | (4,976)                      | 0                                      |
| (Surplus)/Deficit Arising on Revaluation of Long Term Assets  | 2,702                              | 0                             | 0                                      | 0                                      | 2,702                               | (2,702)                      | 0                                      |
| Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities   | 14,660                             | 0                             | 0                                      | 0                                      | 14,660                              | (14,660)                     | 0                                      |
| Council's share of Movement in Collection Fund Surplus/(Deficit)  | (2)                                | 0                             | 0                                      | 0                                      | (2)                                 | 2                            | 0                                      |
| <b>Net (increase)/decrease before transfers to earmarked reserves</b>   | <b>311</b>                         | <b>0</b>                      | <b>3,129</b>                           | <b>0</b>                               | <b>3,440</b>                        | <b>(23,508)</b>              | <b>(20,068)</b>                        |
| <b>Transfers to/from earmarked reserves</b>   |                                    |                               |  |  |                                     |                              |  |
| Reserves for Environmental Maintenance  | 0                                  | 0                             | 0                                      | 0                                      | 0                                   | 0                            | 0                                      |
| Reserve for Future Capital Expenditure  | 0                                  | 238                           | 0                                      | 0                                      | 238                                 | (238)                        | 0                                      |
| S106 Oxhey Nursery  | 40                                 | (40)                          | 0                                      | 0                                      | 0                                   | 0                            | 0                                      |
| Reserve for Leavesden Hospital Open Space   | (74)                               | 74                            | 0                                      | 0                                      | 0                                   | 0                            | 0                                      |
| S106 Reserves in Lieu of interest   | 22                                 | (22)                          | 0                                      | 0                                      | 0                                   | 0                            | 0                                      |
| <b>Transfers to/from earmarked reserves</b>   | <b>(12)</b>                        | <b>250</b>                    | <b>0</b>                               | <b>0</b>                               | <b>238</b>                          | <b>(238)</b>                 | <b>0</b>                               |
| <b>(Increase)/Decrease in 2010/11</b>   | <b>299</b>                         | <b>250</b>                    | <b>3,129</b>                           | <b>0</b>                               | <b>3,678</b>                        | <b>(23,746)</b>              | <b>(20,068)</b>                        |
| <b>Balance as at 31 March 2011 - Restated</b>   | <b>(7,933)</b>                     | <b>(4,074)</b>                | <b>(14,357)</b>                        | <b>(15)</b>                            | <b>(26,379)</b>                     | <b>(41,112)</b>              | <b>(67,491)</b>                        |

# STATEMENT OF MOVEMENT IN RESERVES

-continued

|  | General<br>Fund<br>Balance<br>£000 | Earmarked<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital<br>Grants<br>Unapplied<br>£000 | Total<br>Usable<br>Reserves<br>£000 | Unusable<br>Reserves<br>£000 | Total<br>Authority<br>Reserves<br>£000 |
|--|------------------------------------|-------------------------------|--|--|-------------------------------------|------------------------------|--|
| <b>Balance at 1 April 2011 - Restated</b>  | <b>(7,933)</b>                     | <b>(4,074)</b>                | <b>(14,357)</b>                        | <b>(15)</b>                            | <b>(26,379)</b>                     | <b>(41,112)</b>              | <b>(67,491)</b>                        |
| <b>Movement in Reserves during 2011/12</b>   |                                    |                               |  |  |                                     |                              |  |
| (Surplus) or deficit on provision of services  | 2,687                              | 0                             | 0                                      | 0                                      | 2,687                               | 0                            | 2,687                                  |
| Other Comprehensive Expenditure and (Income)   | 4,970                              | 0                             | 0                                      | 0                                      | 4,970                               | 0                            | 4,970                                  |
| <b>Total Comprehensive Expenditure and (Income)</b>  | <b>7,657</b>                       | <b>0</b>                      | <b>0</b>                               | <b>0</b>                               | <b>7,657</b>                        | <b>0</b>                     | <b>7,657</b>                           |
| <b>Adjustments between accounting basis &amp; funding basis under regulations</b>  |                                    |                               |  |  |                                     |                              |  |
| <b>Adjustments primarily involving the Capital Adjustment Account and Revaluation Reserve:</b>                                   |                                    |                               |  |  |                                     |                              |  |
| Charges for depreciation of Long Term Assets   | (1,544)                            | 0                             | 0                                      | 0                                      | (1,544)                             | 1,544                        | 0                                      |
| Revaluation Losses on Property, Plant & Equipment  | (672)                              | 0                             | 0                                      | 0                                      | (672)                               | 672                          | 0                                      |
| Movement in the fair value of investment properties  | 213                                | 0                             | 0                                      | 0                                      | 213                                 | (213)                        | 0                                      |
| Amortisation of intangible Long Term Assets  | (104)                              | 0                             | 0                                      | 0                                      | (104)                               | 104                          | 0                                      |
| Capital grants & contributions applied to capital financing  | 289                                | 0                             | 0                                      | 0                                      | 289                                 | (289)                        | 0                                      |
| Revenue expenditure funded from capital under Statute  | (1,070)                            | 0                             | 0                                      | 0                                      | (1,070)                             | 1,070                        | 0                                      |
| Amounts of non-current assets written off on disposal or sale as part of the gain loss on disposal to the CI&E                   | 0                                  | 0                             | (1,450)                                | 0                                      | (1,450)                             | 1,450                        | 0                                      |
| Lease Mitigation   | (1)                                | 0                             | 1                                      | 0                                      | 0                                   | 0                            | 0                                      |
| <b>Adjustments primarily involving the Capital Receipts Reserve</b>  |                                    |                               |  |  |                                     |                              |  |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure account | (32)                               | 0                             | 32                                     | 0                                      | 0                                   | 0                            | 0                                      |
| Use of Capital Receipts Reserve to finance new capital expenditure   | 0                                  | (14)                          | 4,146                                  | 0                                      | 4,132                               | (4,132)                      | 0                                      |
| Contribution from Capital Receipts Reserve to finance payments to the Government Capital Receipts Pool                           | (3)                                | 0                             | 3                                      | 0                                      | 0                                   | 0                            | 0                                      |
| Transfer from Deferred Capital Receipts Reserve on receipt of cash   | 0                                  | 0                             | (63)                                   | 0                                      | (63)                                | 63                           | 0                                      |
| Unattached capital receipts  | 677                                | 0                             | (677)                                  | 0                                      | 0                                   | 0                            | 0                                      |
| <b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>   |                                    |                               |  |  |                                     |                              |  |
| Council's share of Movement in Collection Fund Surplus/(Deficit)   | 52                                 | 0                             | 0                                      | 0                                      | 52                                  | (52)                         | 0                                      |
| <b>Adjustments primarily involving the Accumulated Absences Reserve:</b>   |                                    |                               |  |  |                                     |                              |  |
| Accrued Employee benefits  | 41                                 | 0                             | 0                                      | 0                                      | 41                                  | (41)                         | 0                                      |
| <b>Adjustments primarily involving the Pensions Reserve:</b>   |                                    |                               |  |  |                                     |                              |  |
| Employer's pension contributions and direct payments to pensioners payable in the year   | 1,317                              | 0                             | 0                                      | 0                                      | 1,317                               | (1,317)                      | 0                                      |
| Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities  | (6,118)                            | 0                             | 0                                      | 0                                      | (6,118)                             | 6,118                        | 0                                      |
| Reversal of items relating to retirement benefits debited or credited to the CI&E  | (1,386)                            | 0                             | 0                                      | 0                                      | (1,386)                             | 1,386                        | 0                                      |
| <b>Net (increase) / decrease before transfers to earmarked reserves</b>  | <b>(684)</b>                       | <b>(14)</b>                   | <b>1,992</b>                           | <b>0</b>                               | <b>1,294</b>                        | <b>6,363</b>                 | <b>7,657</b>                           |

# STATEMENT OF MOVEMENT IN RESERVES

-continued

|  | General<br>Fund<br>Balance<br>£000 | Earmarked<br>Reserves<br>£000 | Capital<br>Receipts<br>Reserve<br>£000 | Capital<br>Grants<br>Unapplied<br>£000 | <b>Total<br/>Usable<br/>Reserves<br/>£000</b> | Unusable<br>Reserves<br>£000 | <b>Total<br/>Authority<br/>Reserves<br/>£000</b> |
|--|------------------------------------|-------------------------------|--|--|---|------------------------------|--|
| <b>Net (increase) / decrease before transfers to earmarked reserves</b>                                      | <b>(684)</b>                       | <b>(14)</b>                   | <b>1,992</b>                           | <b>0</b>                               | <b>1,294</b>                                  | <b>6,363</b>                 | <b>7,657</b>                                     |
| <b>Grants and Contributions Unapplied credited to the<br/>Comprehensive Income and Expenditure Statement</b> |                                    |                               |  |  |   |                              |  |
| S106 Traffic Orders  | 4                                  | (4)                           | 0                                      | 0                                      | 0   | 0                            | 0  |
| S106 Horsefield  | 400                                | (400)                         | 0                                      | 0                                      | 0   | 0                            | 0  |
| New Homes Bonus  | 96                                 | (96)                          | 0                                      | 0                                      | 0   | 0                            | 0  |
| <b>Transfers to/from earmarked reserves</b>  |                                    |                               |  |  |   |                              |  |
| Reserve for Leavesden Hospital Open Space  | (53)                               | 53                            | 0                                      | 0                                      | 0   | 0                            | 0  |
| Transfer to Earmarked Reserve  | 0                                  | (15)                          | 0                                      | 15                                     | 0   | 0                            | 0  |
| To Fund Capital Expenditure  | 0                                  | 21                            | 0                                      | 0                                      | 21  | (21)                         | 0  |
| S106 Reserves in Lieu of interest  | 6                                  | (6)                           | 0                                      | 0                                      | 0   | 0                            | 0  |
| <b>Transfers to/from earmarked reserves</b>  | <b>453</b>                         | <b>(447)</b>                  | <b>0</b>                               | <b>15</b>                              | <b>21</b>                                     | <b>(21)</b>                  | <b>0</b>   |
| <b>(Increase)/Decrease in 2011/12</b>  | <b>(231)</b>                       | <b>(461)</b>                  | <b>1,992</b>                           | <b>15</b>                              | <b>1,315</b>                                  | <b>6,342</b>                 | <b>7,657</b>                                     |
| <b>Balance as at 31 March 2012</b>   | <b>(8,164)</b>                     | <b>(4,535)</b>                | <b>(12,365)</b>                        | <b>0</b>                               | <b>(25,064)</b>                               | <b>(34,770)</b>              | <b>(59,834)</b>                                  |

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 for council tax setting. The net (increase) / decrease before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

# COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

| 2010/11                           |                         |                                 |   | NOTE     | 2011/12                           |                         |                                 |
|-----------------------------------|-------------------------|---------------------------------|---|----------|-----------------------------------|-------------------------|---------------------------------|
| GROSS<br>EXPEND-<br>ITURE<br>£000 | GROSS<br>INCOME<br>£000 | NET<br>EXPEND-<br>ITURE<br>£000 |   |          | GROSS<br>EXPEND-<br>ITURE<br>£000 | GROSS<br>INCOME<br>£000 | NET<br>EXPEND-<br>ITURE<br>£000 |
|                                   |                         |                                 | <b>Expenditure on Continuing Services</b>                                     |          |                                   |                         |                                 |
|                                   |                         |                                 | Central services to the public:   |          |                                   |                         |                                 |
| 1,018                             | (296)                   | 722                             | Local Taxation Collection   |          | 1,022                             | (299)                   | 723                             |
| 27,997                            | (27,474)                | 523                             | Housing Benefits  |          | 29,234                            | (28,530)                | 704                             |
| 3,563                             | (1,264)                 | 2,299                           | Other Services  |          | 2,074                             | (1,250)                 | 824                             |
|                                   |                         |                                 | Cultural, Environmental, Regulatory & Planning Services:                      |          |                                   |                         |                                 |
| 5,099                             | (692)                   | 4,407                           | Leisure Services  |          | 4,339                             | (687)                   | 3,652                           |
| 1,695                             | (400)                   | 1,295                           | Environmental Health  |          | 1,347                             | (399)                   | 948                             |
| 3,635                             | (1,333)                 | 2,302                           | Waste Collection and Disposal   |          | 3,524                             | (1,715)                 | 1,809                           |
| 1,940                             | (933)                   | 1,007                           | Planning and Economic Development   |          | 1,887                             | (739)                   | 1,148                           |
| 334                               | (133)                   | 201                             | Other Environmental Services  |          | 248                               | (114)                   | 134                             |
| 2,551                             | (405)                   | 2,146                           | Highways and Transport Services   |          | 1,918                             | (293)                   | 1,625                           |
| 1,787                             | (604)                   | 1,183                           | Other Housing Services  |          | 1,621                             | (327)                   | 1,294                           |
| 2,388                             | 0                       | 2,388                           | Corporate and Democratic Core   |          | 2,212                             | (62)                    | 2,150                           |
| 471                               | (471)                   | 0                               | Central Support Services  |          | 257                               | (257)                   | 0                               |
| 48                                | (7,384)                 | (7,336)                         | Non-distributed Costs   |          | 72                                | 0                       | 72                              |
| <b>52,526</b>                     | <b>(41,389)</b>         | <b>11,137</b>                   | <b>Cost of Services</b>   |          | <b>49,755</b>                     | <b>(34,672)</b>         | <b>15,083</b>                   |
|                                   |                         |                                 | <b>Other Operating Expenditure (Income)</b>                                   |          |                                   |                         |                                 |
|                                   |                         | 24                              | Payments to the Government  |          |                                   |                         |                                 |
|                                   |                         | 1,426                           | Housing Capital Receipts Pool   |          |                                   |                         | 3                               |
|                                   |                         | (207)                           | Parish Council Precepts   |          |                                   |                         | 1,426                           |
|                                   |                         | (48)                            | (Gain)/loss on disposal of Long Term Assets                                   |          |                                   |                         | (18)                            |
|                                   |                         | (951)                           | Other (income)/expenditure  |          |                                   |                         | (420)                           |
|                                   |                         |                                 | Unattached capital receipts   |          |                                   |                         | (677)                           |
|                                   |                         |                                 | <b>Financing &amp; Investment Income &amp; Expenditure</b>                    |          |                                   |                         |                                 |
|                                   |                         | 1                               | Interest payable and similar charges  |          |                                   |                         | 1                               |
|                                   |                         | 840                             | Pensions Interest Cost and  |          |                                   |                         | 34                              |
|                                   |                         | (500)                           | Expected Return on Pensions Assets  |          |                                   |                         | (529)                           |
|                                   |                         | (766)                           | Interest Receivable and similar Income  |          |                                   |                         | 97                              |
|                                   |                         |                                 | Income and Expenditure On Investment Properties & Changes in their Fair Value |          |                                   |                         |                                 |
|                                   |                         |                                 | <b>Taxation &amp; Non-Specific Grant Income</b>                               |          |                                   |                         |                                 |
|                                   |                         | (7,379)                         | Council Tax Income  |          |                                   |                         | (7,424)                         |
|                                   |                         | (4,976)                         | Non-domestic Rates redistribution   | <b>8</b> |                                   |                         | (3,594)                         |
|                                   |                         | (758)                           | Non-ringfenced Government Grants  | <b>8</b> |                                   |                         | (1,111)                         |
|                                   |                         | (549)                           | Capital Grants & Contributions  | <b>8</b> |                                   |                         | (184)                           |
|                                   |                         | <b>(2,706)</b>                  | <b>(Surplus) / Deficit on Provision of Services</b>                           | <b>7</b> |                                   |                         | <b>2,687</b>                    |
|                                   |                         | (2,702)                         | (Surplus)/Deficit on revaluation of non-current assets                        |          |                                   |                         | (1,148)                         |
|                                   |                         | (14,660)                        | Actuarial (gains)/losses on pension assets/liabilities                        |          |                                   |                         | 6,118                           |
|                                   |                         | <b>(17,362)</b>                 | <b>Other Comprehensive Income and Expenditure</b>                             |          |                                   |                         | <b>4,970</b>                    |
|                                   |                         | <b>(20,068)</b>                 | <b>Total Comprehensive Income and Expenditure</b>                             |          |                                   |                         | <b>7,657</b>                    |

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 AS AT 31 MARCH 2012

| <i>Restated</i><br>31 Mar 10<br>£000 | <i>Restated</i><br>31 Mar 11<br>£000 |   | <i>Note</i> | 31 March 2012<br>£000    £000 |               |
|--------------------------------------|--------------------------------------|---|-------------|-------------------------------|---------------|
|                                      |                                      | <b>Property, Plant and Equipment</b>                |             |                               |               |
| 31,754                               | 32,761                               | Land and Buildings                                  | <b>17</b>   | 31,889                        |               |
| 3,300                                | 3,795                                | Vehicles, Plant and Equipment                       | <b>17</b>   | 4,424                         |               |
| 832                                  | 949                                  | Infrastructure Assets                               | <b>17</b>   | 893                           |               |
| 201                                  | 201                                  | Heritage Assets                                     | <b>18</b>   | 201                           |               |
| <b>36,087</b>                        | <b>37,706</b>                        |   |             |                               | <b>37,407</b> |
|                                      |                                      | <b>Other Long Term Assets</b>                       |             |                               |               |
| 9,954                                | 12,314                               | Investment Properties                               | <b>20</b>   | 11,384                        |               |
| 3,272                                | 1,175                                | Surplus Assets                                      | <b>20</b>   | 0                             |               |
| 1,806                                | 2,649                                | Long Term Debtors                                   | <b>23</b>   | 2,585                         |               |
| <b>15,032</b>                        | <b>16,138</b>                        |   |             |                               | <b>13,969</b> |
| <b>51,119</b>                        | <b>53,844</b>                        | <b>LONG TERM ASSETS</b>                             |             |                               | <b>51,376</b> |
|                                      |                                      | <b>CURRENT ASSETS</b>                               |             |                               |               |
| 0                                    | 0                                    | Assets Held For Sale                                | <b>24</b>   | 2,220                         |               |
| 22                                   | 19                                   | Inventories   | <b>25</b>   | 26                            |               |
| 6,885                                | 5,601                                | Short Term Debtors                                  | <b>26</b>   | 5,231                         |               |
| 28,726                               | 26,067                               | Short Term Investments                              | <b>36</b>   | 26,949                        |               |
| 2                                    | 2                                    | Cash and Cash Equivalents                           | <b>27</b>   | 2                             |               |
| 35,635                               | 31,689                               |   |             |                               | 34,428        |
| <b>86,754</b>                        | <b>85,533</b>                        | <b>TOTAL ASSETS</b>                                 |             |                               | <b>85,804</b> |
|                                      |                                      | <b>CURRENT LIABILITIES</b>                          |             |                               |               |
| (4,203)                              | (4,333)                              | Short Term Creditors                                | <b>29</b>   | (5,771)                       |               |
| (933)                                | (814)                                | Short Term Borrowing                                | <b>27</b>   | (787)                         |               |
| (5,136)                              | (5,147)                              |   |             |                               | (6,558)       |
| <b>81,618</b>                        | <b>80,386</b>                        | <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>        |             |                               | <b>79,246</b> |
|                                      |                                      | <b>LONG TERM LIABILITIES</b>                        |             |                               |               |
| (584)                                | (366)                                | Government Grants & Other Contributions Unapplied   | <b>30</b>   | (696)                         |               |
| (33,611)                             | (12,529)                             | Liability related to Defined Benefit Pension Scheme | <b>32</b>   | (18,716)                      |               |
| (34,195)                             | (12,895)                             |   |             |                               | (19,412)      |
| <b>47,423</b>                        | <b>67,491</b>                        | <b>NET ASSETS</b>                                   |             |                               | <b>59,834</b> |

# BALANCE SHEET AS AT 31 MARCH 2012

-continued

| Restated<br>31 Mar 10<br>£000 | Restated<br>31 Mar 11<br>£000 |                                    | Note       | 31 March 2012<br>£000      £000 |                        |
|-------------------------------|-------------------------------|------------------------------------|------------|---------------------------------|------------------------|
|                               |                               | <b>FINANCED BY:</b>                |            |                                 |                        |
|                               |                               | <b>USABLE RESERVES</b>             |            |                                 |                        |
| (8,232)                       | (7,933)                       | General Fund Balance               | <b>34d</b> | (8,164)                         |                        |
| (17,486)                      | (14,357)                      | Capital Receipts Reserve           | <b>34b</b> | (12,365)                        |                        |
| (15)                          | (15)                          | Capital Grants Unapplied           | <b>34c</b> | 0                               |                        |
| (4,324)                       | (4,074)                       | Earmarked Reserves                 | <b>34c</b> | (4,535)                         |                        |
| (30,057)                      | (26,379)                      |                                    |            |                                 | (25,064)               |
|                               |                               | <b>UNUSABLE RESERVES</b>           |            |                                 |                        |
| (37,598)                      | (37,492)                      | Capital Adjustment Account         | <b>35b</b> | (34,440)                        |                        |
| (1,806)                       | (2,649)                       | Deferred Capital Receipts          | <b>35c</b> | (4,805)                         |                        |
| 48                            | 50                            | Collection Fund Adjustment Account | <b>35d</b> | (2)                             |                        |
| (11,715)                      | (13,703)                      | Revaluation Reserve                | <b>35e</b> | (14,351)                        |                        |
| 94                            | 153                           | Accumulated Absences Reserve       | <b>35f</b> | 112                             |                        |
| 33,611                        | 12,529                        | Pensions Reserve                   | <b>32</b>  | 18,716                          |                        |
| (17,366)                      | (41,112)                      |                                    |            |                                 | (34,770)               |
| <b>(47,423)</b>               | <b>(67,491)</b>               | <b>TOTAL RESERVES</b>              |            |                                 | <b><u>(59,834)</u></b> |

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 .....  
**David Gardner CPFA**  
**Director of Corporate Resources & Governance**

