APPENDIX A

Annual Governance Statement and Statement of Accounts (Audited) 2010/2011

North Hertfordshire District Council

Annual Governance Statement 2010/2011

North Hertfordshire District Council

Annual Governance Statement

1. Scope of Responsibility

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

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

1.3 NHDC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The Council reviewed its governance framework in 2010/11 and updated the Local Code of Corporate Governance.

1.4 A copy of the code is on our website at http://www.north-herts.gov.uk or can be obtained from the Customer Service Centre, NHDC, Gernon Road, Letchworth Garden City, Herts, SG6 3JF. This statement explains how NHDC has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

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

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of NHDC'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.

2.3 The governance framework has been in place at NHDC for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

3. The Key Elements of the Governance Framework

3.1 The key elements of the systems and processes that comprise the Council's governance arrangements are described in the following paragraphs:

3.2.1 **Focus on the purpose of the Council and on outcomes for the community and create and implement a vision of the local area**

3.2.2 The Council and its strategic partners are committed to the vision for the District, 'Making North Hertfordshire a vibrant place to live, work and prosper'. The Council recognises that achieving this vision requires a joint effort and has in place this mission statement, 'To work collaboratively with our partners and communities to deliver the vision for the district of

North Hertfordshire'. The Sustainable Community Strategy was developed after extensive consultation with our partners and the public. It provides a vision for North Hertfordshire in 2021 and will be reviewed periodically to ensure that it incorporates and reflects the latest priorities towards that delivery timescale.

3.2.3 The Council's Corporate Plan focuses on what the Council will contribute to achieving its three priorities:

- **town centres** to include delivery of actions arising from each of our four town centre strategies, sustaining our town centre businesses and their redevelopment.
- **green issues** to include development of our climate change strategy and maximise opportunities for waste minimisation and recycling.
- **sustainable development** to include controlling development and preserving our green belt/rural way of life wherever possible.

3.2.4 The Council ensures that its key priorities determine the allocation of resources to deliver its agreed activities. A robust Corporate Business Planning programme is used to score identified projects against criteria including the Council's agreed policy, its priorities, the outcomes of public consultation, demonstration of continuous improvement and changing legislative need. New funding (investment) or funding from services downsized or de-prioritised is allocated to projects based on the outcomes of this exercise. Agreed projects are then included in the relevant service plans which underpin the Corporate Plan. Achievement of the Corporate Plan has been monitored throughout 2010/11 via a quarterly monitoring process and a corporate programme governance framework that ensures the Council's capacity to deliver agreed projects within the agreed cost, time and resources.

3.2.5 To further ensure that non-core resources are directed and / or redirected towards the achievement of agreed objectives and priorities within the Corporate Plan, there is an annual critical review of existing services and budgets. This process helps ensure the economic, effective and efficient use of resources and is undertaken within the framework of the Value for Money (VfM) Strategy. The process is overseen and scrutinised by the Challenge Board (made up of the Council's most senior officers). In preparation for Government funding reductions to be implemented in 2011/12, the whole of the Council's service provision was reviewed, identifying those which are discretionary or statutory and thus highlighting those where there was greater flexibility in regard to their future delivery. In addition, CIPFA undertook a Value for Money study in June 2010. This focussed the Challenge Board's discussions on the areas of high spend in the Council.

3.2.6 The financial elements of our Corporate Business Planning Process are set out in the Medium Term Financial Strategy which looks five years ahead to ensure the Council's commitment to the delivery of its Priorities. The Council has a good track record of robust financial management and internal control but our resources are necessarily limited and efficiencies increasingly required. There is, therefore, increasing reliance on excellent partnership working to ensure we demonstrate value for money in the delivery of our plans and actions.

3.2.7 The Council continues to ensure the accounts are compliant to the Local Authority Accounting Code of Practice for 2011/12 by consolidating on all the changes implemented for compliance with IFRS in 2010/11. Performance against its budget is monitored quarterly and through the Corporate Business Planning Process, and it ensures that the level of reserves it holds is sustainable over the medium term. The Medium Term Financial Strategy will continue to take account of the current economic climate and the forthcoming changes to Local Authority funding

3.2.8 The Council has a Treasury Management Strategy that is reviewed each year. This ensures the Council has sound processes and controls over the Treasury function that minimise risks to the Council.

