



# STATEMENT OF ACCOUNTS

2004/2005

# THREE RIVERS DISTRICT COUNCIL

## STATEMENT OF ACCOUNTS 2004/2005

### EXPLANATORY FOREWORD

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The Council's Statement of Accounts contains the following:

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## Purpose of the Statement of Accounts

The purpose of the Statement of Accounts is to give interested parties an understanding of the Council's financial position. It also provides an opportunity to compare how the Council performed financially against its original plan published when setting the budgets in February 2004.

## Revenue Activities in 2004/05

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

Consolidated Revenue Account	2004/2005	2004/ 2005	2004/2005	2004/ 2005	2004/ 2005
	Original	Original	Actual	Actual	Variance
	Estimate	Estimate	Out-turn	Out-turn	
	Gross	Net	Gross	Net	Net
	£	£	£	£	£
Highways & Transportation	2,496,700	2,132,480	2,331,368	2,033,706	(98,774)
Planning & Development	2,032,610	1,360,500	2,467,872	1,376,067	15,567
Leisure	3,493,980	2,067,680	3,371,686	2,054,893	(12,787)
Waste Collection & Disposal	3,809,300	3,228,700	3,225,227	2,575,597	(653,103)
Environmental Health	1,252,050	959,650	1,203,914	871,078	(88,572)
Other Environmental Services	117,160	72,380	119,451	87,318	14,938
Housing: Housing Revenue Account	16,089,740	90,290	30,420,267	13,710,219	13,619,929
Housing: Other Services	1,247,750	821,120	1,192,824	793,698	(27,422)
Corporate and Democratic Core	1,797,700	1,791,700	1,662,331	1,662,118	(129,582)
Local Tax Collection	879,980	667,970	876,848	612,149	(55,821)
Housing Benefits	15,396,170	405,680	16,520,882	172,587	(233,093)
Central Support Services	84,540	3,910	96,492	0	(3,910)
Other Services	1,595,930	1,165,360	1,371,443	974,518	(190,842)
Non Distributed Costs	0	0	0	0	0
Cost of Services	50,293,610	14,767,420	64,860,605	26,923,948	12,156,528
Adjustment for Capital Charges	(3,412,350)	(3,412,350)	(17,770,082)	(17,770,082)	(14,357,732)
Adjustment for Pensions	(254,350)	(254,350)	44,636	44,636	298,986
Net Interest	300,000	(575,000)	2,846	(1,321,578)	(746,578)
Revenue Contribution To Capital	750,000	750,000	1,485,629	1,485,629	735,629
Net Transfer from House Purchase	0	0	0	(33,350)	(33,350)
Net Transfer from HRA	0	(90,290)	627,523	627,523	717,813
Net Transfers to Reserves	0	0	0	(220,261)	(220,261)
Deficit(-)/Surplus for Year	0	(907,895)	541,070	541,070	1,448,965
Three Rivers DC Budget	47,676,910	10,277,535	49,792,227	10,277,535	0
Parish Councils' Net Budget	866,202	866,202	866,202	866,202	0
Total Budget Requirement	48,543,112	11,143,737	50,658,429	11,143,737	0
Collection Fund Adjustment		62,120		62,120	0
Government Grants		(4,765,470)		(4,765,470)	0
Total Charge to Taxpayers		6,440,387		6,440,387	0

These transactions represent the day to day income and expenditure of the Council. The council budgeted for a deficit of £907,895, to be met from balances, having made a contribution to capital expenditure of £750,000. The out-turn resulted in a surplus of £541,070, a difference of £1,448,965 or 3.0% of gross budgeted expenditure.

Within the Consolidated Revenue Account is a 'ringfenced' Housing Revenue Account (HRA) reflecting the activities of the Council as landlord. The HRA balance at 31 March 2005 was £2.222m. This was £1.367m more than anticipated when setting the original budget, mainly attributable to the following:

- The out-turn for 2003/04 resulted in a £0.648m higher balance brought forward
- Housing Subsidy income was greater than anticipated because the final grant claim for 2003/04 resulted in £0.216m additional grant.
- An increase of £0.106m in interest received from General Fund (see below)

- A reduction of £0.220m in the bad debt provision as a result of revised methodology in the calculation (see note 9 to the HRA on page 31)

There are two elements of the consolidated revenue account that make comparisons with the original budget difficult:

- The housing revenue account figures are consolidated in these accounts. The cost of capital for the housing revenue account is shown as part of the gross cost of housing services and, since these charges do not affect the rents paid by tenants, there is a compensating negative adjustment for capital charges. This makes the housing accounts consistent with the accounts for other services.
- The original budget for employer's pension contributions was prepared on the basis of the information supplied by the Fund Actuaries in June 2003. The final accounts take account of changes in the valuation method (see note 16 to the Statement of Accounting Policies on page 3) and changes in the proportion of payments to be charged to the Cost of Services as a result of the new Actuarial Valuation produced in May 2005. (see note 19 to the Consolidated Balance Sheet on page 20).

In the table below, these two variances have been analysed separately from what has been termed the significant 'direct variances'.

	Direct Variance Consolidation		FRS17	Total
	£	£	Pensions £	Variance £
Waste Collection & Disposal	(653,103)	0	0	(653,103)
Housing Revenue Account	(717,813)	14,341,547	(3,805)	13,619,929
Corporate & Democratic Core	(129,582)	0	0	(129,582)
Housing Benefits	(233,093)	0	0	(233,093)
Staff Vacancies	(120,000)	0	0	(120,000)
Other Services	(32,442)	0	(295,181)	(327,623)
Cost of Services	(1,886,033)	14,341,547	(298,986)	12,156,528
Adjustment for Capital Charges	60,775	(14,418,507)	0	(14,357,732)
Adjustment for Pensions	0	0	298,986	298,986
Net Interest	(324,976)	(421,602)	0	(746,578)
Revenue Contribution To Capital	237,067	498,562	0	735,629
Net Transfer from House Purchase	(33,350)	0	0	(33,350)
Net Transfer from HRA	717,813	0	0	717,813
Net Transfer from Reserves	(220,261)	0	0	(220,261)
Total Variance	(1,448,965)	0	0	(1,448,965)

'Direct Variances' totalling £0.827m were identified and approved by the Council during the year as a part of its regular budget monitoring. Savings on employee costs arising from vacancies during the year are built into the original budget.

Costs on waste collection and recycling were less than the original budget because the phased introduction of door step green waste collection commenced later than anticipated. Additionally the Council made efficiency gains in labour and transport costs.

The Council reduced its corporate and democratic costs during the year, in part by streamlining the way in which it dealt with complaints.

Housing Benefit income was greater than anticipated because the 2003/04 final grant claim resulted in more grant from the government than expected.

The Council received more interest income than was originally estimated because it was holding higher balances than anticipated and as a result of the later phasing of capital expenditure. The

additional interest income benefited the housing revenue account too, contributing to the greater surplus achieved.

The Council receives contributions from leaseholders towards works carried out on properties occupied by both leaseholders and council tenants. A contribution of £237,067 was transferred to the reserve for Future Capital Expenditure. The contribution was used to fund Capital Investment during the year by a Transfer from Reserves to the General Fund and a Revenue Contribution to Capital.

The total variances increased the General Fund balance as follows:

General Fund Balance	Original Budget £	Actual Out-turn £	Variance £
Opening Balance 1 April 2004	3,800,145	4,291,026	490,881
Surplus/Deficit(-) for Year	(907,895)	541,070	1,448,965
Closing Balance 31 March 2005	2,892,250	4,832,096	1,939,846

The closing balance is £1.940m more than was anticipated when setting the original budget. This arose because, in addition to the variance that occurred in the year, the out-turn for 2003/2004 resulted in a greater balance brought forward of £0.491m than was predicted.

### Capital Activities in 2004/05

In addition to its day to day revenue expenditure, the Council funded capital expenditure of £9.2m in 2004/05 of which £1.2m related to works completed in 2003/04. The charts on page v below show the types of expenditure and how it was financed. Capital expenditure by service during 2004/05 is listed below:

	Original Budget £	Actual Out-turn £	Variance £
Improvements to the Council's Housing Stock	4,178,000	3,070,123	(1,107,877)
Private Sector Housing	376,000	328,312	(47,688)
Environment	447,650	776,031	328,381
Leisure	1,490,750	1,504,645	13,895
Public Services & Health (including Waste Collection)	682,650	743,066	60,416
Administrative and Operational Buildings Maintenance	319,140	991,891	672,751
Information & Communication Technology	427,270	544,101	116,831
Total	7,921,460	7,958,169	36,709

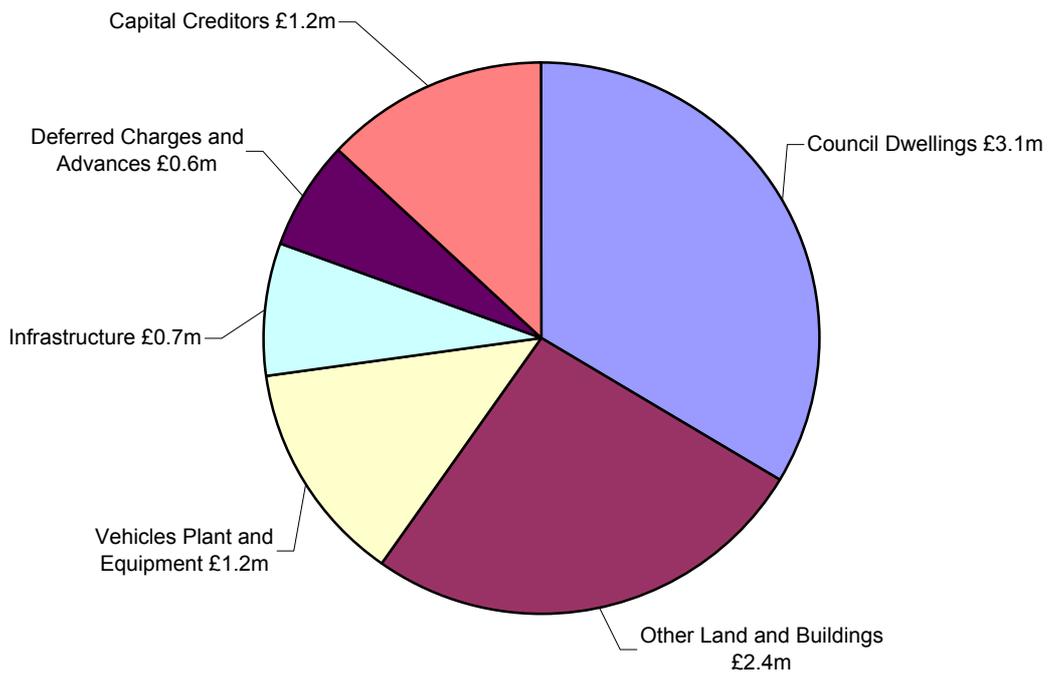
The highest capital spend was on the council's housing stock. The Council has embarked upon a pavilion replacement programme in order to enhance leisure facilities and improve access for the disabled. Further investment was made to achieve waste minimisation targets and the Council has continued to invest in information and communication technologies. A number of the council's services can now be accessed via its web-site.

It was originally planned to complete a capital programme of £7.921m in 2004/05. To this was added £4.768m 'slipped' from 2003/04. In the event additional expenditure of £273,899 was approved and schemes valued at £5.005m have been re-phased to be completed in 2006/07.

Measures have been taken by the Council to ensure that its re-phased programme is properly resourced, for example, external consultants have been employed to assist in completing work to the council's housing stock.

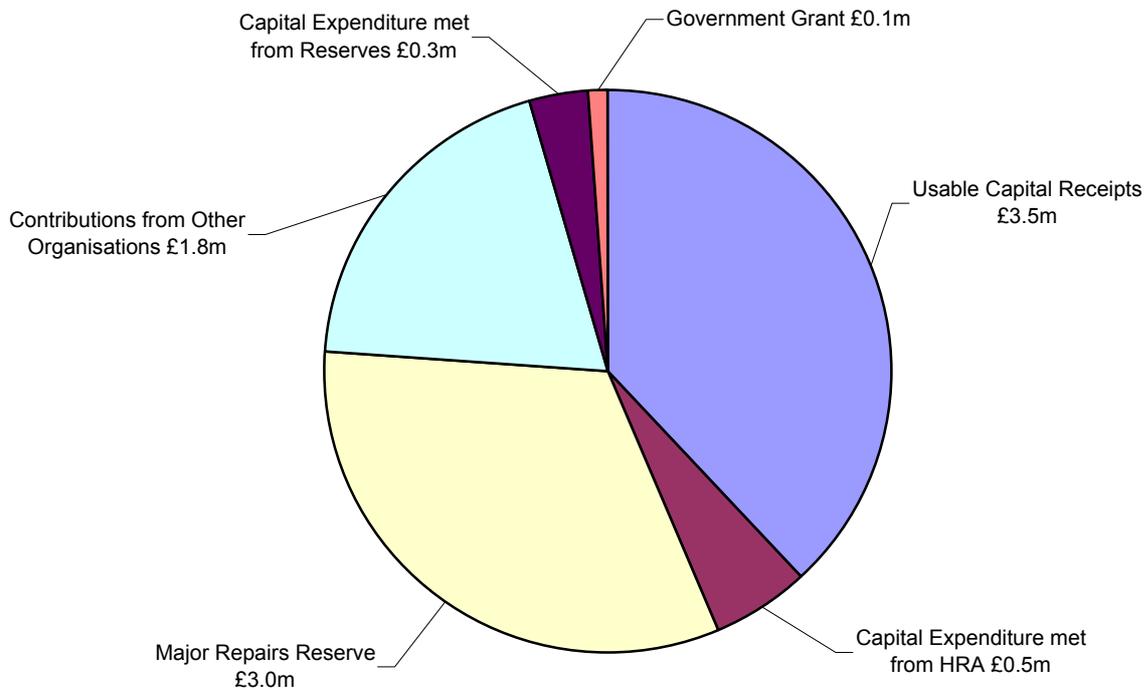
During the year the Council disposed of council houses under the Right to Buy legislation for £3.5m. Under the transitional arrangements for pooling capital receipts (see below) £0.6m of this was paid to the government after an allowance for administrative expenses.