**Date: 27 September 2012**

Signed .....  
**Councillor Sarah Nelmes**  
**Chairman of Audit Committee**

**Date: 27 September 2012**



# CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

| 2010/11 |         |  | Note | 2011/12 |         |
|---------|---------|--|------|---------|---------|
| £000    | £000    |  |      | £000    | £000    |
| (2,706) |         | <b>Net (surplus) or deficit on the provision of services</b>   |      | 2,687   |         |
| 733     |         | Adjustments to net surplus or deficit on the provision of services for non cash movements  | 28   | (5,907) |         |
| 1,450   |         | Adjustments for items that are included in the net surplus or deficit on the provision of services that are investing and financing activities | 28   | 1,173   |         |
|         | (523)   |  |      |         | (2,047) |
| 1       |         | Interest paid  |      | 1       |         |
| (500)   |         | Interest received  |      | (529)   |         |
|         | (499)   |  |      |         | (528)   |
|         | (1,022) | <b>Net cash flows from Operating Activities</b>  |      |         | (2,575) |
|         |         | <b>Investing and Financing Activities</b>  |      |         |         |
| 4,023   |         | Purchase of Long Term Assets   | 21   | 3,270   |         |
| (2,659) |         | Purchase of short term and long term investments   | 36   | 882     |         |
| 1,750   |         | Other payments for investing activities  | 21   | 1,173   |         |
| (489)   |         | Proceeds from the sale of Long Term Assets   | 34b  | (1,481) |         |
| (533)   |         | Capital grants received  |      | (565)   |         |
| (951)   |         | Other receipts from investing activities   | 34b  | (677)   |         |
|         | 1,141   |  |      |         | 2,602   |
|         | 119     | <b>Net increase/(decrease) in cash and cash equivalents</b>  |      |         | 27      |
|         | (931)   | <b>Cash and Cash equivalents at the beginning of the reporting period</b>  |      |         | (812)   |
|         | (812)   | <b>Cash and Cash equivalents at the end of the reporting period</b>  | 27   |         | (785)   |

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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1 Accounting Policies

### 1.01 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 Service Reporting Code of Practice 2011/12, 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.

### 1.02 Accruals Of Income And Expenditure

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

- Revenue from the sale of goods is recognised when the 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.

### 1.03 Cash And Cash Equivalents

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

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1.04 Exceptional Items

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

## 1.05 Prior Period Adjustments, Changes In Accounting Policies And Estimates And Errors

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

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

## 1.06 Charges To Revenue For Long Term Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding Long Term 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 Long Term 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 within the Capital Adjustment Account in the Movement in Reserves Statement.

## 1.07 Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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. They 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1.08 Events After The Balance Sheet Date

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

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

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

## 1.09 Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the 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.

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. The Authority has made a number of small loans to voluntary organisations at less than market rates. These are regarded as not material and no adjustment has been made.

# NOTES TO THE CORE FINANCIAL STATEMENTS

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 (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Authority.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.



# NOTES TO THE CORE FINANCIAL STATEMENTS

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 within the Capital Adjustment Account in the Movement in Reserves Statement.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **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 Long Term 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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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 Financing and Investment Income and Expenditure section 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

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 (EU V-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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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).

On all other assets where depreciation has been provided, assets have been depreciated from the year following acquisition on a straight line method over the following periods:

|  |                |
|--|----------------|
| Dwellings                                | 50 to 60 years |
| Buildings                                | 20 to 60 years |
| Infrastructure (e.g. district footpaths) | 10 to 20 years |
| Plant and Computer Equipment             | 3 to 5 years   |
| Furniture                                | 5 to 25 years  |

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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **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 losses previously 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. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. 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 Long Term 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **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 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.



## NOTES TO THE CORE FINANCIAL STATEMENTS

### **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 Council has to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement in the Statements of Accounts is the level of uncertainty about future levels of funding for local government. However, the Council has planned to make savings to compensate for reductions in funding. These savings will result predominantly from efficiencies and not reduced level of services, so the Council has determined that this uncertainty is not sufficient to provide an indication that the assets of the 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 statements other than those relating to the change in accounting treatment of Heritage Assets (see note 18).

### **5 Events After The Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Director of Corporate Resources and Governance on 22 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 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   |
|--------------------|--|--|
| 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. During 2011/12, The Authority's actuaries advised that the net pensions liability had increased by £6.187m as a result of estimates and assumptions being updated. |
| Arrears            | At 31 March 2012, the Authority had gross short term debtors totalling £6.771m. A review of significant balances suggested a provision of £1.540m was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient. See Note 26.   | If collection rates were to deteriorate, the amounts of impairment of doubtful debts would require increasing.   |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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 Best Value Accounting Code of Practice. However decisions about resource allocation are taken by the Council on the basis of budget reports analysed by committee. These reports 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.

| 2010/11<br>£000 | Income and Expenditure Account  | 2011/12<br>£000 |
|-----------------|---|-----------------|
|                 | Policy and Scrutiny Committee   |                 |
| 5,550           | Leisure & Community Safety  | 4,233           |
| 2,998           | Sustainable Environment - Environmental Services                      | 2,527           |
| 1,186           | Sustainable Environment - General Fund Housing                        | 1,300           |
| 4,207           | Public Services & Health  | 3,406           |
| (2,804)         | Resources   | 4,607           |
| <b>11,137</b>   | <b>Net Cost of District Services</b>                                  | <b>16,073</b>   |
| 840             | Pensions Adjustment   | 34              |
| 1,426           | Parish Precepts   | 1,426           |
| (501)           | Net Interest Income   | (529)           |
| (936)           | Other Income  | (1,620)         |
| 24              | Capital Receipts to Pool  | 3               |
| <b>11,990</b>   | <b>Net District Operating Expenditure</b>                             | <b>15,387</b>   |
| (11)            | Contributions to/(from) Earmarked Reserves                            | 453             |
| (1)             | Contributions to/(from) Provisions                                    | 0               |
| 1,433           | Adjustments under Statute   | (3,810)         |
| (298)           | Contribution from Balances / Surplus/(Deficit) for Year               | 231             |
| <b>13,113</b>   | <b>Amount to be met from Government Grant and by Local Tax Payers</b> | <b>12,261</b>   |
| (7,381)         | Demanded from Collection Fund   | (7,413)         |
| 2               | Collection Fund Deficit   | 41              |
| (758)           | Revenue Support Grant   | (1,111)         |
| (4,976)         | Redistributed National Non-domestic Rates                             | (3,594)         |
| 0               | Non-Specific Grant  | (184)           |
| <b>(13,113)</b> | <b>Total</b>  | <b>(12,261)</b> |
| (8,232)         | Balance in Hand at 1 April  | (7,933)         |
| 299             | (Surplus)/Deficit for Year  | (231)           |
| <b>(7,933)</b>  | <b>Balance in Hand at 31 March</b>                                    | <b>(8,164)</b>  |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Reconciliation of Committee Income and Expenditure to Cost of Services In the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of committee income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement, analysed by Subjective headings.

| 2010/11        |   | General<br>Fund<br>Net Cost<br>of District<br>Services<br>£000 | Adjust-<br>ment<br>in<br>Statutory<br>I&E<br>£000 | 2011/12<br><br>Total<br><br>£000 |
|----------------|---|--|---|----------------------------------|
| <b>Total</b>   |   |  |   |                                  |
| <b>£000</b>    |   |  |   |                                  |
| 4,604          | Fees and Charges                                  | 5,333  | 0   | 5,333                            |
| 1,421          | Interest and Investment Income                    | 1  | 1,036   | 1,037                            |
| 7,379          | Income From Council Tax                           | 0  | 7,424   | 7,424                            |
| 29,956         | Govt Grants & Contribs (incl RSG & NNDR)          | 29,705   | 4,705   | 34,410                           |
| 1,925          | Gains / Losses on Long Term Assets                | 0  | 387   | 387                              |
| 6,283          | Non Ringfenced Grants                             | 0  | 605   | 605                              |
| 330            | Support Service Recharge                          | 318  | 0   | 318                              |
| <b>51,898</b>  | <b>Total Income</b>                               | <b>35,357</b>  | <b>14,157</b>                                     | <b>49,514</b>                    |
| 11,745         | Employee Expenses                                 | 11,192   | 0   | 11,192                           |
| 37,242         | Other Service Expenditure                         | 35,476   | 0   | 35,476                           |
| 5,298          | Depreciation, amortisation and impairment         | 4,762  | (693)   | 4,069                            |
| 1              | Interest Payments                                 | 0  | 1   | 1                                |
| 1,426          | Precepts & Levies                                 | 0  | 1,426   | 1,426                            |
| (6,544)        | Pensions Adjustments                              | 0  | 34  | 34                               |
| 24             | Capital Receipts to Government Pool               | 0  | 3   | 3                                |
| <b>49,192</b>  | <b>Total Expenditure</b>                          | <b>51,430</b>  | <b>771</b>  | <b>52,201</b>                    |
| <b>(2,706)</b> | <b>(Surplus)/Deficit on Provision of Services</b> | <b>16,073</b>  | <b>(13,386)</b>                                   | <b>2,687</b>                     |
| (17,362)       | Other Comprehensive Income & Expenditure          | 0  | 4,970   | 4,970                            |
| 20,367         | Movement in Reserves                              | 0  | (7,888)   | (7,888)                          |
| <b>299</b>     | <b>(Surplus)/Deficit on Provision of Services</b> | <b>16,073</b>  | <b>(16,304)</b>                                   | <b>(231)</b>                     |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 8 Grant Income

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

| 2010/11<br>£000 |   | 2011/12<br>£000 |
|-----------------|---|-----------------|
|                 | <b>Credited to Taxation and Non Specific Grant Income</b> |                 |
| 35              | Area Based Grant  | 0               |
| 10              | HCC   | 0               |
| 0               | Improvement East  | 55              |
| 0               | New Homes Bonus   | 96              |
| 48              | Other grants -section 106                                 | 0               |
| 217             | Performance Reward Grant                                  | 0               |
| 15              | Planning Delivery Grant                                   | 0               |
| 121             | Playbuilder   | 0               |
| 4,976           | Redistributed NNDR  | 3,594           |
| 723             | Revenue Support Grant                                     | 1,111           |
| 71              | Waste & Recycling Grants                                  | 0               |
| 67              | WBC-Shared Services Capital                               | 33              |
| 6,283           |   | 4,889           |
|                 | <b>Credited to Services</b>                               |                 |
| 4               | Active Community Development Fund                         | 3               |
| 50              | Big Lottery   | 47              |
| 96              | Cabinet Office - Elections                                | 73              |
| 0               | Parish Elections  | 31              |
| 0               | Community Development                                     | 5               |
| 15              | Community Sports Network                                  | 16              |
| 81              | Concessionary Travel                                      | 0               |
| 544             | Council Tax Benefit Administration Grant                  | 509             |
| 0               | Council Tax Benefit Freeze Grant                          | 150             |
| 4               | Countrywide Stewardship                                   | 53              |
| 198             | Disabled Facilities Grant                                 | 202             |
| 26,931          | DWP - Housing Benefits                                    | 28,021          |
| 6               | Environmental Initiatives                                 | 0               |
| 0               | Food Standards Agency                                     | 3               |
| 4               | HCC - Green Waste   | 11              |
| 5               | HCC - Miscellaneous Highways                              | 0               |
| 103             | Herts Choice Homes  | 93              |
| 41              | Homelessness  | 57              |
| 39              | Housing And Regeneration Initiative                       | 40              |
| 0               | Improvement East  | 6               |
| 0               | Local Area Assessment                                     | 127             |
| 33              | Miscellaneous Highways                                    | 0               |
| 73              | National Free Swim  | 0               |
| 105             | NNDR - cost of collection Grant                           | 96              |
| 113             | Planning Delivery Grant Award                             | 0               |
| 204             | Private Sector Decent Homes                               | 226             |
| 119             | Safer & Stronger Communities                              | 58              |
| 37              | WBC - Building Control                                    | 37              |
| 28,805          |   | 29,864          |
| <b>35,088</b>   | <b>Total</b>  | <b>34,753</b>   |

## NOTES TO THE CORE FINANCIAL STATEMENTS

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. The balances at the year end are as follows:

| 2010/11<br>£000 |                                  | 2011/12<br>£000 |
|-----------------|----------------------------------|-----------------|
| 362             | Section 106                      | 467             |
| 0               | Section 106 - Affordable Housing | 201             |
| 4               | Disabled Facilities Grant        | 28              |
| <b>366</b>      | <b>Total</b>                     | <b>696</b>      |

### 9 Trading Operations

The Council has no trading operations.