3.2.9 The Council communicates the district vision and achievements against its priorities via a quarterly publication, 'Outlook' that is delivered to the homes of its residents. The 'Council Tax Information' leaflet gives further information on our performance, expenditure and efficiencies. It is sent out to residents' homes with their annual Council Tax bill in addition to being posted on the Council's website. For the autumn of 2011, it is planned that 'Outlook' will contain a Council review of the 2010/11 financial year summarising key achievements with details of expenditure.

3.2.10 The Council's Overview & Scrutiny Committee sets an agreed work programme for a number of Task and Finish Groups and reviews, which supplement scheduled meetings and ensure further Member scrutiny and analysis of how the Council deploys and utilises its resources. The Overview & Scrutiny Committee, having reviewed policy recommendations and completed task and finish reviews, can make recommendations to Cabinet which reflect their findings in order to further inform the decision making process.

3.2.11 The Audit and Risk Committee (now the Finance, Audit and Risk Committee) and the Overview & Scrutiny Committee provide on-going monitoring and scrutiny of performance, policy and action plans. Further challenge is provided by Members through the Finance & Performance and Partnership Sub Committees, meetings with portfolio holders, area committees and Member workshops.

3.2.12 Scrutiny is provided at Officer level through the work of the Council's internal audit function. The annual risk-based audit plan contributes to the review of the Council's key internal control systems, risk management processes and corporate governance arrangements. Internal Audit supports the design and effectiveness of the governance framework and sends representatives to attend the Risk Management and Corporate Governance Groups. Each internal audit is given an assurance level ranging from "Full" to "No". "Full" assurance is given when, in the auditor's opinion, there is a sound system of control designed to achieve the system objectives. "No" assurance is given when in the auditor's opinion control is generally weak leaving the system open to significant error or abuse.

3.2.13 Further challenge is provided by the Corporate Management Team, Challenge Board, the Extended Management Team and the Senior Managers Group.

3.3. Ensure that Members and Officer work together to achieve a common purpose with clearly defined functions and roles

3.3.1 The Constitution includes a scheme of delegation and terms of reference for each of the Council's committees. Responsibilities are recorded to make clear how the executive and non-executive functions operate within the Council. The Constitution reflects the legislative arrangements for defining executive and non-executive functions. To emphasise the separation of these functions, the terms of reference are divided into two sections: 'Council and Committees exercising Council functions' and 'Cabinets and Committees exercising executive functions'.

3.3.2 The Scheme of Delegation defines the general power to act granted to the Chief Executive and Strategic Directors within the areas of their service responsibility.

3.3.3 The Constitution is published on the Council's website.

3.3.4 Members are responsible for ensuring that effective policy making, scrutiny and monitoring of activities occur. A clear committee structure assists such responsibilities to be effectively carried out. Member expertise and involvement is further enhanced by the Portfolio roles of Cabinet Members and the on-going training and development of Members.

3.3.5 The Council has a statutory responsibility to have a Section 151 Officer, and a Monitoring Officer. The Strategic Director of Finance, Policy and Governance is the Section 151 Officer who has a duty to the Council's taxpayers to ensure that public money is being appropriately spent and managed. The Monitoring Officer is the Corporate Manager of

Legal Services who acts as guardian of the Council's Constitution to ensure lawfulness, probity and fairness of Council decision making.

3.3.6 Officer decision-making at a strategic level is led by the Corporate Management Team, which comprises the Chief Executive, the three Strategic Directors and the Head of Policy, Partnerships and Community Development. At directorate level, the senior officer Directorate Management Teams lead decision making. Our Extended Management Team, comprising the Chief Executive, Strategic Directors, Heads of Service and Corporate Managers, met monthly throughout 2010/11 to address three areas: performance review, the content and delivery of the Corporate Plan and current/future budget positions.