## Capital Expenditure



	<b>£m</b>
Capital Expenditure	8.0
2003/04 Creditors	1.2
<b>Total</b>	<b>9.2</b>

## Capital Financing



<b>Capital Financing</b>	<b>9.2</b>
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## **Significant Matters in the Accounts**

There were no significant changes to accounting policies during 2004/05.

The Statement of Recommended Practice requires local authorities to prepare 'group accounts' where there are significant interests in other organisations. The Council has carried out a review and determined that no other organisations exist that would require group accounts to be prepared.

In Note 19 to the Consolidated Balance Sheet, the Council has disclosed its full liabilities to the Hertfordshire Pension Fund as required by Financial Reporting Standard 17 (FRS17). The full costs of pensions are shown in the revenue accounts, adjusted 'below the line' for the actual payments made to the fund. Contingent liabilities are detailed at Note 21 to the Consolidated Balance Sheet.

## **Future Financial Plans**

### ***Links to Other Plans***

The Council's aims and objectives are included within its *Strategic Plan*. This is based on the themes - healthy, sustainable, prosperous and safe communities - derived from the *Community Strategy* that has been developed with the Council's partners.

The Council has developed a *Medium-Term, Three Year Financial Plan* which is continually updated. In preparing budgets for this plan, work is carried out to allocate resources between the district themes and between service priorities within the *Strategic Plan*.

The Council publishes performance targets for its services in its *Best Value Performance Plan*.

### ***Revenue Expenditure and its Funding***

A major influence affecting the council's revenue income is the level of council tax increases and government grant. The Council has to balance its desire to improve services against the ability of its residents to foot the bill, and the risk that the Government might impose a cap on its budget. Government Grants contribute to 43% of the Council's budget requirement and are assumed to increase by 2.5% in each of the next two years. The Council's medium term financial plan, agreed in February 2004, predicts council tax increases of 2.9% in 2006/07 and 2007/08. This would enable the Council's revenue expenditure to increase by 8.3% in 2006/07 and 3.4% in 2007/08, whilst reducing reserves to £2.2m at 31 March 2008. Although this is considered to be a more than prudent balance, continued efficiency gains would be required to sustain this level of expenditure beyond the medium term.

The medium term financial plan has been derived from the changes anticipated in economic factors (e.g. inflation) and changes to service expenditure required to achieve the Council's Strategic Plan. The Council has plans to spend more on community safety, particularly by contributing to the costs of Police Community Support Officers, and on extending services for young people. In addition there are pressures on revenue expenditure from pension costs and concessionary fares.

With effect from April 2004 the Watersmeet Trust Limited took over the operation of Watersmeet, a leisure venue formerly run by the Council. The Trust ceased trading in January 2005. The Council is reviewing the provision of leisure services from Watersmeet.

For the HRA, the Council is introducing 'formula rents' under the Government's policy of 'restructured rents' over a ten year period commencing in April 2002. This is designed to align all public sector rents based on a formula using property values, county earnings and the number of bedrooms in each property.

For the financial year 2005/06 the HRA is budgeted to make a surplus of £91,170.

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

The Council agreed its capital investment programme in February 2005 amidst continuing uncertainty as to the funding that was likely to be available to it, and taking into account its view as to a prudent balance of funds to carry forward. The Council plans to spend £10.395m on capital schemes in respect of 2005/2006. Of this £5.584m relates to repairs to its housing stock.

The Council has been debt free for four years. Its major source of capital funding has been the capital receipts from the sale of council houses under Right to Buy. The decision was made to repay debt in order to maximise the benefit to the authority of the capital receipts. On becoming debt free, 100% of these receipts could formerly be used for capital investment. The Council has traditionally applied housing capital receipts not only to enhancing its housing stock but also to develop facilities in the wider community.

The Local Government Act 2003 introduced the national 'pooling' of such receipts from 1 April 2004. These arrangements will prevent the Council meeting its capital programme aspirations.

The Government published *Sustainable Communities: Building for the Future* in February 2003 following concern that nationally the Decent Homes Standard would not be achieved by 2010. This required every authority to complete an independent option appraisal for 'sign off' by the Government Office by July 2005. The Council employed consultants to assist in preparing an options appraisal.

The key requirement of the options appraisal process was that the Council's housing stock should meet the DHS target by 2010/11 and that the stock should be maintained at that level thereafter. The consultant's report stated that unless 78% of the anticipated unpooled capital receipts are applied to the housing stock both requirements cannot be met.

In determining its three year medium term financial plan, the Council again allocated resources to a balanced programme. Had it applied 78% of its unpooled capital receipts to its housing stock, the Council was faced with having only some £0.4m per annum from 2007/08 onwards to apply to its general fund programme which currently runs at approximately £4.5m per annum. Consequently, under the current budgetary assumptions, the Council felt unable to allocate to housing schemes the level of capital receipts required to maintain the DHS over the medium/long term.

On 23 May 2005 the Council resolved that its preferred option in regard to its housing stock was that consideration be given to a stock transfer to a Registered Social Landlord. Such a transfer would result in a net capital receipt in the region of £24m.

The consultants report considered the possibility of the Council borrowing to achieve its capital programme. The Local Government Act 2003 introduced, with effect from 1 April 2004, new borrowing powers enabling the Council, each year, to decide the amount it can afford to borrow.

The Council is required to have regard to the CIPFA '*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 has to take into account all sources of future income and the potential calls on the use of that income.

Whilst the Council finds itself in the position of wanting to borrow to fund its capital investment requirements to meet the shortfalls in capital funding that have been identified, the revenue consequences of servicing the debt are prohibitive. Interest payments cannot be supported from revenue without either excessive increases in Council Tax or, in the case of the ring-fenced HRA, reductions in revenue repairs or management costs, since increases in HRA rental income are restricted to the formula increase.

The Council has developed and adopted an integrated Treasury Management Strategy to work alongside the prudential code. This strategy covers the current treasury position, prospects for interest rates, the borrowing strategy and the investment strategy. The Council has set prudential indicators that are relevant for the purposes of setting the integrated treasury management strategy.

The Council has no fixed term borrowing and plans to remain debt-free throughout 2005/2006. As it is envisaged that no new borrowing will be made, the long-term borrowing limit has been set at nil.

More details of the Council's approach to capital investment can be found in its '*Capital Strategy and Asset Management Plan*'. The Council has also published a '*Guide to the Finances of Three Rivers District Council and the Medium Term Financial Plan 2005-2008*'. Both are available on the Council's website or in hard copy by request.

### **Summary of Financial Position**

Revenue balances at 31 March 2005 were healthy. The General Fund balance was £4.832m representing 43% of the 2004/05 budget requirement. The Housing Revenue Account balance was £2.222m representing £573 per property.

The Council held £14.994m at 31 March 2005 available for new capital expenditure.

The future financial prospects depend predominantly, but not exclusively, on the solution found to the investment required in the Council's housing stock. There continues to be pressures on revenue expenditure and the Council is fully engaged in identifying efficiency gains to avoid large council tax increases.

It is hoped that this Statement of Accounts demonstrates that the Council is making good use of public funds and providing value for money.

The Statement on Internal Control (page 37) shows the steps the Council is taking to further improve its financial management.

More information can be obtained by telephoning the Director of Corporate Resources on 01923 727200, by writing to him at Three Rivers District Council, Three Rivers House, Northway, Rickmansworth, WD3 1RL, or by e-mailing [david.gardner@threerivers.gov.uk](mailto:david.gardner@threerivers.gov.uk). The Council's website <http://www.threerivers.gov.uk> provides general information on the Council and also enables enquiries to be made.

*D.A. Gardner*  
*Director of Corporate Resources*  
*6 July 2005*

# STATEMENT OF ACCOUNTING POLICIES

## 1 General Principles

The accounts have been prepared in accordance with *The Accounts and Audit Regulations 2003* and *The Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice (SORP)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), except where departures are disclosed.

The accounts also comply with the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRS), as applicable to local authorities, except where a material departure from these standards is specified.

## 2 Fixed Assets

Expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. This excludes all expenditure on routine repairs and maintenance.

Fixed assets have been classified in groupings in accordance with the Code of Practice. Assets have been valued on the following basis:-

- Land and buildings, with the exception of Community Assets (eg parks), are valued by the Council's Valuer at Existing Use Value (EUV). Where this cannot be assessed because there is no market, the Depreciated Current Replacement Cost method and Net Realisable Value is assessed and the lower of the two values is used.
- Council dwellings are valued by the Council's Valuer on a five year rolling programme, on the basis of Existing Use Value – Social Housing net of depreciation.
- Infrastructure assets are included in the balance sheet at historical cost net of depreciation.
- Plant, vehicles and equipment are included in the balance sheet at current replacement cost net of depreciation.
- A nominal amount of £1 was included in the balance sheet at 1 April 1994 for Community Assets. Expenditure on the acquisition and enhancement of community assets incurred after 1 April 1994 has been included in the balance sheet at historical cost net of depreciation.

Surpluses on the revaluation of fixed assets have been credited to the Fixed Asset Restatement Account. All the Council's fixed assets will be inspected and revalued over a period of five years and thereafter at five-yearly intervals. Annual assessments of asset values are made to ascertain changes due to impairment.

## 3 Depreciation

Depreciation has been provided for all assets with a finite useful life on the basis set out in Note 1 to the Balance Sheet. Freehold land and investment properties are not depreciated.

From the financial year 2004/05 all new Plant, Furniture and Equipment acquisitions has been depreciated from the month of acquisition on a pro rata basis. Plant, Furniture and Equipment before this date are subject to depreciation from the year following acquisition.

## **4 Capital Charges**

### **Notional Interest and Depreciation**

All revenue accounts have been charged with a capital charge based on the value of all fixed assets used in the provision of services. The total charge comprises notional interest calculated by applying a specified rate of interest to the net value of the asset and an annual provision for depreciation where appropriate.

## **5 Capital Receipts**

From 2004/05 authorities in England have to pay a proportion of specified housing related capital receipts into a Government pool for redistribution. The remainder of capital receipts, received from the sale of assets such as land and council houses, can be used to finance capital expenditure.

## **6 Grants**

Revenue grants received by the Council are matched to the expenditure to which they relate. Capital grants are written off over the useful life of the asset to match the depreciation of the asset to which it relates.

## **7 Interest Payable and Receivable**

Interest payable on external borrowing and interest receivable on investments are recorded in the accounts on an accruals basis.

## **8 Leases**

The Council has only operating leases which are charged to the revenue account on a straight line basis.

## **9 Debtors and Creditors**

The accounts of the Council are shown on an accruals basis in accordance with the SORP. That is to say, actual expenditure and income incurred during the year is recorded in the accounts, rather than the cash sums paid or received.

## **10 Stores and Work in Progress**

Work in progress and bar stocks are valued in the Consolidated Balance Sheet at cost price. Other stores are valued at a sum equivalent to the last actual purchase price.

## **11 Allocation of Overheads over Services**

The Accounts of the Council comply with the Best Value Accounting Code of Practice which requires full apportionment of overheads to services. To comply with the Code of Practice the costs of the 'Corporate and Democratic Core' are protected from apportionment to services and are shown separately in the Consolidated Revenue Account.

## **12 Reserves and Provisions**

The Council has set up various reserves and provisions to meet likely future expenditure. Details of these are given at Notes 14 and 15 to the Consolidated Balance Sheet.

A provision for doubtful debts is held to cover general debtors, rate, rent and council tax arrears which might be irrecoverable.

## **13 Pensions**

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance pension liabilities with investment assets.

The Council recognises the cost of retirement benefits when they are earned by employees, rather than when the benefits are eventually paid as pensions. The pension costs that are charged to the Council's accounts in respect of its employees are equivalent to the accrued costs of meeting future retirement benefits paid to the funded pension scheme in respect of employees service in the period, together with increases in the present value of the scheme liabilities arising from decisions in the period on changes to retirement benefits. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

## **14 Internal Interest**

Interest is credited to the Housing Revenue Account based on the average balance on this account. The amount is calculated using the average investment interest rate.