### 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<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 104             | Fees payable to the audit commission with regard to external audit services carried out by the appointed auditor for the year, Grant Thornton. | 100             |
| 32              | Fees payable to Grant Thornton for the certification of grant claims and returns for the year.   | 21              |
| <b>136</b>      | <b>Total</b>   | <b>121</b>      |

### 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 £308,927 (£345,485 in 2010/11).

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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<br>No. of<br>Employees | Remuneration Band   | 2011/12<br>No. of<br>Employees |
|--------------------------------|---------------------|--------------------------------|
| 13                             | £50,000 - £54,999   | 11                             |
| 1                              | £55,000 - £59,999   | 4                              |
| 3                              | £60,000 - £64,999   | 3                              |
| 1                              | £65,000 - £69,999   | 1                              |
| 0                              | £70,000 - £74,999   | 0                              |
| 0                              | £75,000 - £79,999   | 0                              |
| 0                              | £80,000 - £84,999   | 0                              |
| 2                              | £85,000 - £89,999   | 1                              |
| 1                              | £90,000 - £94,999   | 1                              |
| 0                              | £95,000 - £99,999   | 0                              |
| 0                              | £100,000 - £104,999 | 0                              |
| 0                              | £105,000 - £109,999 | 0                              |
| 0                              | £110,000 - £114,999 | 0                              |
| 1                              | £115,000 - £119,999 | 1                              |
| 0                              | £120,000 - £124,999 | 0                              |
| 0                              | £125,000 - £129,999 | 0                              |
| 0                              | £130,000 - £134,999 | 0                              |
| 0                              | £135,000 - £139,999 | 0                              |
| <b>22</b>                      |                     | <b>22</b>                      |

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<br>Post                           | Salary<br>(Including<br>fees<br>&<br>allowances)<br>£ | Expenses<br>Allowances<br>£ | Benefit in<br>Kind<br>£ | Total<br>Remuner-<br>ation<br>Excluding<br>Pension<br>Contribution<br>£ | Pension<br>Contribution<br>£ | Total<br>Remuner-<br>ation<br>£ |
|---|---|-----------------------------|-------------------------|---|------------------------------|---------------------------------|
| Chief Executive                           | 116,181   | 1,239                       | 0                       | 117,420   | 23,325                       | <b>140,745</b>                  |
| Director-Corporate Resources & Governance | 90,861  | 0                           | 3,144                   | 94,005  | 17,445                       | <b>111,450</b>                  |
| Director-Environment & Community Services | 87,136  | 1,239                       | 0                       | 88,375  | 16,730                       | <b>105,105</b>                  |
|   | <b>294,178</b>  | <b>2,478</b>                | <b>3,144</b>            | <b>299,800</b>  | <b>57,500</b>                | <b>357,300</b>                  |

# NOTES TO THE CORE FINANCIAL STATEMENTS

| 2011/12                                   | Salary<br>(Including<br>fees<br>&<br>allowances) | Expenses<br>allowances | Benefit in<br>Kind | Total<br>Remuner-<br>ation<br>Excluding<br>Pension<br>Contribution | Pension<br>Contribution | Total<br>Remuner-<br>ation |
|---|--|------------------------|--------------------|--|-------------------------|----------------------------|
| Post                                      | £  | £                      | £                  | £  | £                       | £                          |
| Chief Executive                           | 115,735  | 1,239                  | 0                  | 116,974  | 22,221                  | <b>139,195</b>             |
| Director-Corporate Resources & Governance | 90,861   | 0                      | 3,362              | 94,223   | 17,445                  | <b>111,668</b>             |
| Director-Environment & Community Services | 87,136   | 1,239                  | 0                  | 88,375   | 16,730                  | <b>105,105</b>             |
|   | <b>293,732</b>                                   | <b>2,478</b>           | <b>3,362</b>       | <b>299,572</b>   | <b>56,396</b>           | <b>355,968</b>             |
|   |  |                        |                    |  |                         |                            |

## 13 Termination Benefits

In 2011/12, the authority did not incur any liabilities in respect of compensation for loss of office, redundancy, or enhanced pension benefits.

## 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 in this Statement of Accounts allows the 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 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 this authority 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.

Members of the close family, or the same household of an individual identified as a related party, are also presumed to be related parties.

All significant transactions with the Government, other local authorities, precepting authorities and the Hertfordshire County Council pension fund have been disclosed elsewhere in this Statement of Accounts.

No material transactions took place in respect of councillors and chief officers except for the following:



## NOTES TO THE CORE FINANCIAL STATEMENTS

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

The Joint Committee has one member from each of the constituent Councils. Councillor David Major represents the Council on the Joint Committee. The Council's Director of Corporate Resources and Governance is the Treasurer to the Joint Committee. Watford Borough Council provide the Clerk.

Expenses, net of income and reserves, incurred by the Joint Committee in any financial year shall be borne by the constituent Councils in proportion to the populations of the respective districts. Any surplus remaining shall, as soon as practicable, be returned to the constituent Councils in the same proportions.

All land and property is vested in Three Rivers Council but is managed and maintained by the Joint Committee.

Some councillors act as either the Council's representative or in their own right as members of the management committees of local organisations, for example, Thrive Housing Association and citizens' advice bureaux. No councillor benefits financially from these arrangements but will declare an interest when matters concerning these bodies are discussed at Council meetings.

### 15 Partnership Working

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

The net expenditure of the shared services is apportioned between the councils based on a Shared Service Agreement. The table below shows the total expenditure and income of the Joint Committee of which Three Rivers District Council's share is £2.597m.

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

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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. Expenditure on Intangible assets was as follows:

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |                                    | 31 Mar 12<br>£000 |
|-------------------|-------------------|------------------------------------|-------------------|
| 710               | 146               | Expenditure on Software Licences   | 104               |
| 710<br>(710)      | 146<br>(146)      | Written out in year of Acquisition | 104<br>(104)      |
| <b>0</b>          | <b>0</b>          | <b>Total</b>                       | <b>0</b>          |

## 17 Property, Plant And Equipment

### a) Information on Assets Held

The Operational Property of the Council comprises:

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |                          | 31 Mar 12<br>£000 |
|-------------------|-------------------|--------------------------|-------------------|
| 773               | 773               | Council Dwellings        | 0                 |
| 550               | 550               | Depots                   | 1,520             |
| 372               | 372               | Cemeteries               | 415               |
| 6,375             | 6,375             | Offices                  | 5,725             |
| 2,023             | 2,223             | Car Parks                | 2,223             |
| 14,868            | 16,694            | Leisure Land & Buildings | 16,694            |
| 6,675             | 6,675             | Garages                  | 6,575             |
| 650               | 159               | Other Land/Property      | 344               |
| <b>32,286</b>     | <b>33,821</b>     | <b>Total</b>             | <b>33,496</b>     |

Community Assets: These 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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## b) Movement of Property, Plant and Equipment

|   | Land<br>&<br>Buildings<br>£000 | Vehicles,<br>Plant &<br>Equip-<br>ment<br>£000 | Infra-<br>structure<br>Assets<br>£000 | Total<br>£000  |
|---|--------------------------------|--|---------------------------------------|----------------|
| <b>Cost or valuation</b>  |                                |  |                                       |                |
| At 1 April 2010   | 32,286                         | 5,175  | 1,448                                 | 38,909         |
| Additions   | 2,060                          | 1,314  | 192                                   | 3,566          |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve                             | 2,004                          | 0  | 0                                     | 2,004          |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services | (2,030)                        | 0  | 0                                     | (2,030)        |
| Derecognition - Disposals   | 0                              | 0  | 0                                     | 0              |
| Derecognition - Other   | 0                              | 0  | 0                                     | 0              |
| Assets reclassified   | (423)                          | 0  | 0                                     | (423)          |
| Assets reclassified (to) / from Held for Sale   | 0                              | 0  | 0                                     | 0              |
| Other movements in cost or valuation  | (76)                           | 0  | 0                                     | (76)           |
| <b>At 31 March 2011</b>   | <b>33,821</b>                  | <b>6,489</b>                                   | <b>1,640</b>                          | <b>41,950</b>  |
| <b>Accumulated Depreciation &amp; Impairment</b>  |                                |  |                                       |                |
| At 1 April 2010   | (532)                          | (1,875)  | (616)                                 | (3,023)        |
| Depreciation Charge   | (633)                          | (819)  | (75)                                  | (1,527)        |
| 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                                 | 9                              | 0  | 0                                     | 9              |
| Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services      | 0                              | 0  | 0                                     | 0              |
| Derecognition - Disposals   | 0                              | 0  | 0                                     | 0              |
| Derecognition - Other   | 7                              | 0  | 0                                     | 7              |
| Other movements in depreciation and impairment  | 89                             | 0  | 0                                     | 89             |
| <b>At 31 March 2011</b>   | <b>(1,060)</b>                 | <b>(2,694)</b>                                 | <b>(691)</b>                          | <b>(4,445)</b> |
| <b>Balance Sheet Value at 31 March 2011</b>   | <b>32,761</b>                  | <b>3,795</b>                                   | <b>949</b>                            | <b>37,505</b>  |
| <b>Balance Sheet Value at 1 April 2010</b>  | <b>31,754</b>                  | <b>3,300</b>                                   | <b>832</b>                            | <b>35,886</b>  |