3.3.7 To ensure that a constructive working relationship exists between elected Members and officers, there is an agreed protocol which governs Member and Officer working relationships.

3.4. Promotes values for the Council and demonstrates the values of good governance through upholding high standards of conduct and behaviour

3.4.1 To ensure Councillors, co-opted Members of the District Council and all Town and Parish Councillors in the District behave in a way that exemplifies high standards of conduct and effective governance, the Standards Committee promotes and maintains high standards of conduct. Council Officers are likewise expected to maintain such high standards of conduct.

3.4.2 Training was offered to all Members in July 2010 on the Member Code of Conduct and training has been arranged for Standards Committee members dealing with the assessment of complaints as required under the local referral of complaints to the Standards Committee process. The Council has a staff Code of Conduct that is on the Council's intranet in the same way as all Council policies.

3.4.3 Regular records of advice on Code issues are kept by the Monitoring Officer. Reports are taken to the Standards Committee in high level generic terms on advice that has been provided and on the number and types of complaints dealt with through the local referrals process.

3.4.4 Declaring interests under the Code of Conduct is a standing item on the agenda at every committee meeting and declarations are minuted by the clerk. A legal adviser attends all Council, Cabinet, Planning and Licensing Committee meetings to advise on Code and other issues where this is requested or otherwise considered appropriate. Advice on Code-related issues is also given in the Members Information Service (a weekly briefing also produced on the intranet that gives Members regular updates on civic engagements, press releases and other items of interest or that need to be noted by Members etc). A Planning Code of Conduct is in place and is adhered to by Members who sit on the Planning Committee.

3.4.5 Members and Officers comply with a Gifts and Hospitality policy and the Registers may be reviewed by the Strategic Directors. They can also be called in at any time by the Monitoring Officer.

3.4.6 There is an internet page explaining how complaints can be made against Councillors. This can be done by either downloading a complaint form or by making a complaint on line. The web page also has links to the Code of Conduct within the Constitution. A confidential Monitoring Officer email inbox continues to be available to receive complaints.

3.4.7 A register of Council contracts is published on the Council's website. In addition details of the Council's spend above £500 (excluding VAT) is published on a monthly basis.

3.5 Take informed and transparent decisions which are subject to effective scrutiny and managing risk

3.5.1 Underpinning the Council's financial management arrangements is a regulatory framework comprising Financial Regulations, Contract Procurement Rules, annual audits of key financial systems, audits of other systems undertaken on a risk-based basis and the role of the statutory Section 151 officer.

3.5.2 A number of corporate groups collectively monitor a range of Council processes and procedures. The Corporate Governance Group monitors internal ethics and control processes including Financial Regulations. The Contracts and Procurement Group monitors the Contract Procurement Rules and the Procurement Strategy. The Information Assurance Group monitors effective use of, storage and protection of information. The Statutory Officers Group reports on internal and Member governance issues.

3.5.3 An annual review and update of Financial Regulations and Contract Procurement Rules is undertaken. These reviews are led by the Head of Finance, Performance and Asset Management and involve relevant key Officers. Key financial systems have supporting procedure notes and manuals which are regularly reviewed to ensure they remain current.

3.5.4 The Risk and Opportunities Management Policy and Strategy was reviewed in 2010/11 and will be reviewed triennially unless there are significant changes that require the documents to be updated in the interim. The Risk Management Group oversees the delivery of the Strategy and monitoring is provided by the Audit & Risk Committee (now the Finance, Audit & Risk Committee).

3.5.5 The Monitoring Officer has processes for review of legislative changes which feed into the annual review of the Constitution. Consultation meetings and other appropriate forms of communication between the Monitoring Officer and senior managers as appropriate ensures that managers can contribute to revisions of the scheme of delegation and terms of reference. The annual review of the Council’s terms of reference and scheme of delegation is discussed with the Leader of the Council an opposition group leaders. The Monitoring Officer retains overall responsibility for monitoring the terms of reference and scheme of delegation.