## **15 Investments**

Investments are shown in the Consolidated Balance Sheet at cost.

## **16 Changes in Accounting Estimate**

In valuing the Council's Pension Fund liabilities, the actuary makes various assumptions about future financial experience – principally investment return, salary growth and inflation.

Following CIPFA guidelines in the previous year, the actuary used assumptions about future investment returns that were prescribed by the Government Actuary's Department. This was a fixed discount rate of 3.5% in excess of RPI. In 2004, this was 6.5%pa in nominal terms.

This year, all employers are required to use a discount rate equal to the yield available on long-dated, high quality corporate bonds (as measured by the yield on iBoxx Sterling Corporates Index, AA over 15 years), at the appropriate date. This is 5.4%pa in 2005.

The effect of this change is reflected in the Consolidated Balance Sheet valuation of the Pensions Deficit.

## CONSOLIDATED REVENUE ACCOUNT

2003/2004 Net Expenditure/ (Income) £	Note	2004/2005		Net Expenditure/ (Income) £
		Gross Expenditure £	(Income) £	
1,937,076	Highways and Transportation	2,331,368	(297,662)	2,033,706
1,217,944	Planning and Economic Development	2,467,872	(1,091,805)	1,376,067
1,834,011	Leisure	3,371,686	(1,316,793)	2,054,893
2,001,149	Waste Collection and Disposal	3,225,227	(649,630)	2,575,597
856,405	Environmental Health	1,203,914	(332,836)	871,078
97,306	Other Environmental Services	119,451	(32,133)	87,318
12,803,920	Housing Services	31,613,091	(17,109,174)	14,503,917
1,667,497	Corporate and Democratic Core	1,662,331	(213)	1,662,118
503,654	Local Taxation Collection	876,848	(264,699)	612,149
754,910	Housing Benefits	16,520,882	(16,348,295)	172,587
0	Central Support Services	96,492	(96,492)	0
777,056	Other Services	1,371,443	(396,925)	974,518
0	Non Distributed Costs	0	0	0
24,450,928	<b>NET COST OF SERVICES</b>	64,860,605	(37,936,657)	26,923,948
786,608	Parish Precepts			866,202
(910,079)	Interest Income			(1,324,424)
82,093	Amortised Premium			82,093
616,000	Pensions Adjustments	1		100,000
0	Housing Capital Receipts to Government Pool			635,922
(12,024,905)	Asset Management Revenue Account	2		(14,871,161)
13,000,645	<b>NET OPERATING EXPENDITURE</b>			12,412,580
(86,030)	Net transfer from Housing Revenue Account			627,523
0	Net transfer from House Purchase Account			(33,350)
(1,318,112)	Contributions to (from) Earmarked Reserves			360,480
(394,435)	Contributions from Provisions	3		0
(1,359,941)	General Revenue Account Appropriations	4		(2,218,503)
256,155	Capital Expenditure Charged to Revenue			815,194
(215,298)	Contributions from Third Parties			(1,361,257)
9,882,984	<b>AMOUNT TO BE MET FROM GOVERNMENT GRANT AND LOCAL TAXPAYERS</b>			10,602,667
(6,264,453)	Demanded from Collection Fund			(6,440,387)
26,998	Collection Fund Transfer of Deficit/(Surplus)	10		62,120
(2,194,608)	Revenue Support Grant			(2,517,402)
(2,892,627)	Contribution from Non-Domestic Rate Pool			(2,248,068)
(1,441,706)	<b>(SURPLUS)/DEFICIT FOR THE YEAR</b>			(541,070)
(2,849,320)	Balance at 1 April			(4,291,026)
(1,441,706)	(Surplus)/Deficit for Year			(541,070)
(4,291,026)	<b>BALANCE AT 31 MARCH</b>			(4,832,096)

# NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## 1. Pensions Adjustments and Costs

To meet the requirements of FRS17, additional disclosures are required in the Revenue Accounts, the Consolidated Balance Sheet (see Note 19) and the Statement of Total Movements in Reserves (see Note 1).

In 2004/2005 the amount payable to the Hertfordshire County Council Pension Fund that has been charged to the consolidated revenue account is £1,250,676, representing 16.8% of employees' pensionable pay. The contribution rate is determined by the Fund's Actuary based on triennial actuarial valuations, the last review being at 31 March 2004. Payments are made into the Fund monthly in arrears. The final payment of £104,406 which was made after the year end is not included in the Balance Sheet valuation of the Fund.

The Fund provides members with defined benefits related to pay and service. Under Pension Regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund, but contributions increases are being phased in over six years.

Current Service Costs of £1,206,040 are included in the Net Cost of Services, being the true economic cost of employing people in the financial year shown, earning years of service that will eventually entitle them to the receipt of a lump sum and pension when they retire.

The difference of £59,770 between the contributions paid to the pension scheme and the current service costs are taken from the Pensions Reserve (see Note 1 to the Statement of Total Movement in Reserves).

The changes do not affect the Amount to be met from Government Grant and Council Taxpayers, as they are reversed in contributions to and from reserves.

The Fund's Actuary has advised that the Council's expected return on employer assets and the interest due on pension scheme liabilities are as follows:

	2003/2004 £	2004/2005 £
Expected Return on Employer Assets	(1,949,000)	(2,329,000)
Interest on Pension Scheme Liabilities	2,565,000	2,429,000
	<u>616,000</u>	<u>100,000</u>

There have been no discretionary increases in pension payments (e.g. discretionary added years) awarded in either 2003/04 or 2004/05.

Further information can be found in Hertfordshire County Council Pension Fund's Annual Report which is available upon request from Hertfordshire County Council, Corporate Services, County Hall, Hertford SG13 8DQ.

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 2. Asset Management Revenue Account

	2003/2004 £	2004/2005 £
<b>Income</b>		
HRA Capital Charges	(10,866,450)	(13,209,360)
General Fund Capital Charges	(5,502,362)	(6,750,084)
Amortisation of Grants & Contributions Depreciation	<u>(303,853)</u>	<u>(745,577)</u>
	(16,672,665)	(20,705,021)
<b>Expenditure</b>		
Provision for Depreciation	4,633,842	5,831,014
External Interest Charges	<u>13,918</u>	<u>2,846</u>
	4,647,760	5,833,860
	<u><u>(12,024,905)</u></u>	<u><u>(14,871,161)</u></u>

The Asset Management Revenue Account reverses out the capital charges made to services under the capital accounting system and replaces them with depreciation (net of third party contributions deferred) and the real external interest charges paid by the Council. The balance on the Asset Management Revenue Account is transferred to General Revenue Account Appropriations (see note 4) after the net cost of services has been determined.

### 3. Contributions from Provisions

	2003/2004 £	2004/2005 £
Investment Losses	<u>(394,435)</u>	0
	<u><u>(394,435)</u></u>	<u><u>0</u></u>

The contribution from provisions for investment losses represents the release of the provisions for losses in Chancery plc and BCCI following distributions to Creditors (see note 7 to the Consolidated Balance Sheet).

### 4. General Revenue Account Appropriations

	2003/2004 £	2004/2005 £
Minimum Revenue Provision:		
Commutation Adjustment	(134,679)	(119,199)
Housing Capital Receipts to Government Pool	0	(635,922)
Provision for Depreciation	<u>(1,035,855)</u>	<u>(1,106,817)</u>
	(1,170,534)	(1,861,938)
Amortised Deferred Charges	(303,626)	(586,089)
Pensions Creditors	0	104,406
Amortised Government Grants Applied	<u>114,219</u>	<u>125,118</u>
	<u><u>(1,359,941)</u></u>	<u><u>(2,218,503)</u></u>

The General Revenue Account Appropriations, shown above, were established as part of the revised accounting policies introduced by the 1993 *Code of Practice on Local Authority Accounting*. The purpose of these entries together with the Asset Management Revenue Account (see Note 2) is to negate the effect of various accounting transactions required by the Code and, thereby, leave the amount required from local taxpayers unaffected by the accounting policies.

# NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## 5. Operating Leases

### As Lessees:

The authority leases one car park, at an annual rental of £4,500 and a car park, a swimming pool and Leisure Centre at peppercorn rents. All rentals have been accounted for as operating leases.

The Council uses leased vehicles and various office equipment financed under the terms of an operating lease. The amounts paid under these arrangements in 2004/2005 was £193,931.

### As Lessors:

The authority has granted commercial leases on land, shops and office buildings, for a total annual market rent of £719,261. It has also granted leases at a reduced rate to local organisations totalling £6,458 for which the market rent would have been approximately £17,115. All rentals have been accounted for as operating leases.

(See note 20 to the Consolidated Balance Sheet)

## 6. Publicity Expenditure

Set out below, under the requirements of Section 5(1) of the Local Government Act 1986, is the Council's spending on publicity:

	2003/2004	2004/2005
	£	£
Employee Costs	198,208	186,923
Recruitment Advertising	91,310	69,572
Council Newspaper	42,504	32,945
Other Advertising	89,059	102,936
	<u>421,081</u>	<u>392,376</u>

## 7. Officers' Emoluments and Members' Allowances

*The Accounts and Audit Regulations 2003* require local authorities to report the number of employees whose annual remunerations are above £50,000, grouped in rising bands of £10,000.

Remuneration Band £ 000's	Number of Employees 2003/04	Number of Employees 2004/05
50,000 to 59,999	0	1
60,000 to 69,999	3	2
70,000 to 79,999	1	0
80,000 to 89,999	0	1

The total of Members' allowances paid in 2004/2005 was £238,057 and in 2003/2004 was £181,864.

# NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## 8. Building Control Trading Account

*The Building (Local Authority Charges) Regulations 1998* require the disclosure of information regarding the setting of charges for the administration of the building control function. Certain activities provided by the building control section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control section divided between the chargeable and non-chargeable activities.

<b>Building Control Regulations Charging Account 2004/2005</b>	<b>Non</b>		<b>Total Building</b>
	<b>Chargeable</b>	<b>Chargeable</b>	<b>Control</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Expenditure			
Employees	164,628	152,691	317,319
Transport	11,365	10,676	22,041
Supplies and Services	17,116	16,079	33,195
Central, Departmental and Technical Support	136,178	122,311	258,489
<b>Total Expenditure</b>	<b>329,287</b>	<b>301,757</b>	<b>631,044</b>
Income			
Building Control Regulations	(359,476)	0	(359,476)
Miscellaneous Income	0	(192,360)	(192,360)
<b>Total Income</b>	<b>(359,476)</b>	<b>(192,360)</b>	<b>(551,836)</b>
<b>(Surplus)/Deficit for Year</b>	<b>(30,189)</b>	<b>109,397</b>	<b>79,208</b>

The cumulative surplus on the Building Control Trading Account is £116,771.

## 9. Related Party Transactions

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows 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.

# NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## 9. Related Party Transactions (cont'd)

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:

Officers:

During the year 2003/04, an interest free loan of £6,551 was made to the Chief Executive in respect of relocation costs, of which £3,548 remained outstanding at 31 March 2005 (£6,551 31 March 2004).

Members:

On 1 April 2004 a grant of £65,000 was paid to Watersmeet Trust Limited, who are responsible for a leisure venue formerly managed by the Council. At the time the grant was paid, Councillor John Pendlebury sat on the Trust's Board of Directors.

Councillor Chris Whately-Smith and his immediate family are members of Langleybury Cricket Club, which received a grant of £20,000 during the year 2004/05.

Councillor David Major made a contribution of £3,298 towards the cost of double glazing on his leasehold flat.

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, 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.

## 10. Collection Fund Transfer of Deficit

The Council transferred £62,120 from its General Fund to the Collection Fund in 2004/05 in respect of its share of a Collection Fund deficit at 31 March 2004 estimated on 15 January 2004.