# NOTES TO THE CORE FINANCIAL STATEMENTS

|   | Land<br>&<br>Buildings<br>£000 | Vehicles,<br>Plant &<br>Equip-<br>ment<br>£000 | Infra-<br>structure<br>Assets<br>£000 | Total<br>£000  |
|---|--------------------------------|--|---------------------------------------|----------------|
| <b>Cost or valuation</b>  |                                |  |                                       |                |
| At 1 April 2011   | 33,821                         | 6,489  | 1,640                                 | 41,950         |
| Additions   | 1,289                          | 1,459  | 29                                    | 2,777          |
| Revaluation increases / (decreases) recognised in the Revaluation Reserve                             | 936                            | 0  | 0                                     | 936            |
| Revaluation increases / (decreases) recognised in the Surplus / Deficit on the provisions of services | (2,080)                        | 0  | 0                                     | (2,080)        |
| Derecognition - Disposals   | 0                              | 0  | 0                                     | 0              |
| Derecognition - Other   | 0                              | (1,242)  | 0                                     | (1,242)        |
| Assets reclassified   | (650)                          | 0  | 0                                     | (650)          |
| Assets reclassified (to) / from Held for Sale   | 0                              | 0  | 0                                     | 0              |
| Other movements in cost or valuation  | 180                            | 0  | 0                                     | 180            |
| <b>At 31 March 2012</b>   | <b>33,496</b>                  | <b>6,706</b>                                   | <b>1,669</b>                          | <b>41,871</b>  |
| <b>Accumulated Depreciation &amp; Impairment</b>  |                                |  |                                       |                |
| At 1 April 2011   | (1,060)                        | (2,694)  | (691)                                 | (4,445)        |
| Depreciation Charge   | (629)                          | (830)  | (85)                                  | (1,544)        |
| 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                                 | 7                              | 0  | 0                                     | 7              |
| Impairment losses / (reversals) recognised in the Surplus / Deficit on the Provision of Services      | 35                             | 0  | 0                                     | 35             |
| Derecognition - Disposals   | 0                              | 0  | 0                                     | 0              |
| Derecognition - Other   | 0                              | 1,242  | 0                                     | 1,242          |
| Assets reclassified   | 15                             | 0  | 0                                     | 15             |
| Other movements in depreciation and impairment  | 25                             | 0  | 0                                     | 25             |
| <b>At 31 March 2012</b>   | <b>(1,607)</b>                 | <b>(2,282)</b>                                 | <b>(776)</b>                          | <b>(4,665)</b> |
| <b>Balance Sheet Value at 31 March 2012</b>   | <b>31,889</b>                  | <b>4,424</b>                                   | <b>893</b>                            | <b>37,206</b>  |
| <b>Balance Sheet Value at 1 April 2011</b>  | <b>32,761</b>                  | <b>3,795</b>                                   | <b>949</b>                            | <b>37,505</b>  |

## 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 the Statement of Accounting Policies.

# NOTES TO THE CORE FINANCIAL STATEMENTS

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

| 31 Mar 11     |                                | Land & Buildings<br>£000 | Vehicles,<br>Plant & Equip-<br>ment<br>£000 | Infra-<br>structure<br>£000 | 31 Mar 12<br>Total<br>£000 |
|---------------|--------------------------------|--------------------------|---|-----------------------------|----------------------------|
| 8,129         | Carried at historical cost     | 0                        | 6,706                                       | 1,669                       | 8,375                      |
| 0             | Valued at current value as at: |                          |   |                             |                            |
|               | 31 March 2012                  | 2,205                    |   |                             | 2,205                      |
| 2,795         | 31 March 2011                  | 2,790                    | 0   | 0                           | 2,790                      |
| 20,084        | 31 March 2010                  | 17,559                   | 0   | 0                           | 17,559                     |
| 10,942        | 31 March 2009                  | 10,942                   | 0   | 0                           | 10,942                     |
| <b>41,950</b> | <b>Total Cost or Valuation</b> | <b>33,496</b>            | <b>6,706</b>                                | <b>1,669</b>                | <b>41,871</b>              |

## d) Information About Depreciation Methodologies

Depreciation has been provided for all assets with a finite useful life. Freehold land and investment properties are not depreciated. On all other assets where depreciation has been provided, assets have been depreciated on a straight line method over the following periods:

|  |                                   |
|--|-----------------------------------|
| Buildings                                | Straight line over 20 to 60 years |
| Infrastructure (e.g. district footpaths) | Straight line over 10 to 20 years |
| Plant and Computer Equipment             | Straight line over 3 to 5 years   |
| Furniture                                | Straight line over 5 to 25 years  |
| Vehicles                                 | Straight line over 7 years        |

## 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 its 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<br>Instrument<br>£000 | Works<br>of Art<br>£000 | Civic<br>Regalia<br>£000 | Total<br>£000 |
|------------------------------------|-------------------------------|-------------------------|--------------------------|---------------|
| <b>Cost or valuation</b>           |                               |                         |                          |               |
| At 1 April 2010 - Restated         | 150                           | 36                      | 15                       | 201           |
| Additions                          | 0                             | 0                       | 0                        | 0             |
| Disposals                          | 0                             | 0                       | 0                        | 0             |
| Revaluations & Impairments         | 0                             | 0                       | 0                        | 0             |
| <b>At 31 March 2011 - Restated</b> | <b>150</b>                    | <b>36</b>               | <b>15</b>                | <b>201</b>    |

## NOTES TO THE CORE FINANCIAL STATEMENTS

|                            | Musical<br>Instrument<br>£000 | Works<br>of Art<br>£000 | Civic<br>Regalia<br>£000 | Total<br>£000 |
|----------------------------|-------------------------------|-------------------------|--------------------------|---------------|
| <b>Cost or valuation</b>   |                               |                         |                          |               |
| At 1 April 2011 - Restated | 150                           | 36                      | 15                       | 201           |
| Additions                  | 0                             | 0                       | 0                        | 0             |
| Disposals                  | 0                             | 0                       | 0                        | 0             |
| Revaluations & Impairments | 0                             | 0                       | 0                        | 0             |
| <b>At 31 March 2012</b>    | <b>150</b>                    | <b>36</b>               | <b>15</b>                | <b>201</b>    |
|                            |                               |                         |                          |               |

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 in Note 1, 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 a nominal value 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 (See Note 1, section 1.17).

In applying the new accounting policy, the Authority has recognise an additional £201k for the recognition of 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 £200,436. The Revaluation Reserve has increased by £200,436.
- 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:

# NOTES TO THE CORE FINANCIAL STATEMENTS

| Adjustments to Balance Sheet Items for Heritage Assets | Opening<br>Balance<br>01 Apr 10<br>£000 | Restate-<br>ment<br>Required<br>01 Apr 10<br>£000 | Restated<br>Opening<br>Balance<br>01 Apr 10<br>£000 |
|--|---|---|---|
| Property, Plant & Equipment - Heritage Assets          | 0                                       | 201   | 201   |
| Long Term Assets                                       | 50,918                                  | 201   | 51,119  |
| Total Net Assets                                       | 47,222                                  | 201   | 47,423  |
| Unusable Reserves - Revaluation Reserve                | 17,165                                  | 201   | 17,366  |
| Total Reserves   | 47,222                                  | 201   | 47,423  |

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:

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |                | 31 Mar 12<br>£000 |
|-------------------|-------------------|----------------|-------------------|
| 3,272             | 1,175             | Surplus Assets | 0                 |
| 4,915             | 5,030             | Shops          | 5,030             |
| 5,039             | 7,284             | Other          | 6,354             |
| <b>13,226</b>     | <b>13,489</b>     |                | <b>11,384</b>     |

### b) Movement of Investment Properties and Surplus Assets

|  | Investm't<br>Props<br>£000 | Surplus<br>Assets<br>£000 | Total<br>£000 |
|--|----------------------------|---------------------------|---------------|
| <b>Cost or valuation</b>   |                            |                           |               |
| At 1 April 2010  | 9,954                      | 3,272                     | 13,226        |
| Additions  | 457                        | 0                         | 457           |
| Revaluation increases / (decreases) recognised in the Surplus /<br>Deficit on the provisions of services | 218                        | 14                        | 232           |
| Derecognition - Disposals  | (270)                      | 0                         | (270)         |
| Derecognition - Other  | 0                          | (575)                     | (575)         |
| Assets reclassified (to) / from Long-Term Debtors  | 0                          | 0                         | 0             |
| Assets reclassified  | 1,959                      | (1,536)                   | 423           |
| Other movements in cost or valuation   | (4)                        | 0                         | (4)           |
| <b>At 31 March 2011</b>  | <b>12,314</b>              | <b>1,175</b>              | <b>13,489</b> |
| <b>Balance Sheet Value at 31 March 2011</b>  | <b>12,314</b>              | <b>1,175</b>              | <b>13,489</b> |
| <b>Balance Sheet Value at 1 April 2010</b>   | <b>9,954</b>               | <b>3,272</b>              | <b>13,226</b> |

## NOTES TO THE CORE FINANCIAL STATEMENTS

|   | Investm't<br>Props<br>£000 | Surplus<br>Assets<br>£000 | Total<br>£000 |
|---|----------------------------|---------------------------|---------------|
| <b>Cost or valuation</b>  |                            |                           |               |
| At 1 April 2011   | 12,314                     | 1,175                     | 13,489        |
| Additions   | 418                        | 0                         | 418           |
| Revaluation increases / (decreases) recognised in the Surplus / |                            |                           |               |
| Deficit on the provisions of services                           | 27                         | (240)                     | (213)         |
| Derecognition - Disposals                                       | (900)                      | (550)                     | (1,450)       |
| Derecognition - Other   | 0                          | 0                         | 0             |
| Assets reclassified (to) / from LT Debtors                      | (1,240)                    | (255)                     | (1,495)       |
| Assets reclassified   | 765                        | (130)                     | 635           |
| Other movements in cost or valuation                            | 0                          | 0                         | 0             |
| <b>At 31 March 2012</b>   | <b>11,384</b>              | <b>0</b>                  | <b>11,384</b> |
| <b>Balance Sheet Value at 31 March 2012</b>                     | <b>11,384</b>              | <b>0</b>                  | <b>11,384</b> |
| <b>Balance Sheet Value at 1 April 2011</b>                      | <b>12,314</b>              | <b>1,175</b>              | <b>13,489</b> |

### 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<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 941             | Rental income from Investment Property                     | 713             |
| 0               | Direct operating expenses arising from Investment property | (164)           |
| <b>941</b>      | <b>Net gain / (loss)</b>                                   | <b>549</b>      |

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.