3.5.6 The Council’s policies and procedures are drawn up and regularly reviewed to ensure compliance with current legislation and regulations. Legal Services assists with updating and amending relevant policies and advises on legal implications including legislative impacts on decisions put forward in committee reports. Equalities implications are also considered as part of the committee reports.

3.5.7 Concerns regarding non-compliance with policies, procedures, laws and regulations can be reported through the Council’s Anti-Fraud and Corruption and Confidential Reporting (Whistleblowing) policies. Concerns raised are investigated and acted on following clearly defined guidelines.

3.5.8 The Whistleblowing policy is published on the Council’s intranet and internet to raise awareness and outline procedures in place to staff, contractors and the public. The Anti Fraud and Corruption policy is also on the intranet and is given to all new members of staff as part of our comprehensive staff induction process. An amended Whistleblowing policy was approved by Cabinet in March 2011.

3.5.9 The Monitoring Officer, after consulting with the Chief Executive and Section 151 Officer, has statutory powers to report to Council or Cabinet in relation to any function, any proposal, decision or omission, that he or she considers would give rise to unlawfulness or any decision or omission that has given rise to maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

3.5.10 The Audit and Risk Committee (now the Finance, Audit & Risk Committee) receives regular reports from the Council's External Auditor, Audit and Consultancy Services, Risk Management and the Corporate Governance Group. Where appropriate, comment is made on non-compliance with legislation that has been identified as part of a routine audit.

3.5.11 All members of the Audit & Risk Committee have received formal training in risk management so as to allow them to appreciate the nature of risk presented to the Council through its activities. Training on internal audit was also given which augmented the Committee's knowledge of this function.

3.6 Develop the capacity and capability of members and officers to be effective:

3.6.1 The Council's Appraisal Process not only identifies progress and performance, but also skills gaps. Any identified gaps are then addressed through an individual's personal development plan. Personal development and delivery against agreed personal objectives are monitored through agreed six monthly appraisal reviews for managers and ongoing one to one discussions. This process ensures that the Council continually has in post individuals equipped to carry out their functions with due regard to law, policy and regulation.

3.6.2 As part of the business planning process, each service plan includes learning and development needs linked to specific actions. This ensures that the skills sets required to deliver the key priorities and actions for the Council are identified and training and development planned and provided.

3.6.3 Skills required by the Council to ensure future service delivery are additionally identified through the Organisational Development Team. Changes to and development of training programmes are then disseminated to relevant staff through the Council's training and development programme published on the intranet and more broadly using the Council's other internal communication mechanisms.

3.6.4 The Council fully supports the development of Members and the budget for member training has been delegated to each of the political groups. Members are encouraged to have personal development programmes.

3.7 Engage with local people and other stakeholders to ensure robust public accountability

3.7.1 The Overview & Scrutiny Committee is, as are all our committees, held in public to take into account the views and needs of local people. The Scrutiny process allows councillors from all political parties to challenge Council policy and actions democratically. The Overview & Scrutiny Committee publishes an annual report as both evidence of its activities and its contribution to the Council's policy making process. The Overview & Scrutiny Committee, having reviewed policy recommendations, can make representations to Cabinet which reflect their own findings and those of the communities the Council represents.

3.7.2 Our Corporate Business Planning process includes an annual timetable of formal consultation events, ensuring our statutory, voluntary, community parish and town council, and business partners have the opportunity to comment on budget proposals (both investments and efficiencies) under consideration.

4. Review of Effectiveness

4.1 North Hertfordshire District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by:

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a. Work of managers within the authority who are responsible for the development and maintenance of the governance environment;
b. The Audit Manager's annual report;
c. The Head of Finance, Performance and Asset Management's annual review of the effectiveness of internal audit; and
d. Reports published by the external auditors and other review agencies and inspectorates.

4.2 The Corporate Governance Group, chaired by the Chief Executive, continually reviews the Council's governance framework and control environment and is responsible for the preparation of this Annual Governance Statement (AGS).