## 11. Audit Costs

The following fees relating to external audit and inspection were incurred in 2004/05

	£
Fees Payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	96,750
Fees Payable to the Audit Commission in respect of Statutory Inspection	0
Fees Payable to the Audit Commission for the certification of grant claims and returns	29,130
Fees Payable in respect of other services provided by the appointed auditor	0
	<u>125,880</u>

# CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2005

2003/2004		Note	2004/2005	
£			£	£
	Fixed Assets			
	Operational Assets			
313,100,705	Council Dwellings		381,500,670	
14,241,800	Other Land and Buildings		17,371,910	
4,313,051	Vehicles, Plant and Equipment		4,468,489	
4,225,447	Infrastructure Assets		4,624,558	
374,125	Community Assets		0	
	Non-operational Assets			
3,929,000	Investment Properties		3,929,000	
7,056,320	Other		3,631,760	
<u>347,240,448</u>	Total Fixed Assets	<b>1</b>		415,526,387
163,513	Deferred Payments	<b>3</b>		81,420
605,401	Long-Term Debtors	<b>4</b>		523,792
<u>348,009,362</u>	Total Long-Term Assets			<u>416,131,599</u>
	Current Assets			
17,255	Stocks and Work in Progress	<b>5</b>	31,707	
3,492,248	Debtors	<b>6</b>	3,542,846	
23,281,053	Investments	<b>7</b>	25,391,053	
172,570	Cash and Bank		236,337	29,201,943
<u>374,972,488</u>	Total Assets			<u>445,333,542</u>
	Current Liabilities			
(4,984,266)	Creditors	<b>9</b>	(3,453,062)	
0	Bank Overdraft		0	
<u>(4,984,266)</u>				<u>(3,453,062)</u>
<u>369,988,222</u>	Total Assets less Current Liabilities			<u>441,880,480</u>
	Long-Term Liabilities			
(11,410,980)	Pensions Liability	<b>19</b>		(14,849,750)
<u>358,577,242</u>	Total Assets Less Liabilities			<u>427,030,730</u>
(284,056,381)	Fixed Asset Restatement Account	<b>10</b>		(350,801,253)
(60,410,486)	Capital Financing Account	<b>11</b>		(61,978,438)
(4,012,709)	Grants & Contributions Deferred Account	<b>12</b>		(5,028,842)
(12,749,257)	Usable Capital Receipts Reserve	<b>13</b>		(13,880,091)
11,410,980	Pensions Reserve	<b>19</b>		14,849,750
(2,629,446)	Earmarked Reserves	<b>14</b>		(2,776,292)
	General Reserves			
(4,291,026)	- General Fund	<b>15</b>		(4,832,096)
(1,594,849)	- Housing Revenue Account	<b>15</b>		(2,222,372)
(699,438)	- Major Repairs Reserve	<b>15</b>		(414,482)
(32,634)	- House Purchase Account	<b>15</b>		0
521,136	- Collection Fund	<b>15</b>		119,365
(33,132)	- Other Reserves	<b>15</b>		(65,979)
<u>(358,577,242)</u>	Total Equity			<u>(427,030,730)</u>

Councillor Richard Struck  
Chairman of Council Tax Setting Committee  
18 July 2005

D A Gardner  
Director of Corporate Resources  
18 July 2005

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 1. Fixed Assets

### Movement in Fixed Assets

	Council Dwellings £	Other Land and Buildings £	Vehicles, Plant and Equipment £	Infrastructure Assets £	Community Assets £	Non-Operational Assets Investment Properties £	Other Assets £	Total £
Certified Valuation at 31 March 2004	316,210,645	15,225,780	6,226,932	5,941,138	577,105	3,929,000	7,141,500	355,252,100
Less Accumulated Depreciation	(3,109,940)	(983,980)	(1,913,881)	(1,715,691)	(202,980)	0	(85,180)	(8,011,652)
Net Book Value at 31 March 2004	313,100,705	14,241,800	4,313,051	4,225,447	374,125	3,929,000	7,056,320	347,240,448
Recategorisations	0	221,500	577,105	0	(577,105)	0	(221,500)	0
Revaluations	72,384,205	3,038,770	0	0	0	0	(105,500)	75,317,475
Additions	3,046,752	2,411,593	1,185,507	728,229	0	0	0	7,372,081
Disposals	(3,303,620)	0	0	0	0	0	(3,140,000)	(6,443,620)
Write Offs	(3,046,752)	(2,411,593)	(688,800)	(28,349)	0	0	0	(6,175,494)
Depreciation:								
Revaluation Adj	3,096,500	188,270	688,800	13,641	0	0	59,300	4,046,511
Recategorisation Adj	0	(6,240)	(202,980)	0	202,980	0	6,240	0
For 2004/2005	(3,777,120)	(312,190)	(1,404,194)	(314,410)	0	0	(23,100)	(5,831,014)
Net Book Value at at 31 March 2005	381,500,670	17,371,910	4,468,489	4,624,558	0	3,929,000	3,631,760	415,526,387
Accumulated Depreciation at 31 March 2005	(3,790,560)	(1,114,140)	(2,832,255)	(2,016,460)	0	0	(42,740)	(9,796,155)
Certified Valuation at 31 March 2005	385,291,230	18,486,050	7,300,744	6,641,018	0	3,929,000	3,674,500	425,322,542

### Major Fixed Asset Information

The Land and Buildings held by the Council in 2004/05 included:

Gross Value at 31 March 2004 £		Gross Value at at 31 March 2005 £
316,210,645	Council Dwellings	385,291,230
582,000	Depots	655,000
168,500	Cemeteries	168,500
6,381,600	Offices	8,671,870
1,021,000	Car Parks	1,373,000
3,363,000	Leisure Land and Buildings	3,143,500
5,064,500	Commercial Properties	5,220,500
3,623,500	Garages	3,623,500
6,092,180	Other Land/Property	3,233,680

### Community Assets

On 1 April 1994, a nominal amount of £1 was included in the accounts for existing Community Assets. The assets included are:

37 playing fields and open spaces with a total area of 503 acres

1 cemetery

9 areas of grazing land with a total area of 82 acres

10 allotments with a total area of 26 acres

17 areas of woodland with a total area of 547 acres

Paintings and Civil Regalia with a current insurance value of £50,436.

After that date, Play Equipment was added to Community Assets on the balance sheet at historic cost. They have been reclassified as plant and equipment in the 2004/05 accounts in line with the Statement of Recommended Practice.

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 1. Fixed Assets (Cont'd)

### Valuation & Impairment Information

The freehold and leasehold properties were valued by the Council's Chief Valuer, Roland Childerhouse BSc MRICS. A five year rolling programme has been established for valuing assets and 20% of the assets are valued every year.

This year the Council's Housing Revenue Account assets were valued on 1 April 2004 in accordance with the ODPM guidance notes on stock valuations and in accordance with the RICS Valuation and Appraisal manual applying the Beacon principle.

Properties classified as operational by the Council were valued on the basis of Existing Use Value (EUV) and Existing Use Value for Social Housing (EUV-SH) for housing property. Where this could not be assessed because there was no market, the Depreciated Current Replacement Cost method and Net Realisable Value was assessed and the lower of the two values was used.

The EUV-SH valuation of the Council's Housing stock takes account of the fact that there are sitting tenants but assumes that the properties could be disposed of on the open market in the longer term. The Council has been advised that it could expect a net capital receipt in the region of £24m in the event of it transferring its housing stock to a Registered Social Landlord. This valuation is based on the discounted cash flows deriving from rental income and management and maintenance costs and assumes that the stock will be used for social housing in perpetuity.

Properties regarded by the Council as non-operational have been valued on the basis of Market Value (MV).

The sources of information and assumptions made in producing the various valuations are set out in the Council's valuation reports.

The figures incorporated in the accounts are the aggregate of separate valuations of parts of the portfolio, not a valuation of the portfolio valued as a whole.

The value at which each category of assets is included in the balance sheet is reviewed at the end of each financial year and where there is reason to believe that its value has materially changed in the year, the valuation should be changed accordingly. The Chief Valuer has carried out an Impairment Review of the Council's fixed assets.

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Non-Operational Assets			Total Assets
	£	£	£	£	Community Assets	Investment Properties	Other	£
					£	£	£	
Valued at Historical Cost:	0	0	6,804,037	5,941,138	0	0	0	12,745,175
Valued at Current Value in:								
2004/2005	384,923,230	13,476,370	496,707	699,880	0	0	1,775,000	401,371,187
2003/2004	0	0	0	0	0	0	509,000	509,000
2002/2003	0	1,301,000	0	0	0	0	116,500	1,417,500
2001/2002	0	0	0	0	0	961,000	0	961,000
2000/2001	368,000	3,708,680	0	0	0	2,968,000	1,274,000	8,318,680
Certified Valuation at 31 March 2005	<u>385,291,230</u>	<u>18,486,050</u>	<u>7,300,744</u>	<u>6,641,018</u>	<u>0</u>	<u>3,929,000</u>	<u>3,674,500</u>	<u>425,322,542</u>

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 1. Fixed Assets (Cont'd)

### Depreciation

Depreciation has been provided for all assets with a finite useful life. Freehold land and investment properties are not depreciated.

The Chief Financial Officer has determined that the Major Repairs Allowance is not a reasonable estimate for depreciation of HRA dwellings and this figure has not been used in the accounts. Depreciation is based on dwelling values at 1 April 2004 and it is estimated that approximately 40% of the value of the properties relates to the land value, which is not depreciated. (see notes 3, 7 and 8 to the Housing Revenue Account).

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

Dwellings	60 years
Buildings	20 to 50 years
Infrastructure (e.g. district footpaths)	20 years
Plant and Equipment: Computer Equipment	3 to 5 years
Furniture	5 to 20 years
Community Assets	10 years

From the financial year 2004/05 all new Plant, Furniture and Equipment acquisitions has been depreciated from the month of acquisition on a pro rata basis. Plant, Furniture and Equipment acquired before this date were subject to depreciation from the year following

### Capital Expenditure and Sources of Finance

Capital expenditure, which includes expenditure on Deferred Charges, see Note 2, was financed as follows:

	Financing		Expenditure	
	£	£		£
Usable Capital Receipts		3,527,638	Creditors from 2003/04	1,205,241
Capital Expenditure Charged to Revenue			Contributions receivable for	
Contributions from Reserves:			Expenditure in prior years:	38,585
Section 106 Agreements	68,416			
Other Reserves	<u>248,216</u>		2004/05 Expenditure on:	
		316,632	Fixed Assets	7,372,081
Direct Revenue Funding:			Deferred Charges	586,089
General Fund	0			
Housing Revenue Account	498,562			
HRA – Major Repairs Reserve	<u>2,972,336</u>			
		3,470,898		
Contributions from Other Organisations		1,761,710		
Specified Capital Grant		125,118		
		<u>9,201,996</u>		<u>9,201,996</u>

### Analysis of Net Fixed Assets Employed

	31st March		31st March	
	2004		2005	
	£		£	
General Fund		24,221,165		27,465,439
Housing Revenue		<u>323,019,283</u>		<u>388,060,948</u>
		<u>347,240,448</u>		<u>415,526,387</u>

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 2. Deferred Charges

	Balance at 31 March 2004 £	Capital Expendi- -ture £	Grants Applied £	Deferred Charges Written Out £	Balance at 31 March 2005 £
Grants:					
Leisure & Community Development	0	31,000	0	(31,000)	0
Housing Improvements	0	328,312	(125,118)	(203,194)	0
Resources	0	200,586	0	(200,586)	0
Environment	0	26,191	0	(26,191)	0
	0	586,089	(125,118)	(460,971)	0

## 3. Deferred Payments - PWLB

The Council prematurely repaid Public Works Loan Board (PWLB) debt of £11,187,642 at a premium of £928,850 in 1996. £944 of the premium fell on the General Fund and was written off in 1995/96. The remainder was set up as a deferred payment to be written down over ten years to the Housing Revenue Account and recovered through government subsidy.

## 4. Long Term Debtors

### Loans Made for Purchase and Improvement of Property

	Sales of Council Dwellings £	Private Borrowers £	Housing Associations £	Mortgage Debenture £	Total 2004/05 £
Balance at 1 April 2004	341,067	1,024	243,310	20,000	605,401
Repayments in Year	(78,363)	(1,024)	(2,222)	0	(81,609)
Balance at 31 March 2005	262,704	0	241,088	20,000	523,792

The mortgage debenture relates to stock of £20,000 purchased from the Association of District Councils (Properties) Ltd to assist in the purchase of premises.

## 5. Stock and Work in Progress

There was no work in progress on 31 March 2005. Stocks held in the Council's stores were as follows:

	Balance at 31 March 2004 £	Balance at 31 March 2005 £
Building, Engineering and Other Operational Materials	12,151	24,917
Bar and Catering Stock	4,269	6,790
Stationery	835	0
	17,255	31,707

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 6. Debtors

	Balance at 31 March 2004 £	Balance at 31 March 2005 £
HM Revenue and Customs	325,066	353,195
Office of the Deputy Prime Minister	968,319	663,626
Dept for Work & Pensions	77,341	0
Local Authorities and Other Public Bodies	2,327	12,319
Chargepayers and Taxpayers	2,238,893	2,220,727
Commercial Ratepayers	896,468	486,642
Tenants	506,414	507,275
Rechargeable Works	178,882	51,614
Sundry Debtors	697,712	632,987
Other	589,540	1,274,762
Less: Provision for Doubtful Debts	<u>(2,988,714)</u>	<u>(2,660,301)</u>
	<u><u>3,492,248</u></u>	<u><u>3,542,846</u></u>

## 7. Investments

### (a) Long-Term Investments

The Council had £2,000,000 placed with the Bank of Credit and Commerce International (BCCI) when it was closed by the Bank of England on 5 July 1991. The investment was for a fixed period maturing on 10 October 1992 at a fixed rate of interest of 13.6%. The schedule below lists the dividends received to date. The percentages are calculated on the registered debt in US dollars (which includes interest).

	Date	£	%	Cumulative %
Deposit Protection Board	1992/93	15,000	-	
First dividend	10 December 1996	624,291	24.50	24.50
Second dividend	30 June 1998	559,433	21.50	46.00
Third dividend	16 May 2000	404,285	14.00	60.00
Fourth dividend	27 June 2003	<u>390,443</u>	15.00	75.00
Total to date		<u>1,993,452</u>		

### (b) Short-Term Investments

The Council had £1,000,000 invested with Chancery plc, a secondary bank placed in administration in February 1991. Of that debt £303,615 was converted into shares and the remainder subject to a voluntary arrangement for repayment. In December 1996, the share debt was written off from the bad debt provision and the provision increased to match the remaining debt. The schedule below lists distributions received to date from the liquidators. The provision was reduced to £68,265 to match the remaining debt.