# NOTES TO THE CORE FINANCIAL STATEMENTS

## d) Revaluations

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

| 31 Mar 11<br>Total<br>£000 |   | Investm't<br>Props<br>£000 | Surplus<br>Assets<br>£000 | 31 Mar 12<br>Total<br>£000 |
|----------------------------|---|----------------------------|---------------------------|----------------------------|
| 0                          | Valued at current value as at:<br>31 March 2012 | 1,710                      | 0                         | 1,710                      |
| 5,073                      | 31 March 2011                                   | 1,503                      | 0                         | 1,503                      |
| 7,838                      | 31 March 2010                                   | 7,723                      | 0                         | 7,723                      |
| 578                        | 31 March 2009                                   | 448                        | 0                         | 448                        |
| <b>13,489</b>              | <b>Total Cost or Valuation</b>                  | <b>11,384</b>              | <b>0</b>                  | <b>11,384</b>              |

## 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.

| 31 Mar 11<br>£000 |   | 31 Mar 12<br>£000 |
|-------------------|---|-------------------|
|                   | <b>Capital Investment</b>                             |                   |
| 4,023             | Property, Plant and Equipment                         | 3,270             |
| 146               | Intangible Assets                                     | 104               |
| 1,604             | Revenue Expenditure Funded from Capital Under Statute | 1,069             |
| 5,773             |   | 4,443             |
|                   | <b>Sources of Finance</b>                             |                   |
| (4,545)           | Capital receipts                                      | (4,132)           |
| (1,228)           | Government grants and other contributions             | (311)             |
| 0                 | Direct revenue contributions                          | 0                 |
| (5,773)           |   | (4,443)           |
| <b>0</b>          | <b>Total</b>  | <b>0</b>          |

At 31 March 2012 the Council had entered into contracts valued at £705,743 largely in respect of New Play Areas.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 22 Leases

### a) Authority as Lessee

#### i) Operating Leases

The Council has a number of operating leases. It leases one car park at an annual rental of £4,500. Under lease and lease back arrangements, it leases, at peppercorn rents, a car park and leisure centre, which it owns. It also leases a swimming pool at a peppercorn rent from Hertfordshire County Council. All rentals have been accounted for as operating leases. The Council also uses leased vehicles and office equipment. The total amount paid under these arrangements in 2011/12 was £77,837 (2010/11: £83,435) as follows:

| 2011/12<br>£000 |                                      | 2011/12<br>£000 |
|-----------------|--------------------------------------|-----------------|
| 4               | Land & Buildings - Car Park          | 4               |
| 74              | Vehicles, Plant and Office Equipment | 74              |
| <b>78</b>       | <b>Total</b>                         | <b>78</b>       |

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

| 2010/11<br><br>Total<br>£000 |  | Future Years             |  |               |
|------------------------------|--|--------------------------|--|---------------|
|                              |  | Land & Buildings<br>£000 | Vehicles,<br>Plant &<br>Equip-<br>ment<br>£000 | Total<br>£000 |
| 16                           | Not later than one year                          | 0                        | 25   | 25            |
| 65                           | Later than one year and not later than six years | 4                        | 35   | 39            |
| 0                            | Later than six years                             | 0                        | 0  | 0             |
| <b>81</b>                    | <b>Total Liability</b>                           | <b>4</b>                 | <b>60</b>                                      | <b>64</b>     |

#### ii) Finance Leases

The Council has no finance leases.

### b) Authority as Lessor

#### i) Operating Leases

The Council has granted commercial leases on land, shops and office buildings for a total annual market value of £895,465. It has granted leases at a reduced rate to local organisations totalling £9,300, leases for Leisure Venues to a Leisure Trust and a car park to a registered social landlord at peppercorn rents. The market rent for these properties would have been approximately £446,440. All rentals have been accounted for as operating leases. With regard to the Council's activity as a lessor, the gross value of assets held for use in operating leases was £24,800,750 subject to £275,806 depreciation to 31 March 2012.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## ii) Finance Leases

The Authority has leased out a property on a finance lease. The Authority has a gross investment in the lease made up of minimum lease payments expected to be received over the remaining term. 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.

The gross investment is made up of the following amounts:

| 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 26              | Finance lease debtor (net present value of minimum lease payments) | 25              |
| 116             | Unearned finance income  | 112             |
| <b>142</b>      | <b>Gross investment in the lease</b>                               | <b>137</b>      |

The gross investment in the lease will be received over the following periods:

| 2010/11                               |                                     |   | 2011/12                               |                                     |
|---------------------------------------|-------------------------------------|---|---------------------------------------|-------------------------------------|
| Unearned<br>Finance<br>Income<br>£000 | Minimum<br>Lease<br>Payment<br>£000 |   | Unearned<br>Finance<br>Income<br>£000 | Minimum<br>Lease<br>Payment<br>£000 |
| 4                                     | 1                                   | Not later than one year                           | 4                                     | 1                                   |
| 14                                    | 3                                   | Later than one year and not later than five years | 14                                    | 3                                   |
| 98                                    | 22                                  | Later than five years                             | 94                                    | 21                                  |
| <b>116</b>                            | <b>26</b>                           | <b>Total</b>                                      | <b>112</b>                            | <b>25</b>                           |

## 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<br>£000 | 31 Mar 11<br>£000 |                            | 31 Mar 12<br>£000 |
|-------------------|-------------------|----------------------------|-------------------|
| 56                | 45                | Sales of Council Dwellings | 31                |
| 50                | 49                | Housing Association Loans  | 0                 |
| 1,673             | 2,529             | Rent to Mortgage           | 2,529             |
| 27                | 26                | Finance Leases as Lessor   | 25                |
| <b>1,806</b>      | <b>2,649</b>      | <b>Total</b>               | <b>2,585</b>      |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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.

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 | Cost or Valuation                                       | Current<br>£000 | Long<br>Term<br>£000 | 31 Mar 12<br>Total<br>£000 |
|-------------------|-------------------|---|-----------------|----------------------|----------------------------|
| 0                 | 0                 | At 1 April 2011   | 0               | 0                    | 0                          |
| 0                 | 0                 | Assets reclassified from operational land and buildings | 0               | 0                    | 0                          |
| 0                 | 0                 | Assets reclassified from surplus assets                 | 1,495           | 0                    | 1,495                      |
| 0                 | 0                 | Revaluations  | 725             | 0                    | 725                        |
| 0                 | 0                 | Disposals   | 0               | 0                    | 0                          |
| <b>0</b>          | <b>0</b>          | <b>At 31 March 2012</b>                                 | <b>2,220</b>    | <b>0</b>             | <b>2,220</b>               |

## 25 Inventories

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

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 | 31 Mar 12<br>£000 |
|-------------------|-------------------|-------------------|
| 1                 | 4                 | 3                 |
| 1                 | 0                 | 4                 |
| 20                | 15                | 19                |
| <b>22</b>         | <b>19</b>         | <b>26</b>         |
|                   | <b>Total</b>      |                   |

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<br>£000 | 31 Mar 11<br>£000 | 31 Mar 12<br>£000 |
|-------------------|-------------------|-------------------|
| 2,137             | 848               | 1,442             |
| 1,253             | 3,213             | 2,150             |
| 4,303             | 2,744             | 3,073             |
| 255               | 116               | 106               |
| 7,948             | 6,921             | 6,771             |
| (1,063)           | (1,320)           | (1,540)           |
| <b>6,885</b>      | <b>5,601</b>      | <b>5,231</b>      |
|                   | <b>Total</b>      |                   |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 27 Cash, Cash Equivalents And Short Term Borrowing

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

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |                            | 31 Mar 12<br>£000 |
|-------------------|-------------------|----------------------------|-------------------|
|                   |                   | <b>Current Assets</b>      |                   |
| 0                 | 0                 | Bank Current Account       | 0                 |
| 2                 | 2                 | Cash held by the Authority | 2                 |
| 2                 | 2                 |                            | 2                 |
|                   |                   | <b>Current Liabilities</b> |                   |
| (933)             | (814)             | Bank overdrafts            | (787)             |
| <b>(931)</b>      | <b>(812)</b>      | <b>Total</b>               | <b>(785)</b>      |

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

| 2010/11 |                |  | 2011/12 |                |
|---------|----------------|--|---------|----------------|
| £000    | £000           |  | £000    | £000           |
|         |                | <b>Adjustments for non-cash transactions</b>                                 |         |                |
| (4,272) |                | Adjustments involving the Capital Adjustment Account and Revaluation Reserve | (4,037) |                |
| (2)     |                | Adjustments involving the Collection Fund Adjustment Account                 | 52      |                |
| (58)    |                | Adjustments involving the Accumulated Absences Reserve                       | 41      |                |
| 6,422   |                | Net charges made for retirement benefits in accordance with FRS17            | (69)    |                |
|         | <b>2,090</b>   |  |         | <b>(4,013)</b> |
|         |                | <b>Items on an accruals basis</b>  |         |                |
| (3)     |                | Increase / (Decrease) in Inventories   | 7       |                |
| (1,284) |                | Increase / (Decrease) in Debtors and Payments in Advance                     | (370)   |                |
| (130)   |                | (Increase) / Decrease in Creditors and Receipts in Advance                   | (1,438) |                |
| 60      |                | Other Accruals   | (93)    |                |
|         | <b>(1,357)</b> |  |         | <b>(1,894)</b> |
|         |                | <b>Investing and Financing Activities</b>                                    |         |                |
| (1)     |                | Interest payable and similar charges   | (1)     |                |
| 500     |                | Interest receivable  | 529     |                |
| 951     |                | Adjustments involving the Capital Receipts Reserve                           | 645     |                |
|         | <b>1,450</b>   |  |         | <b>1,173</b>   |
|         | <b>2,183</b>   | <b>Total</b>   |         | <b>(4,734)</b> |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 29 Creditors - Short Term

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

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |                        | 31 Mar 12<br>£000 |
|-------------------|-------------------|------------------------|-------------------|
| 1,086             | 1,055             | Government Departments | 2,670             |
| 157               | 1,167             | Local Authorities      | 1,578             |
| 2,443             | 1,258             | Sundry Creditors       | 900               |
| 517               | 853               | Receipts in Advance    | 623               |
| <b>4,203</b>      | <b>4,333</b>      | <b>Total</b>           | <b>5,771</b>      |

## 30 Creditors - Long Term

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

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |  | 31 Mar 12<br>£000 |
|-------------------|-------------------|--|-------------------|
| 584               | 366               | Government Grants & Other Contributions to Capital Unapplied | 696               |
| <b>584</b>        | <b>366</b>        | <b>Total</b>   | <b>696</b>        |

## 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.

The Council has no provisions.

## 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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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<br>£000 |   | 2011/12<br>£000 |
|-----------------|---|-----------------|
|                 | <b>Comprehensive Income and Expenditure Statement</b>   |                 |
|                 | <i>Cost of Services:</i>  |                 |
| 1,465           | • current service cost  | 1,352           |
| (7,399)         | • past service costs  | 0               |
| 118             | • settlements and curtailments  | 0               |
|                 | <i>Financing and Investment Income and Expenditure</i>  |                 |
| 4,106           | • interest cost   | 3,467           |
| (3,266)         | • expected return on assets in the scheme   | (3,433)         |
| <b>(4,976)</b>  | <b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>   | <b>1,386</b>    |
|                 | <b>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure</b>  |                 |
| (14,660)        | • actuarial gains and losses  | 6,118           |
| <b>(19,636)</b> | <b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>  | <b>7,504</b>    |
|                 | <b>Movement in Reserves Statement</b>   |                 |
| 19,636          | • reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (7,504)         |
| 1,446           | • employer's contributions payable to the scheme  | 1,317           |
| <b>1,446</b>    | <b>Actual amount charged against the General Fund Balance for pensions in the year:</b>   | <b>1,317</b>    |

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 £13,071k.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Assets and Liabilities in relation to Post-employment Benefits

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

| 31 Mar 11<br>£000 |                                      | 31 Mar 12<br>£000 |
|-------------------|--------------------------------------|-------------------|
| 80,887            | Opening balance at 1 April           | 63,961            |
| 1,465             | Current service costs                | 1,352             |
| 4,106             | Interest cost                        | 3,467             |
| 472               | Contributions by scheme participants | 461               |
| (12,623)          | Actuarial gains and losses           | 3,726             |
| (3,065)           | Benefits paid                        | (3,674)           |
| (7,399)           | Past service costs                   | 0                 |
| 118               | Curtailments                         | 0                 |
| <b>63,961</b>     | <b>Closing Balance at 31 March</b>   | <b>69,293</b>     |

Reconciliation of fair value of the scheme assets:

| 31 Mar 11<br>£000 |                                      | 31 Mar 12<br>£000 |
|-------------------|--------------------------------------|-------------------|
| 47,276            | Opening balance at 1 April           | 51,432            |
| 3,266             | Expected rate of return              | 3,433             |
| 2,037             | Actuarial gains and losses           | (2,392)           |
| 1,446             | Employer Contributions               | 1,317             |
| 472               | Contributions by scheme participants | 461               |
| (3,065)           | Benefits paid                        | (3,674)           |
| <b>51,432</b>     | <b>Closing Balance at 31 March</b>   | <b>50,577</b>     |

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 £1.048 million (2010/11 £4.135 million).