4.3 Each Head of Service and Corporate Manager is responsible for producing their own assurance statements and developing an improvement action plan to rectify any identified governance weaknesses within their service areas. The Chairman of the Audit and Risk Committee (now the Finance, Audit & Risk Committee) has prepared and signed an assurance statement for the Committee as part of the overall assurance framework supporting the AGS. The Monitoring Officer reviews all of these documents prior to preparing a statement. The Audit & Risk Committee (now the Finance, Audit & Risk Committee) members have been informed of progress on producing this Annual Governance Statement and will review it and evaluate the robustness of the underlying assurance statements and evidence.

4.4 Throughout 2010/11, the Audit and Risk Committee (now the Finance, Audit & Risk Committee) has reviewed progress against the AGS 2009/10 action plan. Some of the key areas of work that were completed include:-

- A CIPFA benchmarking review on the Council's key areas of expenditure was received and appropriate action taken to ensure the Council continues to deliver value for money services.
- A future model for undertaking in depth reviews of services was incorporated in the Corporate Business Strategy, again to ensure the Council provides value for money.
- Two new sub-committees to scrutinise finance, performance and partnerships met in 2010/11.
- A review of the Document Retention policy and consideration of an automatic system to delete old electronic records was conducted to ensure compliance with the Data Protection Act.
- The recommendations from our external auditors on improvements to IT Controls were implemented to ensure the Council's IT systems remain robust.
- A thorough review of the Officer's Conflicts of Interests policy was undertaken to ensure it remains current.
- The annual review of the Financial Regulations and Contract Procurement Rules was completed.
- Provision of updated guidance and training to Officers on the Council's Contract Procurement Rules made sure these were fully understood by commissioning Officers.
- A thorough review and re-launch of the Council's Business Continuity plans ensured the continuing resilience of Council services.
- Revision of the Council's Medium Term Financial Strategy enabled the Council to plan to provide sufficient financial resources to deliver the Priorities.
- Reporting the outcome of the application of the Partnership Toolkit against the Council's key partnerships demonstrated how the Council is ensuring it's partners have an acceptable level of governance arrangements in place.
- Preparation of an e-tendering solution for suitable contracts demonstrates the Council's commitment to delivering value for money services whilst reducing the risk of bribery and corruption.

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4.5 In addition to the Risk Management Group, the strategic importance of robust risk management is further emphasised by the designation of a Senior Officer (Head of Finance, Performance & Asset Management) and Member (Portfolio Holder for Financial Services) as 'Risk Champions'. Both 'Champions' attend the Risk Management Group and oversee the implementation of the Risk Management Strategy.

4.6 Throughout 2010/11, the Council had an internal audit function that had no operational responsibilities. This ensured that its duties were performed independently. The audit plan is reviewed after six and nine months to identify any amendments needed to reflect changing priorities, emerging risks or resourcing changes. Amendments are made in the first six months of a financial year only if significant changes occur to one of these factors. The internal audits relevant to governance arrangements in 2010/11 and their level of assurance are provided in sections 4.6.1 to 4.6.5.

4.6.1 The internal audit on Gifts and Hospitality gave a "substantial" level of assurance. Substantial Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to significant risks.

4.6.2 The internal audit on Member's expenses gave a "moderate" level of assurance. Moderate Assurance will be attributed to a system where in the auditor's judgement the recommendations relate to actions that are considered necessary to avoid exposure to more significant risks. Members expenses are verified by the Democratic Services Manager and have to be supported by valid receipts.

4.6.3 Provision of comprehensive guidance and documentation on the Council's project management framework was published on the Council's intranet shortly after the completion of the internal audit Project Management and Programme Governance. This dealt with a number of the issues raised in the audit that had a moderate level of assurance.

4.6.4 Our treasury management arrangements are subject to an annual internal audit. In 2010/11 the internal audit gave a "substantial to full" level of assurance for treasury management.

4.6.5 The internal audit on Section 106 agreements gave a moderate level of assurance. Section 106 of the Town & Country Planning Act 1990 allows a local authority to enter into a legally binding agreement or planning obligation with a land developer. The obligation either requires the developer to do something, or restricts what can be done with land following the granting of planning permission.

4.7 A review of the Conflicts of Interest policy was carried out in 2010/11 and reported to the Audit & Risk Committee in February 2011.