	Date	£	%	Cumulative %
Deposit Protection Board	1991/92	15,000	-	-
Distributions	Prior years	613,121	88.85	88.85
Distribution	2004/05	<u>0</u>	0.00	88.85
Total to date		<u>628,121</u>		

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 7. Investments (cont'd)

In summary the position at 31 March 2005 was:

	Long Term BCCI	Short Term Chancery plc	Total
	£	£	£
Investment	2,000,000	1,000,000	3,000,000
Repayments prior years	(1,993,452)	(628,121)	(2,621,573)
Repayments 2004/05	0	0	0
Written off	0	(303,614)	(303,614)
	6,548	68,265	74,813
Less:			
Provision at 31 March 2005	(6,548)	(68,265)	(74,813)
	0	0	0

### (c) Other Short-Term Investments

There were 20 investments at 31 March 2005. The rates of interest at 31 March 2005 varied between 4.25% and 5.28%. All short-term investments have maturity dates under one year.

The Council is a debt-free authority and is permitted to invest for periods greater than one year. No investments of greater than one year were made between 1 April 2004 and 31 March 2005.

In addition the Council now imposes its own restrictions as to which institutions investments may be made with, the overriding objective being to safeguard the capital invested.

## 8. Borrowing

On 8 March 2001 the Council made premature repayment of the Public Works Loan Board loans outstanding and became debt-free.

## 9. Creditors

	Balance at 31 March 2004 Restated	Balance at 31 March 2005
	£	£
Home Office	13,554	0
Office of the Deputy Prime Minister	354,488	120,658
HM Revenue and Customs	242,162	239,389
Local Authorities and Other Public Bodies	433,985	300,263
Sundry and Other Creditors	3,940,077	2,792,752
	4,984,266	3,453,062

## 10. Fixed Asset Restatement Account

The Fixed Asset Restatement Account represents the balance resulting from the revaluation of fixed assets. (For further details see Note 3 to the Statement of Total Movement in Reserves.)

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 11. Capital Financing Account

The Capital Financing Account was established as part of the revised accounting policies introduced by the 1993 Code of Practice on Local Authority Accounting. It represents the cumulative amount set aside from capital receipts and the difference between depreciation charged to the revenue accounts and the statutory revenue provision for the repayment of debt.

In addition, as assets financed by grants and contributions are depreciated, the contributions are written off to the reserve. For further details see Note 5 to the Statement of Total Movement in The Reserves.

## 12. Grants and Contributions Deferred Account

The Grants and Contributions Deferred Account represents sums of money that have been received by the Council towards the cost of certain capital works. The contributions are credited to various reserve accounts when received, transfers being made from the reserve accounts to the Grants and Contributions Deferred Account as expenditure is incurred on the various capital works.

Under the *Code of Practice on Local Authority Accounting*, when assets funded by grants and contributions are depreciated, the depreciation is reflected in the Grants and Contributions Deferred Account. The position at 31 March 2005 was:

	Opening Balance 1 April 2004 £	Add: Capital Financing £	Less: Depreciation £	Closing Balance 1 April 2005 £
Regeneration Schemes	732,226	1,175	(46,789)	686,612
Home Composting	1,166	0	(1,166)	0
Car Parks	7,800	0	(600)	7,200
Bus Shelters	5,250	0	(375)	4,875
Chorleywood Tennis Courts	17,500	0	(3,500)	14,000
Air Pollution Monitoring	3,333	0	(666)	2,667
District Signs	250	0	(50)	200
Skateboard Park	10,036	0	(1,673)	8,363
Golf Course	223,085	38,585	(38,585)	223,085
Traffic Calming	15,811	0	(988)	14,823
Rickmansworth Youth Club	34,780	0	(740)	34,040
Special Parking Areas	42,705	0	(2,382)	40,323
South Oxhey CAB	60,688	0	(1,280)	59,408
Pathfinder	645,761	0	(169,974)	475,787
Controlled Parking Zones	145,029	0	(7,600)	137,429
Community Campus	1,481,392	0	(25,109)	1,456,283
Chorleywood House Grounds	22,609	0	(461)	22,148
Rickmansworth CAB	1,440	0	(30)	1,410
Implementing Electronic Government	400,000	256,751	(218,917)	437,834
Transport Schemes	150,000	0	(7,500)	142,500
Leavesden Stadium	11,848	0	(1,185)	10,663
DDA Schemes	0	611,784	(61,178)	550,606
Barton Way MUGA	0	15,000	(1,500)	13,500
Waste Recycling Schemes	0	711,788	(125,278)	586,510
Cycleways	0	49,972	(2,499)	47,473
Planning Delivery Grant	0	76,655	(25,552)	51,103
	<b>4,012,709</b>	<b>1,761,710</b>	<b>(745,577)</b>	<b>5,028,842</b>

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 13. Usable Capital Receipts

A Capital Receipt is the term used to describe the income received by the Council when it sells an asset. When a Local Authority becomes debt-free (see Consolidated Balance Sheet Notes 7 and 8) these receipts are termed Usable Capital Receipts, and may be used to finance capital expenditure.

	Total 2003/2004		Total 2004/2005	
	£	£	£	£
Usable Capital Receipts at Beginning of Year		(8,275,143)		(12,749,257)
Add:				
Sources of Capital Receipts:				
Sale of Land and Buildings	(326,962)		(1,816,925)	
Sale of Council Houses				
Cash	(6,856,980)		(3,372,750)	
Mortgages	(160,511)		(78,363)	
Other Receipts	(37,365)		(26,356)	
Social Housing Grant	0		0	
Total Receipts for the Year		(7,381,818)		(5,294,394)
Deduct:				
Amount paid to ODPM		0		635,922
Application of Usable Receipts to finance Capital Expenditure (see Note 1)		2,907,704		3,527,638
Balance Unapplied at End of Year		<u>(12,749,257)</u>		<u>(13,880,091)</u>

### 14. Earmarked Reserves

	Opening Balance 1 April 2004	Add: Contrib'n's From Gen Fund & Lessees	Less: Contrib'n's to Gen Fund & Repaid	Less: Grants & Contrib'n's Applied	Closing Balance 1 April 2005
	£	£	£	£	£
Unapplied Capital Grants and Contributions					
Third Party Contributions	1,053,221	1,390,097	(248,216)	(1,761,710)	433,392
Total Grants and Contributions	1,053,221	1,390,097	(248,216)	(1,761,710)	433,392
Revenue Reserves					
Insurance	130,280	0	0	0	130,280
Section 106 Agreements-Capital	77,389	1,454	(68,416)	0	10,427
Section 106 Agreements-Other	69,523	72,792	(2,870)	0	139,445
Future Capital Expenditure	0	670,435	0	0	670,435
Leavesden Hospital Open Space	1,194,563	48,151	(29,151)	0	1,213,563
Environmental Maintenance Plant	5,950	14,280	0	0	20,230
Waste Vehicle Maintenance	98,520	60,000	0	0	158,520
Total Revenue Reserves	1,576,225	867,112	(100,437)	0	2,342,900
Total Reserves	<u>2,629,446</u>	<u>2,257,209</u>	<u>(348,653)</u>	<u>(1,761,710)</u>	<u>2,776,292</u>

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 15. General Reserves

	Opening Balance 1 April 2004 £	Change in Year Increase/ (Decrease) £	Closing Balance 1 April 2005 £
General Fund	4,291,026	541,070	4,832,096
Housing Revenue	1,594,849	627,523	2,222,372
Major Repairs Reserve	699,438	(284,956)	414,482
House Purchase	32,634	(32,634)	0
Collection Fund	(521,136)	401,771	(119,365)
Other Reserves	33,132	32,847	65,979
	<u>6,129,943</u>	<u>1,285,621</u>	<u>7,415,564</u>

The General Fund surplus includes a cumulative surplus of £116,771 which relates to the chargeable works on the Building Control Trading Account (see Note 8 to the Consolidated Revenue Account).

For details of the movements in the Major Repairs Reserve see Note 3 to the Housing Revenue Account.

The House Purchase Account was set up to ensure that General Fund did not bear a cost in years when interest earned on fixed rate Housing Act Advances (HAA) mortgages was at a lower rate than the Council's Loans Pool rate.

The last HAA mortgage was redeemed in 2004/05, and the balance on the account has been transferred to General Fund.

## 16. Commitments under Capital Contracts

At 31 March 2005 the Council had entered into contracts valued at £88,325 largely in respect of housing and leisure capital schemes.

## 17. Post-Balance Sheet Events

On 29 June 2005 the Office of the Deputy Prime Minister issued guidance to local authorities increasing with effect from 1 April 2005 the valuer's adjustment factor applicable to valuations of local authority housing, to reflect use as social housing, from 46% to 54%. The change does not apply to the financial statement for the year ended 31 March 2005 but will decrease housing stock valuations in the accounts for the year ending 31 March 2006. Had the change been applicable to the 2005 accounts, the impact would have been to reduce the valuation of social housing by £72,827,330 from £377,375,720 to £304,548,390.

## 18. The Euro

The Council is ensuring that any contracts it is entering, e.g. for computer software, allow for the introduction of the Euro.

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 19. Retirement Benefits – FRS 17

In accordance with the requirement of Financial Reporting Standard 17 – ‘Retirement Benefits’ the Council has to disclose its share of assets and liabilities related to pension schemes for its employees. The Council participates in the Local Government Pension Scheme administered by Hertfordshire County Council.

Liabilities have been valued on an actuarial basis using the projected unit method that assesses the future liabilities of the fund discounted at their present value. The County Council Fund liabilities have been valued by Hymans Robertson, an independent firm of actuaries. The calculations are based on a valuation as at 31 March 2005. The main assumptions in the calculation are:

	<b>2003/04</b>	<b>2004/05</b>
Rate of inflation	2.90%	2.90%
Rate of increase in salaries	4.40%	4.40%
Rate of increase for pensions in payment & deferred pensions	2.90%	2.90%
Rate for discounting scheme liabilities	6.50%	5.40%

The assets in the County Council Pension Fund are valued at fair value, principally market value for investments, and consist of:

<b>Assets (Whole Fund)</b>	<b>Long Term Return % Per Annum</b>	<b>Fund Value at 31 March 2005 £'000</b>	<b>Three Rivers' Fund Value 31 March 2005 £'000</b>
Equities	7.70%	1,114,447	30,548
Bonds	4.80%	227,016	6,222
Property	5.70%	92,453	2,534
Cash	4.80%	96,537	2,646
Total	<u>7.00%</u>	<u>1,530,453</u>	<u>41,950</u>
			<b>£'000</b>
Estimated Employers' Assets			41,950
Present Value of Scheme Liabilities in the County Council Fund			(54,280)
Present Value of Unfunded Liabilities in the County Council Fund			(2,520)
Net Pensions Deficit			<u>(14,850)</u>

The movement in the net pension liability for the year to 31 March 2005 is as follows:

	<b>£</b>
(Deficit)/Surplus at Beginning of Year	(11,410,980)
Movements in Year	
Current Service Costs	(1,206,040)
Employers' contributions payable to scheme	1,146,270
Contributions in respect of Unfunded Benefits	346,000
Other Income	0
Other Outgoings	0
Past Service Costs	0
Impact of Settlements & Curtailments	0
Net Return on Assets	(100,000)
Actuarial Gains/(Losses)	(3,625,000)
(Deficit)/Surplus at End of Year	<u>(14,849,750)</u>

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 19. Retirement Benefits – FRS 17 (Cont'd)

The above figures have been provided by the actuaries to the Hertfordshire County Council Pension Scheme using information provided by the scheme and assumptions determined by the actuary in conjunction with the Council.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

The £14.850m net liability represents the difference between the value of the Authority's pension fund assets at 31 March 2005 and the estimated present value of the future pension payments to which it was committed at that date. These pensions liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1 April 2005 would also have an impact on the capital value of the pension fund assets.

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities will be considered by the actuaries in their next full actuarial review of the Pension Fund, due to be carried out as at 31 March 2008. Their advice on whether or not there is any anticipated shortfall in the funding of the scheme at that time will determine the future level of pension contributions.

## 20. Operating Leases

### As Lessees:

The authority was committed at 31 March 2005 to making payments of £465,514 under operating leases in 2005/06, comprising the following elements:

	Other Land & Buildings £	Vehicles Plant & Equipment £
Leases Expiring in 2005/06	0	0
Leases Expiring between 2006/07 & 2011	0	416,014
Leases Expiring after 2011/12	49,500	0

### As Lessors:

With regard to the authority's activity as a lessor, the gross value of assets held for use in operating leases was £9,004,000 subject to £93,010 depreciation to 31 March 2005. (see note 5 to the Consolidated Revenue Account)

## 21. Contingent Liabilities

If the Council's expenditure on functions for which it receives income that is exempt for VAT purposes exceeds 5% of its total vatable expenditure, then the Council loses its ability to recover VAT on all of its exempt inputs. HM Revenue & Customs have intimated that they do not accept that the input VAT relating to the reconstruction of The Centre at South Oxhey is attributable to the grant of a lease at a peppercorn rent and as such is recoverable under Section 33 of the VAT Act 1994. However they are currently considering other avenues that may result in the removal of this potential VAT cost. The Council's maximum liability is estimated to be £617,099 for the years 2000/01 to 2002/03. No provision has been made for this in the accounts, although £431,900 has been retained in the General Fund balance should payment become due.