# NOTES TO THE CORE FINANCIAL STATEMENTS

## Scheme History

| 31 Mar 08<br>£000 | 31 Mar 09<br>£000 | 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |   | 31 Mar 12<br>£000 |
|-------------------|-------------------|-------------------|-------------------|---|-------------------|
| (52,804)          | (51,390)          | (80,887)          | (63,961)          | Present value of liabilities in the Local Government Pension Scheme | (69,293)          |
| 48,314            | 37,011            | 47,276            | 51,432            | Fair value of assets in the Local Government Pension Scheme         | 50,577            |
| <b>(4,490)</b>    | <b>(14,379)</b>   | <b>(33,611)</b>   | <b>(12,529)</b>   | <b>Surplus / (deficit) in the scheme</b>                            | <b>(18,716)</b>   |

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £18.716 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 £1,314,000.

### 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The principal assumptions used by the actuary were:

| 2010/11 |  | 2011/12 |
|---------|--|---------|
| 2.8%    | Rate of inflation/Pension Increase Rate                              | 2.5%    |
| 5.1%    | Rate of increase in salaries   | 4.8%    |
| 6.8%    | Expected Return on Assets  | 5.5%    |
| 5.5%    | Rate for discounting scheme liabilities                              | 4.8%    |
| 50%     | Take-up of option to convert annual pension into retirement lump sum | 50%     |
|         | <b>Mortality Assumptions</b>   |         |
|         | 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    |
|         | <b>Long-term expected rate of return on assets</b>                   |         |
| 7.5%    | Equity investments   | 6.2%    |
| 4.9%    | Bonds  | 4.0%    |
| 5.5%    | Property   | 4.4%    |
| 4.6%    | Cash   | 3.5%    |

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

| 31 Mar 11<br>% |              | 31 Mar 12<br>% |
|----------------|--------------|----------------|
| 73.0           | Investments  | 69.0           |
| 19.0           | Bonds        | 18.0           |
| 4.0            | Property     | 6.0            |
| 4.0            | Other Assets | 7.0            |
| <b>100.0</b>   |              | <b>100.0</b>   |

### 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:

| 31 Mar 08<br>% | 31 Mar 09<br>% | 31 Mar 10<br>% | 31 Mar 11<br>% |  | 31 Mar 12<br>% |
|----------------|----------------|----------------|----------------|--|----------------|
| (13.6)         | (40.5)         | 20.0           | 1.69           | Difference between the expected and actual returns on assets | 4.72           |
| 3.0            | 8.8            | (33.5)         | 19.7           | Experience gains and losses on liabilities                   | (5.4)          |

## 33 Contingent Assets And Liabilities

### VAT Shelter Agreement

The Council used a VAT structure scheme when its housing stock was transferred to Thrive Homes Limited (THL). The scheme involves the Council contracting with THL for them to deliver works on which they can recover VAT. Both THL and the Council gain by this arrangement.

The recovery of VAT on major works will amount to an estimated £12.3m, of which the first £2.3m will be paid to the Council. The Council will then receive 50% of the remaining £10m. The disbursement of this sum is dependent on the THL work programme. During 2011/12, £0.263m was received leaving a contingent asset of approximately £4.1m receivable in future years (£0.719m was received in 2010/11).

### William Penn Leisure Centre

The Council is seeking recompense in respect of costs it has incurred as a result of a delay in completing the refurbishment of the William Penn Leisure Centre and the quality of its contractors' work, but is facing a counter claim.

### Municipal Mutual Insurance

Under Three Rivers District 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 31 March 2012 the maximum potential repayment stood at £205,432. 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 Three Rivers District 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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 34 Usable Reserves

### a) Movement in Reserves

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

| Balance at<br>31 Mar 10<br>£000 | Net Move-<br>ment<br>in Year<br>£000 | Balance at<br>31 Mar 11<br>£000 | Reserve                  | Net Move-<br>ment<br>in Year<br>£000 | Balance at<br>31 Mar 12<br>£000 | Detail<br>Note |
|---------------------------------|--------------------------------------|---------------------------------|--------------------------|--------------------------------------|---------------------------------|----------------|
| 8,232                           | (299)                                | 7,933                           | General Fund Balance     | 231                                  | 8,164                           | 34d            |
| 17,486                          | (3,129)                              | 14,357                          | Usable Capital Receipts  | (1,992)                              | 12,365                          | 34b            |
| 15                              | 0                                    | 15                              | Capital Grants Unapplied | (15)                                 | 0                               | 34c            |
| 4,324                           | (250)                                | 4,074                           | Earmarked Reserves       | 461                                  | 4,535                           | 34c            |
| <b>30,057</b>                   | <b>(3,678)</b>                       | <b>26,379</b>                   | <b>TOTAL NET WORTH</b>   | <b>(1,315)</b>                       | <b>25,064</b>                   |                |

### b) Usable Capital Receipts

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 held to fund future years' expenditure in the approved Capital Budget.

| 2010/11<br>£000 |  | 2011/12<br>£000 | £000          |
|-----------------|--|-----------------|---------------|
| 17,486          | Balance brought forward at 1 April   |                 | 14,357        |
|                 | Received in year   |                 |               |
| 477             | Sale of Land & Buildings   | 1,400           |               |
| 12              | SOCH Mortgages   | 14              |               |
| 155             | Shares in preserved Right to Buy   | 382             |               |
| 15              | Right to Buy discount repaid   | 21              |               |
| 719             | VAT Shelter compensation   | 263             |               |
| 62              | Other Receipts   | 63              |               |
| 1,440           | Applied in year  |                 | 2,143         |
| (4,545)         | Transferred to Capital Adjustment Account to finance new capital expenditure | (4,132)         |               |
| (24)            | Paid to DCLG Pool  | (3)             |               |
| (4,569)         |  |                 | (4,135)       |
| <b>14,357</b>   | <b>Balance carried forward at 31 March</b>                                   |                 | <b>12,365</b> |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## c) Capital Grants Unapplied & Earmarked Reserves

Capital Grants Unapplied are contributions from Government Departments or other third parties, where the conditions of the contribution have been met, but the contribution has not been applied to fund expenditure.

Earmarked Reserves have been set aside for specific purposes. Each year the Council confirms the reason/purpose for holding these reserves and determines how and when they will be used.

| Balance at 31 Mar 11<br>£000 |  | Appropriations to Reserve<br>£000 | Appropriations from Reserve<br>£000 | Balance at 31 Mar 12<br>£000 |
|------------------------------|--|-----------------------------------|-------------------------------------|------------------------------|
| 15                           | Unapplied Grants and Contributions     | 0                                 | (15)                                | 0                            |
| 15                           | Total Grants and Contributions         | 0                                 | (15)                                | 0                            |
|                              | Earmarked Reserves                     |                                   |                                     |                              |
| 374                          | Section 106 Agreements & Commuted Sums | 425                               | 0                                   | 799                          |
| 2,456                        | Future Capital Expenditure             | 0                                 | (7)                                 | 2,449                        |
| 0                            | New Homes Bonus                        | 96                                | 0                                   | 96                           |
| 1,152                        | Leavesden Hospital Open Space          | 12                                | (65)                                | 1,099                        |
| 92                           | Environmental Maintenance Plant        | 0                                 | 0                                   | 92                           |
| 4,074                        | Total Revenue Reserves                 | 533                               | (72)                                | 4,535                        |
| <b>4,089</b>                 | <b>Total 31 March</b>                  | <b>533</b>                        | <b>(87)</b>                         | <b>4,535</b>                 |

## d) General Fund

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

| 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 8,232           | Balance brought forward at 1 April                             | 7,933           |
| (311)           | Net increase / decrease before transfers to earmarked reserves | 684             |
| 12              | Transfer to/from earmarked reserves                            | (453)           |
| <b>7,933</b>    | <b>Balance carried forward at 31 March</b>                     | <b>8,164</b>    |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 35 Unusable Reserves

### a) Movement in Reserves

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

| Restated<br>Balance<br>at<br>1 April 10<br>£000 | Net<br>Move-<br>ment<br>in Year<br>£000 | Restated<br>Balance<br>at<br>31 Mar 11<br>£000 | Reserve                         | Net<br>Move-<br>ment<br>in Year<br>£000 | Balance<br>at<br>31 Mar 12<br>£000 | Further<br>Detail<br>Note |
|---|---|--|---------------------------------|---|------------------------------------|---------------------------|
| 37,598  | (106)                                   | 37,492   | Capital Adjustment Account      | (3,052)                                 | 34,440                             | 35b                       |
| 1,806   | 843                                     | 2,649  | Deferred Capital Receipts       | 2,156                                   | 4,805                              | 35c                       |
| (48)  | (2)                                     | (50)   | Collection Fund Adjustment Acct | 52                                      | 2                                  | 35d                       |
| 11,715  | 1,988                                   | 13,703   | Revaluation Reserve             | 648                                     | 14,351                             | 35e                       |
| (94)  | (59)                                    | (153)  | Accumulated Absences Reserve    | 41                                      | (112)                              | 35f                       |
| (33,611)  | 21,082                                  | (12,529)                                       | Pensions Reserve                | (6,187)                                 | (18,716)                           | 32                        |
| <b>17,366</b>                                   | <b>23,746</b>                           | <b>41,112</b>                                  | <b>TOTAL NET WORTH</b>          | <b>(6,342)</b>                          | <b>34,770</b>                      |                           |

### b) 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<br>£000 | 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|-----------------|--|-----------------|
| 37,377          | 37,598          | Balance brought forward at 1 April                                   | 37,492          |
| (1,459)         | (1,247)         | Historical cost of acquiring, creating or enhancing Long Term Assets | (1,250)         |
| (3,418)         | (2,882)         | Depreciation and impairment losses                                   | (5,072)         |
| (4,877)         | (4,129)         | Revaluation and Disposal of Assets                                   | (6,322)         |
| 5,746           | 4,545           | Resources set aside to finance capital expenditure                   | 4,132           |
| 426             | 238             | Capital Receipts   | 0               |
| 0               | 0               | Reserves Applied   | 0               |
| 855             | 990             | Voluntary revenue contribution for capital financing                 | 311             |
| 7,027           | 5,773           | Grants Applied   | 4,443           |
| (1,219)         | (1,604)         | Revenue Expenditure Funded from Capital under Statute                | (1,069)         |
| (710)           | (146)           | Intangible Assets  | (104)           |
| <b>37,598</b>   | <b>37,492</b>   | <b>Balance carried forward at 31 March</b>                           | <b>34,440</b>   |

## NOTES TO THE CORE FINANCIAL STATEMENTS

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.