4.8 No cases of maladministration were found against the Council by the Local Government Ombudsman during 2010/11.

4.9 **The following paragraphs outline key improvements that will be made to the effectiveness of the governance framework following reviews completed in 2010/11**.

4.10 Following the internal audit on Section 106 agreements, the Planning Obligations Supplementary Document will be reviewed in the light of developing government policies such as the legislation providing for the Community Infrastructure Levy. To provide assurance on the accuracy of the figures recorded on Acolaid (the planning software system) used to generate reports to Committee, the Council's accountancy staff will have access to Acolaid to ensure the system has the most up to date financial position

4.11 The internal audit on Members Expenses showed that the Council's Scheme needs revision in order to resolve several apparent contradictions between it and the Council's

Financial Regulations and in order to comply with best practice. Since the audit was completed, more rigorous checking has been undertaken and any claims not covered by the scheme or in excess of the maximum permissible have not been paid. Members will be written to informing them of the requirement to provide VAT fuel receipts for claims submitted. The Members Expenses Scheme will be revised to include the requirement to produce receipts.

4.12 When undertaking a review of the governance framework at the Council, adherence to all of the Council's policies relating to control including health and safety and human resources are considered. A review of the Council's Legionella policy, following a possible outbreak from a Council facility, found that the policy was not being fully implemented. It was recommended that testing for legionella at some of the Council's facilities required improvement. Outstanding recommendations following this review will be implemented by 30 June 2011.

4.13 To comply with the latest legislation, the Council will implement an Anti Bribery & Corruption policy and the Gifts and Hospitality policy will be reviewed.

4.14 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Risk Committee (now the Finance, Audit and Risk Committee) and a plan to address weaknesses and ensure continuous improvement of the system is in place. The findings have not been considered serious but in order to ensure the improvements are delivered in 2011/12 they will be monitored via the Council's Performance & Risk management software (Covalent) and progress reports will be provided to the Committee through the year.

5. Significant Governance Issues

5.1 There are no significant governance issues to be reported in this Statement. However, an action plan to ensure continuous improvement following the review of effectiveness described in section 4 (above) will be implemented.

5.2 We propose over the coming year to take steps to address the above matters (identified in section 4.9 to 4.12) to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Statement of Accounts 2010/2011

North
Hertfordshire
District Council

FAR CTTEE (19.9.11)

Contents

The Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Strategic Director of Finance, Policy & Governance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the statement of accounts.

The Strategic Director of Finance, Policy and Governance Responsibilities

The Strategic Director of Finance, Policy and Governance is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the statement of accounts, the Strategic Director of Finance, Policy & Governance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code.
- Discussed all of the above with the Finance Portfolio Holder

The Strategic Director of Finance, Policy & Governance has also:

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

I certify that the statement of accounts gives a true and fair view of the financial position of the Authority at the 31 March 2011 and its income and expenditure for the year then ended.

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Strategic Director of Finance, Policy & Governance

The Chairman of the Approving Committee Responsibilities

I confirm that these accounts were approved by the Finance, Audit & Risk Committee at the meeting held on 19 September 2011. Signed on behalf of North Hertfordshire District Council:

Chairman of meeting approving the accounts:

Councillor D.Levett, Chairman of the Finance, Audit & Risk Committee
Date: 19 September 2011

Foreword by the Strategic Director of Finance, Policy & Governance

1 . Introduction to the Statement of Accounts

1.1 The Authority is legally required to produce a statement of accounts each year detailing the year's financial activities and the overall financial position at the 31st March. This foreword is to provide an overview of how the accounts are presented and highlight the most significant financial matters. The Statement of Accounts for the year 2010/2011 are set out in this document and consist of a number of statements. Much of the information in the document is of a technical nature and has been completed to be compliant with the 2010/11 Local Authority Accounting Code of Practice and Best Value Accounting Code of Practice. The Statement of Accounting Policies explains the policies adopted by the Council to compile these accounts.