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

2003/2004	Note	2004/2005	
£		£	£
	Surplus/(deficit) for the year:		
1,441,706	- General Fund	541,070	
(86,030)	- Housing Revenue Account	627,523	
	Movements on specific revenue reserves:		
191	- House Purchase Account	(32,634)	
(291,473)	- Collection Fund	401,771	
8,851	- Other Reserves	32,847	
(254,776)	- Earmarked Revenue Reserves	766,675	
(395,980)	Appropriations from Pensions Reserve	186,230	
4,425,000	Actuarial gains (losses) relating to pensions	(3,625,000)	
	<b>Total Increase/(Decrease) in Revenue Resources</b>		<b>(1,101,518)</b>
4,847,489	Increase in usable capital receipts	1,130,834	
4,474,114	Increase (Decrease) in unapplied capital grants and contributions	(619,829)	
(249,936)	<b>Total Increase in Realised Capital Resources</b>		<b>511,005</b>
4,224,178	Gains on revaluation of fixed assets	73,188,492	
77,056,572	Impairment Losses on fixed assets	0	
0	<b>Total Increase in Unrealised Value of Fixed Assets</b>		<b>73,188,492</b>
77,056,572	<b>Value of Assets Sold, Disposed of or Decommissioned</b>		<b>(6,443,620)</b>
(6,953,164)	Capital Receipts Set Aside	3,527,638	
2,907,704	Revenue Resources Set Aside	(1,959,686)	
(1,689,456)	Movement in Government Grants Deferred	1,016,133	
311,269	Movement on Major Repairs Reserve	(284,956)	
(491,205)	<b>Total Increase/(Decrease) in Amounts Set Aside to Finance Capital Investment</b>		<b>2,299,129</b>
1,038,312			
	<b>Total Recognised Gains and Losses</b>		<b>68,453,488</b>
80,213,387			

# NOTES TO STATEMENT OF TOTAL MOVEMENT IN RESERVES

## 1. Movements in Revenue Resources

	General Fund Balances £	HRA Balances £	Specified Revenue Reserves £	Pensions Reserve £
Surplus/(deficit) for 2004/05	541,070	627,523	0	0
Appropriations to/from revenue	0	0	1,168,659	186,230
Actuarial gains and losses relating to pensions	0	0	0	(3,625,000)
	<u>541,070</u>	<u>627,523</u>	<u>1,168,659</u>	<u>(3,438,770)</u>
Balance Brought Forward at 1 April 2004	4,291,026	1,594,849	1,120,855	(11,410,980)
<b>Balance Carried Forward at 31 March 2005</b>	<b><u>4,832,096</u></b>	<b><u>2,222,372</u></b>	<b><u>2,289,514</u></b>	<b><u>(14,849,750)</u></b>

The Revenue Reserves can be used to meet Capital or Revenue Expenditure. (For further detail see the Consolidated Revenue Account, Housing Revenue Account and Notes 14, 15 and 19 to the Consolidated Balance Sheet.)

### Actuarial Gains and Losses Relating To Pensions

The actuarial gains and losses identified as movements on the Pensions Reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities:

	2002/03		2003/04		2004/05	
	£	%	£	%	£	%
Difference between the Expected and Actual Return on Assets	(8,990,000)	(3.34%)	4,416,000	13.40%	1,235,000	2.90%
Difference between actuarial assumptions about liabilities & actual experience	(2,200,000)	(5.20%)	9,000	0.00%	4,102,000	7.20%
Changes in the demographic & financial assumptions used to estimate liabilities	0		0		(8,962,000)	
	<u>(11,190,000)</u>	(26.40%)	<u>4,425,000</u>	10.00%	<u>(3,625,000)</u>	(6.40%)

## 2. Movements in Realised Capital Resources

	Usable Capital Receipts £	Unapplied Capital Grants & Contrib'ns £
Amounts Receivable in 2004/05	5,294,394	1,141,881
Amounts payable to The Housing Capital Receipts Pool	(635,922)	0
Amounts applied to finance new capital investment in 2004/05	(3,527,638)	(1,761,710)
<b>Total Increase/(Decrease) in realised capital resources in 2004/05</b>	<b>1,130,834</b>	<b>(619,829)</b>
Balance Brought Forward at 1 April 2004	12,749,257	1,053,221
<b>Balance Carried Forward at 31 March 2005</b>	<b><u>13,880,091</u></b>	<b><u>433,392</u></b>

See Notes 13 and 14 to the Consolidated Balance Sheet.

## NOTES TO STATEMENT OF TOTAL MOVEMENT IN RESERVES

### 3. Movements in Unrealised Value of Fixed Assets

	<b>Fixed Asset Restatement Account £</b>
Gains/Losses on revaluation of fixed assets in 2004/05	73,188,492
Impairment losses on fixed assets due to general changes in prices in 2004/05	<u>0</u>
<b>Total Increase/(Decrease) in Unrealised Value of Fixed Assets</b>	<b>73,188,492</b>

The gain on revaluation of fixed assets arises principally from the revaluation of the Council's housing stock.

### 4. Value of Assets Sold, Disposed of or Decommissioned

Amounts written off fixed asset balances for disposals in 2004/05	<u>(6,443,620)</u>
Total Movement on Reserve in 2004/05	66,744,872
Balance B/F at 1 April 2004	<u>284,056,381</u>
<b>Balance C/F on the Fixed Asset Restatement Account at 31 March 2005</b>	<b><u>350,801,253</u></b>

For a description of this reserve see Note 10 to the Consolidated Balance Sheet.

### 5. Movements in amounts Set Aside to Finance Capital Investment

	<b>Capital Financing Account £</b>	<b>Grants and Contrib'ns Deferred £</b>	<b>Total £</b>
<b>Capital Receipts Set Aside in 2004/05:</b>			
Usable Capital Receipts Applied	3,527,638	-	
<b>Total Capital Receipts Set Aside in 2004/05</b>	<u>3,527,638</u>	-	3,527,638
Revenue Resources Set Aside In 2004/05:			
Capital Expenditure Financed From Revenue:			
General Fund	316,632	-	
Major Repairs Reserve	3,470,898	-	
Reconciling Amount For The Provision For Loan Repayment:			
Deferred Capital Receipts	(81,609)	-	
Government Grants	125,118	-	
Minimum Revenue Provision (Less Depreciation)	(5,204,636)	-	
Write Down of Deferred Charges	(586,089)	-	
<b>Total Revenue Resources Set Aside in 2004/05</b>	<u>(1,959,686)</u>	-	(1,959,686)
Grants applied to capital investment in 2004/05		1,761,710	
Credits to the Asset Management Revenue Account in 2004/05		<u>(745,577)</u>	
<b>Movement on Government Grants Deferred</b>		1,016,133	1,016,133
<b>Movement on Major Repairs Reserve</b>			<u>(284,956)</u>
<b>Total Increase/(Decrease) in amounts set aside to finance capital investment</b>			<b>2,299,129</b>
Total Movement on Reserve in 2004/05	1,567,952	1,016,133	
Balance Brought Forward at 1 April 2004	<u>60,410,486</u>	<u>4,012,709</u>	
<b>Balance Carried Forward at 31 March 2005</b>	<b><u>61,978,438</u></b>	<b><u>5,028,842</u></b>	

For a description of these reserves see Notes 11 & 12 to the Consolidated Balance Sheet.

### 6. Capital Reserves

The Fixed Asset Restatement Account and the Capital Financing Account cannot be used to support Capital Expenditure. (For further detail see Notes 10 and 11 to the Consolidated Balance Sheet.)

Usable Capital Receipts and the specific Capital Reserves are used to finance Capital Expenditure. (For further details see Notes 13 and 14 to the Consolidated Balance Sheet.)

## CASH FLOW STATEMENT

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

<b>Revenue Activities:</b>	Note	<b>2003/04</b>	<b>2004/05</b>
		£	£
<b>Cash Outflows</b>			
Cash paid to and on behalf of employees		10,739,975	12,224,958
Other Operating cash payments		11,868,416	12,108,163
Housing Benefit paid out		5,452,745	5,825,868
Non-Domestic Rate - payment to National Pool		19,272,425	19,132,400
Precepts paid		35,696,610	37,763,880
Payment to Capital Receipts Pool		0	542,168
<b>Cash Inflows</b>			
Rents (after Rebates)		(8,046,548)	(7,415,694)
Council Tax Receipts		(38,048,342)	(40,538,338)
Non-Domestic Rate - receipts from National Pool		(2,892,627)	(2,870,758)
Non-Domestic Rate Receipts		(20,046,373)	(20,976,255)
Revenue Support Grant	4	(2,194,608)	(2,517,402)
DWP Grants for Benefits	4	(8,365,532)	(16,161,778)
Other Government Grants	4	(1,479,359)	3,147,246
Cash Received for Goods and Services		(3,839,933)	(2,369,628)
Other Operating Cash Receipts		(466,992)	(847,654)
	1	(2,350,143)	(2,952,824)
<b>Returns on Investment and Servicing of Finance:</b>			
<b>Cash Outflows</b>			
Interest Paid		13,918	2,846
<b>Cash Inflows</b>			
Interest Received		(789,946)	(1,208,570)
<b>Capital Activities:</b>			
<b>Cash Outflows</b>			
Purchase of Fixed Assets		5,947,683	7,032,386
Other Capital cash payments		303,626	586,089
<b>Cash Inflows</b>			
Sale of Fixed Assets		(7,183,942)	(5,401,441)
Capital Grants Received		0	0
Other Capital Cash Receipts		(197,876)	(104,719)
<b>Net Cash (Inflow)/Outflow before Financing</b>		<b>(4,256,680)</b>	<b>(2,046,233)</b>
<b>Management of Liquid Resources:</b>			
Net increase/(decrease) in Short Term Deposits	3	4,380,000	1,120,000
Net increase/(decrease) in Investments Available on demand	2	(190,000)	990,000
<b>Net Increase/(Decrease) in Cash at Bank</b>	2	<b>(66,680)</b>	<b>63,767</b>

## NOTES TO THE CASH FLOW STATEMENT

### 1. Reconciliation of Consolidated Revenue Account Surplus/Deficit to Cash Flow Statement - Revenue Activities

	2003/2004 £	2004/2005 £
<b>(Surplus/Deficit) for the Year</b>	(1,441,706)	(541,070)
<b>Non-Cash Transactions:</b>		
Provisions	(394,435)	0
Contributions to/from Reserves and Appropriation	(1,318,112)	360,480
Revenue Contributions to Capital	(256,155)	(815,194)
<b>Items on an Accruals Basis:</b>		
Stock, Debtors and Creditors	53,028	(2,195,289)
<b>Items included in Other Classification within Statement:</b>		
Internal Recharges to Other Accounts	724,806	672,867
Contributions to Capital Schemes	0	0
<b>Items not included in Consolidated Revenue Account:</b>		
(Increase)/Reduction in Collection Fund Balance	291,473	(401,771)
Increase in House Purchase Account Balance	(191)	0
Suspense Accounts	(8,851)	(32,847)
Net Cash Flow From Revenue Reserves	<u>(2,350,143)</u>	<u>(2,952,824)</u>

### 2. Analysis of Cash Balance

There has been an increase in the cash balance reflecting the net outflow from all activities.

	Opening Balance 1 April 2004 £	Movements in Year £	Closing Balance 1 April 2005 £
Cash and Bank	172,570	63,767	236,337
Temporary Investments	900,000	990,000	1,890,000
	<u>1,072,570</u>	<u>1,053,767</u>	<u>2,126,337</u>

Temporary investments above are those which are available on demand and therefore classified as cash.

## NOTES TO THE CASH FLOW STATEMENT

### 3. Reconciliation of Liquid Resources and Financing to the Balance Sheet

Liquid Resources are defined as short term investments which are convertible into known amounts of cash without notice and which were within three months of maturity when acquired. The amount below includes two long term investments which are past maturity but where the repayment date is now unspecified (see Note 7 to the Consolidated Balance Sheet).

	Opening Balance 1 April 2004 £	Movements in Year £	Closing Balance 1 April 2005 £
Temporary Investments	23,281,053	2,110,000	25,391,053
Less - Available on demand	(900,000)	(990,000)	(1,890,000)
	<u>22,381,053</u>	<u>1,120,000</u>	<u>23,501,053</u>

There has been an increase in the level of short term deposits which is reflected in the net cash inflow to the management of liquid resources and financing activities.