### c) Deferred Capital Receipts

Deferred Capital Receipts are amounts representing either the value of Assets held for immediate sale in Current Assets, or capital receipts from the sale of assets that will be repaid to the Council by instalments over an agreed number of years, shown as Long Term Debtors. The debtors have arisen from mortgage advances to Housing Associations and under Right To Buy, equity interest in the rent to mortgage scheme and Finance leases where the council is the Lessor. See Notes 20b and 24 for details.

| 2009/10<br>£000 | 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|-----------------|--|-----------------|
| 152             | 1,806           | Balance brought forward at 1 April         | 2,649           |
| 1,654           | 843             | Future deferred capital receipts           | 2,156           |
| <b>1,806</b>    | <b>2,649</b>    | <b>Balance carried forward at 31 March</b> | <b>4,805</b>    |

### 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 to or from the General Fund to the Collection Fund.

| 2009/10<br>£000 | 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|-----------------|--|-----------------|
| (63)            | (48)            | Balance brought forward at 1 April   | (50)            |
| 15              | (2)             | 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 | 52              |
| <b>(48)</b>     | <b>(50)</b>     | <b>Balance carried forward at 31 March</b>   | <b>2</b>        |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## e) 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<br>2009/10<br>£000 | Restated<br>2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------------------|-----------------------------|--|-----------------|
| 6,351                       | 11,715                      | Balance brought forward at 1 April                                       | 13,703          |
| 5,166                       | 2,268                       | Gains / (Losses) on revaluation and reclassification of Long Term Assets | 942             |
| (3)                         | (280)                       | Historical Cost depreciation adjustment                                  | (294)           |
| 0                           | 0                           | Write-out of balances on assets disposed                                 | 0               |
| 201                         | 0                           | Heritage Asset Revaluations  | 0               |
| <b>11,715</b>               | <b>13,703</b>               | <b>Balance carried forward at 31 March</b>                               | <b>14,351</b>   |

## f) 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<br>£000 | 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|-----------------|--|-----------------|
| (92)            | (94)            | Balance brought forward at 1 April         | (153)           |
| (2)             | (59)            | Employee costs accrued                     | 41              |
| <b>(94)</b>     | <b>(153)</b>    | <b>Balance carried forward at 31 March</b> | <b>(112)</b>    |



# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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 11<br>£000 |  | 31 Mar 12<br>£000 |
|-------------------|--|-------------------|
| (366)             | Long Term Liabilities<br>Government Grants & Other Contributions Unapplied | (696)             |
| (4,333)           | Current Liabilities<br>Short Term Creditors                                | (5,771)           |
| 2,649             | Long Term Assets<br>Long Term Debtors                                      | 2,585             |
| 5,601             | Current Assets<br>Short Term Debtors                                       | 5,231             |
| 26,067            | Short Term Investments   | 26,949            |
| <b>29,618</b>     | <b>Total</b>   | <b>28,298</b>     |

### 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.

### 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.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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 Council on 22 February 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £7m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £5m. 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.

## NOTES TO THE CORE FINANCIAL STATEMENTS

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 Council on 22 February 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 £0.254 million of the £3.073 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

| 31 Mar 10<br>£000 | 31 Mar 11<br>£000 |  | 31 Mar 12<br>£000 |
|-------------------|-------------------|--|-------------------|
| 138               | 103               | Less than 3 months                     | 27                |
| 38                | 32                | More than 6 months, less than 1 year   | 18                |
| 222               | 21                | More than 3 months, less than 6 months | 42                |
| 143               | 336               | More than 1 year                       | 167               |
| <b>541</b>        | <b>492</b>        | <b>Total</b>                           | <b>254</b>        |
|                   |                   |  |                   |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 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<br>£000 | 31 Mar 11<br>£000 |                  | 31 Mar 12<br>£000 |
|-------------------|-------------------|------------------|-------------------|
| 28,726            | 26,067            | Less than 1 year | 26,949            |
| <b>28,726</b>     | <b>26,067</b>     | <b>Total</b>     | <b>26,949</b>     |
|                   |                   |                  |                   |

## 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:

| 2010/11<br>£000 |  | 2011/12<br>£000 |
|-----------------|--|-----------------|
| 311             | Increase in interest receivable on investments with consequential change in Income and Expenditure Account | 265             |

## NOTES TO THE CORE FINANCIAL STATEMENTS

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

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.

| 2010/11<br>£000 |   | Note | 2011/12<br>£000      £000 |               |
|-----------------|---|------|---------------------------|---------------|
|                 | <b>Income</b>   |      |                           |               |
| 50,972          | Council Tax Payers                                      | CF1  | 51,536                    |               |
| 5,157           | Transfers from the General Fund - Council Tax Benefit   | CF1  | 5,095                     |               |
| 23,351          | Business Rate Payers                                    | CF2  | 25,580                    |               |
| 305             | Contributions towards previous year's deficit           |      | 309                       |               |
| <b>79,785</b>   | <b>Total Income</b>                                     |      |                           | <b>82,520</b> |
|                 | <b>Expenditure</b>                                      |      |                           |               |
| 56,180          | Precepts and Demands                                    | CF3  | 56,230                    |               |
|                 | Business Rates  |      |                           |               |
| 23,253          | Payments to National Pool                               | CF2  | 25,484                    |               |
| 98              | Cost of Collection                                      |      | 96                        |               |
|                 | Bad and Doubtful Debts                                  |      |                           |               |
| 7               | Write-offs  |      | 302                       |               |
| 262             | Increase in Provision                                   |      | 12                        |               |
| <b>79,800</b>   | <b>Total Expenditure</b>                                |      |                           | <b>82,124</b> |
| <b>15</b>       | <b>(Increase) / Decrease in Collection Fund Balance</b> |      |                           | <b>(396)</b>  |
| 364             | Fund Balance - (Surplus) / Deficit at 1 April           |      |                           | 379           |
| <b>379</b>      | <b>Fund Balance - (Surplus) / Deficit at 31 March</b>   | CF4  |                           | <b>(17)</b>   |

# NOTES TO THE COLLECTION FUND

## CF1 Council Tax Payers

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

| Valuation Band  | Total Number of Dwellings in Band | Discounts, Exemptions & Disabled Reliefs | Total Chargeable Dwellings | Conversion Fraction (Proportion) | Equivalent Number of Band D Dwellings |
|---|-----------------------------------|--|----------------------------|----------------------------------|---------------------------------------|
| A (Disabled Relief)   | -                                 | 1.00                                     | 1.00                       | 5/9                              | 0.56                                  |
| A   | 784                               | (168.65)                                 | 615.35                     | 6/9                              | 410.23                                |
| B   | 2,042                             | (428.70)                                 | 1,613.30                   | 7/9                              | 1,254.79                              |
| C   | 6,240                             | (852.40)                                 | 5,387.60                   | 8/9                              | 4,788.98                              |
| D   | 9,628                             | (1,035.90)                               | 8,592.10                   | 9/9                              | 8,592.10                              |
| E   | 7,225                             | (603.60)                                 | 6,621.40                   | 11/9                             | 8,092.82                              |
| F   | 3,914                             | (340.55)                                 | 3,573.45                   | 13/9                             | 5,161.65                              |
| G   | 4,908                             | (348.80)                                 | 4,559.20                   | 15/9                             | 7,598.67                              |
| H   | 1,383                             | (73.60)                                  | 1,309.40                   | 18/9                             | 2,618.80                              |
|   | <b>36,124</b>                     | <b>(3,851.20)</b>                        | <b>32,272.80</b>           |                                  | <b>38,518.60</b>                      |
| Less: Allowance for losses on collection  |                                   |  |                            |                                  | (192.59)                              |
| Add: Contributions in lieu of tax   |                                   |  |                            |                                  | 215.00                                |
| Tax Base for Calculation of Council Tax   |                                   |  |                            |                                  | 38,541.01                             |
| Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons' relief and empty properties |                                   |  |                            |                                  | 274.41                                |
| <b>Council Tax Base for the Year</b>  |                                   |  |                            |                                  | <b>38,815.42</b>                      |

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 £1,458.97 for 2011/12.

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<br>£000 |                                       | 2011/12<br>£000 |
|-----------------|---------------------------------------|-----------------|
| 56,129          | Gross Council Tax Charge              | 56,631          |
| (5,157)         | Less: Council Tax Benefits            | (5,095)         |
| <b>50,972</b>   | <b>Income from Council Tax Payers</b> | <b>51,536</b>   |

# NOTES TO THE COLLECTION FUND

## 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     |  | 2011/12     |
|-------------|--|-------------|
| £69,115,620 | Total Non-domestic Rateable Value at 31 March          | £68,220,290 |
| 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<br>£000 |   | 2011/12<br>£000 |
|-----------------|---|-----------------|
| 43,069          | Precepts:<br>Hertfordshire County Council | 43,121          |
| 5,690           | Hertfordshire Police Authority            | 5,697           |
| 7,421           | Demand:<br>Three Rivers District Council  | 7,412           |
| <b>56,180</b>   | <b>Total</b>                              | <b>56,230</b>   |



## NOTES TO THE COLLECTION FUND

### 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:

| 2010/11<br>Total<br>£000 |                              | Herts<br>County<br>Council<br>£000 | Herts<br>Police<br>Authority<br>£000 | Three<br>Rivers<br>DC<br>£000 | 2011/12<br>Total<br>£000 |
|--------------------------|------------------------------|------------------------------------|--------------------------------------|-------------------------------|--------------------------|
| 3,004                    | Gross Arrears                | 2,277                              | 301                                  | 391                           | 2,969                    |
| (760)                    | Less: Prepayments            | (755)                              | (100)                                | (130)                         | (985)                    |
| 2,244                    | Net Arrears                  | 1,522                              | 201                                  | 261                           | 1,984                    |
| 1,107                    | Provision for Doubtful Debts | 858                                | 113                                  | 148                           | 1,119                    |
| 379                      | Collection Fund Balance      | (13)                               | (2)                                  | (2)                           | (17)                     |

Surpluses / Deficits on the Collection Fund are distributed / recovered 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.

## **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.

# GLOSSARY OF TERMS AND ABBREVIATIONS

## **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 Long Term Asset.

## **Earmarked Reserves**

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

## **Finance Lease**

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

## **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.

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

## **Heritage Assets**

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

## **IFRS**

International Financial Reporting Standards.

## **Investments**

Deposits for less than one year with approved institutions.

## **Infrastructure Assets**

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

## **Long Term Assets – Tangible**

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

## **Long Term Assets – Intangible**

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

## **Long Term Debtors**

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

# GLOSSARY OF TERMS AND ABBREVIATIONS

## **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 rates. 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.

## **Pooling Of Housing Capital Receipts**

Pooling is the term given to the requirement to pay to the Government a proportion of certain types of capital receipt. From 1st April 2004 Right To Buy receipts are subject to a payment into a government pool at the rate of 75%. Costs associated with improvement to the property expended over the past three years are deductible from the cash receipt before the pooling percentage is applied.

## **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 SORP'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 AUDITORS' REPORT AND CERTIFICATE

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THREE RIVERS DISTRICT COUNCIL

### Opinion on the Authority financial statements

We have audited the financial statements of Three Rivers District 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 Three Rivers District 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 Director of Corporate Resources and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Resources and Governance 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 Three Rivers District 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.

# INDEPENDENT AUDITORS' REPORT AND CERTIFICATE

## **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, Three Rivers District 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 Three Rivers District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

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

Grant Thornton House  
Melton Street  
London  
NW1 2EP

Date: 27 September 2012

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