### 4. Government Grants

These comprise:

	2003/2004 £	2004/2005 £
<b>Department for Works and Pensions:</b>		
Housing and Council Tax Benefit	(8,365,532)	(16,161,778)
<b>Office of the Deputy Prime Minister:</b>		
Revenue Support Grant	(2,194,608)	(2,517,402)
Improvement Grants	(417,600)	(255,626)
Housing Defects Act Grants	(295,709)	(295,709)
Housing Subsidy	(766,050)	4,086,629
Other	0	(388,048)
<b>Government Grant Income Received in Year</b>	<u>(12,039,499)</u>	<u>(15,531,934)</u>

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account reflects a statutory obligation to account separately for local authority housing provision, as defined in Schedule 4 of the *Local Government and Housing Act 1989*. It shows the major elements of housing revenue expenditure - maintenance, administration, rent rebates - and capital financing costs, and how these are met by rents, subsidy and other income.

2003/04 £ Restated		2004/05 £
	<b>Income</b>	
	Gross Rental Income	
(12,333,628)	- Dwelling Rents	(12,700,391)
(875,995)	- Non-Dwelling Rents	(870,203)
(135,202)	Charges for Services and Facilities	(102,540)
(717,050)	Contributions Towards Expenditure	(640,457)
0	Decreased Provision for Bad or Doubtful Debts	(220,836)
(225,558)	HRA Subsidy Receivable	(215,943)
<u>(14,287,433)</u>	Sub-total	<u>(14,750,370)</u>
	<b>Expenditure</b>	
	Repairs, Maintenance and Management	
3,231,518	- Repairs and Maintenance	3,365,216
2,885,595	- Supervision and Management	3,102,731
9,045	Rents, Rates, Taxes and Other Charges	7,320
6,075,983	Rent Rebates	289,090
46,804	Increased Provision for Bad or Doubtful Debts	0
0	HRA Subsidy Payable	4,508,252
10,866,450	Cost of Capital Charge	13,209,360
	Depreciation of Fixed Assets	
3,096,500	- On Dwellings	3,773,760
197,634	- On Other Assets	204,860
<u>26,409,529</u>	Sub-total	<u>28,460,589</u>
<u>12,122,096</u>	<b>Net Cost of Services</b>	<u>13,710,219</u>
	Adjustment for HRA Capital Charges	(13,209,360)
(10,866,450)	Amortised Premiums	82,093
82,093	HRA Investment Income	(421,602)
<u>(354,524)</u>	<b>Net Operating Expenditure/(Income)</b>	<u>161,350</u>
983,215	Revenue Contributions to Capital Expenditure	498,562
0	Transfer To Pensions Reserve	3,805
14,079	Transfer From Major Repairs Reserve	(1,291,240)
<u>(911,264)</u>	<b>Total Deficit/(Surplus) for the Year</b>	<u>(627,523)</u>
<u>86,030</u>	<b>Housing Revenue Account Balance</b>	
(1,680,879)	Surplus at Beginning of Year	(1,594,849)
86,030	Deficit/(Surplus) for Year	(627,523)
<u>(1,594,849)</u>	<b>Surplus at End of Year</b>	<u>(2,222,372)</u>

# NOTES TO THE HOUSING REVENUE ACCOUNT

## 1. Housing Revenue Account Property

The housing stock managed by the Council was as follows:

	<b>31 March 2004</b>	<b>31 March 2005</b>
	<b>Number</b>	<b>Number</b>
Houses and Bungalows	2,189	2,162
Flats	1,728	1,715
<b>Managed Stock Total</b>	<u>3,917</u>	<u>3,877</u>

The Balance Sheet Values of land, houses and other property within the Authority's HRA was as follows:

	<b>Balance Sheet</b>	<b>Balance Sheet</b>
	<b>Value at</b>	<b>Value at</b>
	<b>1 April 2004</b>	<b>1 April 2005</b>
	<b>£</b>	<b>£</b>
Operational Assets		
Dwellings, Other Land & Buildings, Plant	315,778,623	384,057,948
Non-Operational Assets	7,240,660	4,003,000
<b>Total Value of Land, Houses and Other Property</b>	<u>323,019,283</u>	<u>388,060,948</u>

## 2. Vacant Possession Value of Dwellings

The vacant possession value of dwellings within the Authority's HRA as at 31 March 2005 was £659,730,060.

The vacant possession value of dwellings exceeds the gross balance sheet value of dwellings by £278,597,390. This difference shows the economic cost to Government of providing council housing at less than open market rents.

## 3. Major Repairs Reserve

The movement on the Major Repairs Reserve was as follows:

	<b>£</b>
Balance on 1 April 2004	699,438
Amount Transferred to the Reserve During 2004/05	3,978,620
Amount Transferred from the Reserve During 2004/05	(1,291,240)
HRA Capital Expenditure Financed from the Reserve	(2,972,336)
<b>Balance on 31 March 2005</b>	<u>414,482</u>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 4. Capital Expenditure and Sources of Funding

Total HRA capital expenditure and the sources of funding was as follows:

	£
Total Capital Expenditure on HRA Land, Houses and Other	3,046,752
Funded by:	
Contributions from Leaseholders	(237,066)
Revenue Contributions	(498,562)
Major Repairs Reserve	(2,972,336)
Change in HRA Capital Creditors 2004/05	(661,212)

### 5. Capital Receipts

Capital receipts arising from the disposal of land and houses within the Authority's HRA were as follows:

	£
Land	1,800,620
Houses	3,372,750
	<u>5,173,370</u>

### 6. Cost of Capital and Adjusting Transfer from the Asset Management Revenue Account

Capital financing costs charged to the HRA are made in accordance with the Item 8 Determinations made by the Secretary of State under Part II of Schedule 4 to the Local Government and Housing Act 1989 and consist of the following items:

3.5% of the value of operational assets charged to net cost of services for the use of capital resources, to comply with the requirements of the Code of Practice. This is a notional charge, which is reversed by the adjusting transfer in net operating expenditure.

A statutorily calculated contribution to external interest payable. Since the Council is Debt Free this element is zero.

### 7. Depreciation

Depreciation on land, houses and other HRA property was as follows:

	£
Operational Assets	
Dwellings	3,773,760
Other Land And Buildings	182,160
Vehicles, Plant and Equipment	21,530
Non-Operational Assets	1,170
	<u>3,978,620</u>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 8. HRA Subsidy

HRA Subsidy is a Grant paid by the Government towards the cost of local authority housing. The following table shows an analysis of estimated negative Subsidy payable by the Authority in respect of 2004/05 in accordance with the General Determination of Housing Revenue Account Subsidy for 2004/05:

	2003/04 £	2004/05 £
<b>Notional Expenditure</b>		
Management and Maintenance	4,064,671	5,096,925
Major Repairs Allowance	2,382,868	2,687,376
Charges for Capital	82,093	82,093
Anti Social Behaviour Allowance	0	1,000
<b>Notional Income</b>		
Interest on Receipts	(300,935)	(261,406)
Guideline Rent Income	(11,720,645)	(12,114,240)
Housing Element Entitlement	(5,491,948)	(4,508,252)
Rent Rebate Entitlement	5,697,628	0
<b>Subsidy Claimed for 2004/05</b>	205,680	(4,508,252)
Additional Subsidy for Prior Years	19,878	215,943
<b>Total Subsidy Claimed in Year</b>	<u>225,558</u>	<u>(4,292,309)</u>

HRA Housing Subsidy is negative in 2004/05 because the Rent Rebate element of Housing Subsidy has moved from the HRA to General Fund.

### 9. Rent Arrears

Arrears were as follows:

	31 March 2004 £	31 March 2005 £
Due from Current Tenants		
Houses	303,677	324,981
Garages	1,413	1,792
Commercial	4,349	19,633
Due from Former Tenants		
Houses	141,837	161,309
Garages	2,019	2,861
Commercial	23,995	15,694
	<u>477,290</u>	<u>526,270</u>

These arrears include all charges due from tenants, i.e. rent, heating and other charges. Irrecoverable arrears of £33,277 were written off during the year. A provision of £150,000 exists for doubtful debts. The movements on the provision are summarised as follows:

	£
Balance at 1 April 2004	404,113
Contribution to Housing Revenue Account	(220,836)
	183,277
Less Amounts Written Off	(33,277)
Balance at 31 March 2005	<u>150,000</u>

Further information on Housing activities is available from the Council's Director of Housing and Health.

## COLLECTION FUND

This account reflects the statutory requirement to maintain a separate Collection Fund, which shows the transactions in relation to Non-Domestic Rates, the Council Tax and residual Community Charges. It illustrates the way in which these have been distributed to precepting authorities and the Council's General Fund. The Collection Fund balances are consolidated within the Council's other accounts.

<b>Income and Expenditure Account</b>		<b>Note</b>	<b>2004/2005</b>	
<b>2003/2004</b>			<b>£</b>	<b>£</b>
£				
	<b>Income:</b>			
37,933,067	Income from Council Taxpayers	<b>1</b>	40,007,120	
	Transfers from General Fund:			
3,219,225	Council Tax Benefits	<b>1</b>	3,545,973	
<u>41,152,292</u>				43,553,093
	Contributions:			
177,518	Prior year's estimated council tax deficit		412,652	
421	Community charge income		373	
<u>0</u>	Over provision for uncollectable Council Tax	<b>4</b>	124,248	
177,939				537,273
18,798,149	Income from Business Ratepayers	<b>2</b>		19,239,382
<u>60,128,380</u>	<b>TOTAL INCOME</b>			<u>63,329,748</u>
	<b>Expenditure:</b>			
41,324,262	Precepts and Demands	<b>3</b>		43,688,161
296,728	Bad and Doubtful Debts	<b>4</b>		0
	Business Rate:			
18,697,058	Payment to National Pool	<b>2</b>	19,138,388	
<u>101,091</u>	Cost of Collection Allowance		100,993	
18,798,149				19,239,381
	Transfer to General Fund:			
714	Prior year's estimated community charge surplus			435
<u>60,419,853</u>	<b>TOTAL EXPENDITURE</b>			<u>62,927,977</u>
	<b>Movement in Fund Balances:</b>			
<u>291,473</u>	<b>(Surplus)/Deficit for Year</b>			<u>(401,771)</u>

### Collection Fund Balance

<b>2003/2004</b>		<b>2004/2005</b>		
£		<b>Community Charge</b>	<b>Council Tax</b>	<b>Total</b>
229,663	Balance at Beginning of Year	(506)	521,642	521,136
291,473	(Surplus)/Deficit for Year	62	(401,833)	(401,771)
<u>521,136</u>	<b>(SURPLUS)/DEFICIT BALANCE AT 31 MARCH</b>	<u>(444)</u>	<u>119,809</u>	<u>119,365</u>

# NOTES TO THE COLLECTION FUND ACCOUNTS

## 1. Council Tax, Council Tax Benefits and Council Tax Base

The Council set an average Council Tax charge for Band D dwellings of £1,181.23 for 2004/2005.

Specific reductions – council tax benefits - are made, in accordance with government regulations, for persons on lower incomes.

The amounts credited to the Collection Fund can be analysed as follows:

	<b>2003/04</b>	<b>2004/05</b>
	<b>£</b>	<b>£</b>
Council Tax	41,152,292	43,553,093
Less: Council Tax Benefits	(3,219,225)	(3,545,973)
Amount Due	<u>37,933,067</u>	<u>40,007,120</u>

The Council Tax Base is equivalent to the amount that would be raised if an average Band D Council Tax were set at £1.

The number of chargeable dwellings in each valuation band, adjusted for dwellings where discounts apply, converted to an equivalent number of Band D dwellings, was as follows:

<b>Band</b>	<b>Estimated No of Taxable Properties</b>	<b>Ratio</b>	<b>Band D Equivalent Properties</b>
A*	1.75	5:9	0.97
A	556.50	6:9	371.00
B	1,501.75	7:9	1,168.03
C	5,197.25	8:9	4,619.78
D	8,183.75	9:9	8,183.75
E	6,276.25	11:9	7,670.97
F	3,415.25	13:9	4,933.14
G	4,480.00	15:9	7,471.67
H	1,192.00	18:9	2,384.00
			<u>36,803.31</u>
Less: Allowance for Losses on Collection			(184.01)
Add: Contributions in lieu of tax			197.20
Tax Base for the calculation of Council Tax			<u>36,816.50</u>
Add: Adjustment for changes during the year for successful appeals against valuation bandings, new properties, demolitions, disabled persons' relief and exempt properties			168.68
			<u>36,985.18</u>

A\* denotes properties classified 'Band A disabled'

# NOTES TO THE COLLECTION FUND ACCOUNTS

## 2. Income from Business Ratepayers

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the National Non-Domestic Rate, or NNDR Pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on resident population.

	<b>31 March 2004</b>	<b>31 March 2005</b>
	<b>£</b>	<b>£</b>
Total Non-Domestic Rateable Value	53,826,183	52,759,702
Rate Multiplier (pence in £)	0.444	0.456

## 3. Precepts and Demands

These were as follows:

	<b>2003/2004</b>	<b>2004/2005</b>
	<b>£</b>	<b>£</b>
Hertfordshire County Council	31,425,204	33,085,832
Hertfordshire Police Authority	3,634,605	4,161,942
Three Rivers District Council	6,264,453	6,440,387
<b>Total</b>	<b>41,324,262</b>	<b>43,688,161</b>

## 4. Bad and Doubtful Debts

These are amounts of Council Tax written off as irrecoverable and adjustments to the provision for doubtful Council Tax debts. They were as follows:

	<b>2003/2004</b>	<b>2004/2005</b>
	<b>£</b>	<b>£</b>
Council Tax Write Offs	114,228	2,952
Adjustment to Provision for Doubtful Council Tax Debts	182,500	(127,200)
<b>Total</b>	<b>296,728</b>	<b>(124,248)</b>

# NOTES TO THE COLLECTION FUND ACCOUNTS

## 5. Collection Fund Balance

The balances on the Collection Fund are included in the Council's Consolidated Balance Sheet. They are distributed between the relevant authorities or recovered from them in accordance with rules set out by statute. Subsequent years' council tax charges are adjusted accordingly. Community Charge balances all accrue to the District Council. Balances in respect of Council Tax are distributed or recovered in proportion to the demands or precepts on the Fund by all of the relevant authorities as follows:

<b>2003/04</b>		<b>2004/05</b>		
<b>Total</b>		<b>Community</b>	<b>Council</b>	<b>Total</b>
<b>£</b>		<b>Charge</b>	<b>Tax</b>	<b>£</b>
		<b>£</b>	<b>£</b>	<b>£</b>
	(Reduction)/Increase in 2004/2005 Charge:			
313,803	Hertfordshire County Council	0	0	0
36,294	Hertfordshire Police Authority	0	0	0
62,120	Three Rivers District Council	0	0	0
<u>412,217</u>		<u>0</u>	<u>0</u>	<u>0</u>
	(Reduction)/Increase in 2005/2006 Charge:			
82,540	Hertfordshire County Council	0	90,487	90,487
10,383	Hertfordshire Police Authority	0	11,383	11,383
15,996	Three Rivers District Council	(421)	17,614	17,193
<u>108,919</u>		<u>(421)</u>	<u>119,484</u>	<u>119,063</u>
	(Reduction)/Increase in 2006/2007 Charge:			
0	Hertfordshire County Council	0	247	247
0	Hertfordshire Police Authority	0	31	31
0	Three Rivers District Council	(23)	47	24
<u>0</u>		<u>(23)</u>	<u>325</u>	<u>302</u>
<u>521,136</u>	(Surplus)/Deficit on Fund at 31 March 2005	<u>(444)</u>	<u>119,809</u>	<u>119,365</u>

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

The CIPFA/LASAAC "Code of Practice on Local Authority Accounting in The United Kingdom: A Statement of Recommended Practice" (the SORP) reflects the requirements of the Accounts and Audit Regulations 2003. 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:

- (a) To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority that officer is the Director of Corporate Resources.
- (b) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (c) To approve this Statement of Accounts.

### **The Chief Financial Officer's Responsibilities**

The Council's Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the SORP.

In preparing this Statement of Accounts the Director of Corporate Resources has:

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

### **CERTIFICATE OF CHIEF FINANCIAL OFFICER**

I certify that this Statement of Accounts presents fairly the financial position of the Authority at 31 March 2005 and its income and expenditure for the year ended 31 March 2005.

**D A Gardner**  
**Chief Financial Officer**  
**Director of Corporate Resources**

**Date: 18 July 2005**

# STATEMENT ON INTERNAL CONTROL

## 1. Introduction

Regulation 4 of The Accounts and Audit Regulations (England) 2003, which came into force on 1 April 2003, requires the Council to publish a statement on internal control with its financial statements in accordance with proper practice. This statement also meets the requirements of the 'Statement on the System of Internal Financial Control' as required by the Code of Practice on Local Authority Accounting.

In preparing this Statement the Council has followed advice issued by the Chartered Institute of Public Finance and Accountancy in meeting the requirements of the Accounts and Audit Regulations.

## 2. Scope of Responsibility

The 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 also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

## 3. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 system has been in place for the year ended 31 March 2005.

## 4. The Internal Control Environment

### **The key elements of the internal control environment**

#### ***The Council's Strategic Plan***

The Council and Executive Committee meet regularly to set the strategic direction of the Council and together with the Scrutiny and Policy Panels monitor service delivery. The Council updated its Strategic Plan in December 2004. Under the themes of the Community Plan – Healthy, Prosperous, Safer and Sustainable Communities – the Strategic Plan sets out for the medium term the Council's aims, objectives, activities, outcomes and SMART targets. These are included in service plans and cascaded to individual employees via the council's appraisal system. The Council intends to carry out further consultation to inform its objectives.

### ***Ensuring 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.

It has established a Standards Committee and adopted a code of conduct for Members incorporating the mandatory requirements of the model national code. There is also a code of conduct for officers.

The Resources Policy Panel discharges the functions of an audit committee by reviewing the implementation of internal and external auditors' recommendations. The Panel also agrees the internal audit programme and comments on the external audit programme.

The Council's Constitution sets out its financial and contract procedure rules, the roles and responsibilities of its statutory officers and the scheme of delegation to officers.

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

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.

### ***The Risk Management Process***

The Council first adopted a formal Risk Management Strategy in September 2003. An inter-departmental risk management team has met regularly at officer level for a number of years, and commenced the management of generic risks – those affecting all of the Council's services – and risks associated with the Council's strategic plan, business continuity and major projects. This was reflected in an updated version of the Risk Management Strategy in September 2004. In March 2005 the Strategy was revisited. Service plans now incorporate all of the Council's key objectives, including those in its Strategic Plan, and so the barriers to their achievement (i.e. the risks) are to be identified, assessed and managed through the service planning process. It was recognised that this would be the best way of 'embedding' risk management in the Authority.

### ***Ensuring the economical, effective and efficient use of resources and continuous improvement***

The Council has in place a programme of best value reviews. Reviews of ICT Services, Transportation and Social Inclusion & Working with the Voluntary Sector were progressed during 2004/05. Improvement plans resulting from the reviews are monitored regularly by Members.

The Council has further developed the links between service and financial planning to ensure that resources are directed towards the Council's priorities.

### ***Financial management***

The Council prepares a three year medium term financial plan detailing its proposed revenue and capital expenditure, how it is to be funded, and the balances held in reserve. Members are supplied with regular budget monitoring reports comparing progress against budget. The annual 'Statement of Accounts' reports the financial outcome at the end of the financial year. The Council's external auditor prepares an annual audit letter the scope of which is set out in the Audit Commission's Code of Audit Practice.

## ***Performance management***

The Council has a performance management framework agreed by the Executive Committee in November 2003. It is linked to the Council's priorities and its Best Value Performance Plan. The framework is based on the collection and interpretation of data in the form of performance indicators. The Council's Best Value Performance Plan sets out the Council's current performance and the targets it has set for improvements. These are particularly aimed at improving performance for those indicators which relate to the Council's priorities.

### **5. Review of Effectiveness**

#### **Maintaining and reviewing the effectiveness of the system of internal control**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Management Board who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

In reality the effectiveness of internal control is monitored throughout the year as evidence is compiled, e.g. internal and external audit reports.

The Executive Committee on 23 August 2004 resolved that the Resources Policy Panel oversees the annual review of the system on internal control.

During the year the Panel has:

- Monitored a high level action plan resulting from the Statement on Internal Control published in the Statement of Accounts for 2003/04
- Monitored progress on embedding risk management in the Council's processes and updated the Council's Risk Management Strategy
- Monitored the implementation of internal and external audit reports
- Reviewed the process for producing this Statement on Internal Control and recommended its adoption to the Executive Committee.

With regard to performance management, quarterly reports have been produced for the Management Board and Members and corrective action is detailed and monitored where necessary.

In the 2004/2005 financial year the Council introduced a more robust monthly budget monitoring system.

#### ***Internal audit***

Internal audit have carried out a programme of audits across the whole range of the Council's activities during the year. Their recommendations and the progress made in implementing them have been reported to the Resources Policy Panel. Deloitte who are contracted to carry out the internal audit function have given a positive opinion on the effectiveness of internal controls. They endorse the Council's view that it still needs to fully embed the risk management process,

particularly the self assessment and reporting process. Their audit plan for 2005/06 will test the adequacy of the controls to minimise risk included in risk assessments, gain assurances and, where appropriate, gather evidence that the controls are working. Any assurances that are not obtained in this way will be gathered and evidenced by officers and reported to the Resources Policy Panel to ensure that the internal control framework is robust.

### ***Other review / assurance mechanisms***

The external auditor's annual letter in respect of 2003/04 was presented to Members in November 2004. The external auditor concluded that:

- The internal auditors provided sufficient coverage of the Council's systems.
- Performance management systems were noted as generally robust.
- There were no significant concerns with the arrangements for ensuring the legality of transactions with a significant financial consequence.
- No significant weaknesses in the Council's arrangements for the prevention and detection of fraud and corruption and for maintaining proper standards of financial conduct had been identified.
- Financial and corporate planning had been further integrated but further work was needed to match the medium term financial plan with the Council's new strategic plan.
- Budget monitoring arrangements had improved, revenue variances had reduced but capital slippage remains an issue.
- The Statement on Internal Control complied with guidance, was consistent with the auditor's understanding and knowledge of the Council, noted progress in a number of areas and opportunities for further developing the Council's internal control arrangements.

The external auditors have not completed their work for the 2004/05 year, but evidence compiled by the Council would suggest that progress continues to be made in these areas.

During the year the Audit Commission carried out an inspection of the Council's Cultural Services, concluding that the services were 'fair' with 'promising' prospects for improvement.

### ***Summary of improvements identified during the review of internal control***

As a result of the work it has carried out, and the matters raised by its auditors, the Council has recognised that there are improvements that could be made:

- a) In reviewing whether financial targets are being achieved, particularly in respect of the capital programme, where slippage has occurred.
- b) In assessing the adequacy of controls to minimise risk included in risk assessments. A risk register is in place, but no assurance currently exists that the controls highlighted within it are adequate. Risk management plans could be better monitored and updated.
- c) In improving its knowledge of performance in relation to similar organisations and identifying at an earlier stage the barriers preventing better performance.

These key items are contained in the action plan to ensure continuous improvement of the internal control system is in place.

**6. Significant Internal Control Issues**

**Actions taken, or proposed, to deal with significant internal control issues**

The following high level action plan has been developed to ensure continuous improvement of the system of internal control. It includes not only the improvements identified during the review of internal control detailed above, but also, as the two final actions listed below, work required to achieve as good a judgement as possible from the Audit Commission under the 'Use of Resources' element of the Council's next comprehensive performance assessment.

Action	Priority	Responsibility	Action to date	Resolved	(Original) Implementation Date
Complete work to ensure all risk assessments (i.e. those associated with achieving the Strategic Plan, Business Continuity, major projects, departmental objectives and partnerships) are included and managed within Service Plans	High	Service Managers with advice from Director of Corporate Resources and Risk Management Group	Service Managers are completing risk assessments and plans to manage their risks and including them in their service plans. 2005/06 plans due for completion end of June.	X	June 2005
Ensure that risks are being managed and updated. Regular reports to Resources Policy Panel	High	Service Managers and Risk Management Group	Roles determined by Risk Management Strategy. Report to Policy Panel in March 2006.	X	March 2006
Test adequacy of controls to minimise risk included in risk assessments. Gain assurance and evidence that controls are working	Medium	Internal Audit Management Board	To be included in Internal Audit Plan for 2005/6. IA to obtain assurances where appropriate, and officers to complete where gaps exist.	X	September 2005

Action	Priority	Responsibility	Action to date	Resolved	(Original) Implementation Date
Review achievement of financial targets (particularly delivering the capital investment programme) and implement improvements	High	Management Board	Project Implementation Document prepared for Delivering the Capital Programme and being monitored by Capital Strategy & Asset Management Team	X	March 2006
Review Audit Commission's Key Lines of Enquiry for their 'Use of Resources' judgement under CPA2005.	High	Director of Corporate Resources (lead)	Draft consultation document (December 2004) received and read. Awaiting final version.	X	September 2005
Consider how value for money considerations can be better incorporated into decision making	Medium	Management Board	Limited benchmarking and financial appraisals are carried out. Identify at an earlier stage actions to improve performance	X	March 2006

Signed \_\_\_\_\_ Leader of the Council

Ann Shaw O.B.E.

Signed \_\_\_\_\_ Chief Executive

Dr Steven Halls

Signed \_\_\_\_\_ Chief Financial Officer

David Gardner

Date: 18 July 2005

# **INDEPENDENT AUDITORS' REPORT TO THREE RIVERS DISTRICT COUNCIL**

We have audited the statement of accounts on pages 1 to 35 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 1 to 3. This report is made solely to 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 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

## **Respective Responsibilities of the Chief Financial Officer and Auditors**

As described on page 36 the Chief Financial Officer is responsible for the preparation of the Statement of Accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance. We report to you our opinion as to whether the Statement of Accounts present fairly the financial position of the Council and its income and expenditure for the year.

We review whether the statement on internal control on pages 37 to 42 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

## **Basis of Audit Opinion**

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In our opinion the financial statements present fairly the financial position of Three Rivers District Council as at 31 March 2005 and its income and expenditure for the year then ended.

## **Certificate**

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

Signed.....

Date.....

PKF (UK) LLP  
Registered Auditor  
London