1.2 This is the first year that all Local Authority statement of accounts have been prepared to be compliant with a Code of Practice based on International Financial Reporting Standards (IFRS). This is part of a wider public-sector initiative and follows the announcement by the Chancellor in the 2007 Budget that public sector accounts were to move to an IFRS basis. In order to achieve this compliance it has been necessary for the Authority to adopt new or amended accounting policies and to restate a number of balances and transactions. As a result some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. The material differences are explained in Note 1 to the accounts.

1.3 Readers of the Accounts will also notice a number of presentational differences between these accounts and the Statement of Accounts for 2009/10. The principle differences are as follows:

- A new statement called the Movement in Reserves Statement. This statement shows the movement in the year on the different reserves held by the Authority and is supplemented by disclosure Note 8 which details the adjustments between the accounting basis and the funding basis under regulations. As a result, the Statement of Movement on the General Fund Balance, included in the 2009/10 Statements, is no longer required.
- Other gains and losses previously recognised in the Statement of Total Recognised Gains and Losses (STRGL) are now incorporated into the Comprehensive Income and Expenditure Account. As a result, the STRGL is no longer required.
- The Authority's reserves are now categorised on the Balance Sheet as either 'useable' or 'un-useable' to assist the understanding of the nature of the reserves.
- The introduction of a further disclosure note (Note 40) called 'Amounts Reported for Resource Allocation Decisions'. This note reflects the management reporting of the Authority's income and expenditure and includes a reconciliation to the net cost of services in the Comprehensive Income and Expenditure Statement.

1.4 The statements included in this document are listed below, together with their purpose and the relationship between them:

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

Foreword by the Strategic Director of Finance, Policy & Governance

The Comprehensive Income and Expenditure Account - This statement summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. The statement is compiled in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

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

Notes to the Core Financial Statements - The notes relating to the statements above are detailed after the core statements and provide further detail to the numbers contained with the statements.

The Collection Fund Account – The Council is a billing authority for the collection of Council Tax and National Non-Domestic Rates (NNDR) for the District. This statement is a notional account to show all the income collected, payments to the major preceptors and contributions to the NNDR pool. Because the Authority is acting as an agent for the collection of Council Tax for the major preceptors and for the collection of NNDR for central government, only the Authority's share of the Collection Fund balance is reflected in the rest of the Authority's accounts and the other statements.

Notes to the Collection Fund Account - The notes relating to the Collection Fund statement.

2. Review of 2010/11

2.1 This section provides a high level summary of the financial activities of the year and highlights the most significant aspects of the financial position at the 31 March 2011. Further detail on the year end position of the useable reserves can be found in the Revenue Budget Outturn 2010/11 Report and the Capital Programme Outturn 2010/11 Report. Both of these reports were presented to Cabinet on the 14 June 2011 and are available on the Council's website:
http://www.north-herts.gov.uk/aksnherts/users/public/admin/kab14.pl?operation=SUBMIT&meet=12&cmte=CAB&grpid=public&arc=71)

Foreword by the Strategic Director of Finance, Policy & Governance

2.2 The Council has a cyclical process to determine its priorities and align both resources and finances to achieve those priorities. The three priorities for 2010/11 were as follows:

- Town centres – to include delivery of actions arising from each of our four town centre strategies, sustaining our town centre businesses.
- Green issues – to include development of our final climate change strategy and increasing opportunities for recycling and minimising waste
- Sustainable development– to include controlling development and preserving our greenbelt/rural way of life wherever possible

2.3 The three priorities formed the basis for the Corporate Plan for 2010/11 and the Council has continued to pursue the objectives of this plan through the detailed action plans.

2.4 The Council has continued the medium term financial strategy during 2010/11 and has contained spending within available resources. This strategy was developed in the midst of a severe national economic downturn and while this has played a significant part in the financial pressures the Council experienced during the year the majority of the impact of the downturn will be seen in future years. Impacts of the downturn to date include low interest rates which reduced income from investments from over £3.5million in 2008/09 to £1.7million in 2009/10 to £1million in 2010/11 and the number of claims for housing and council tax benefits has risen by over 950 (6%) during 2010/11, bringing the total amount of benefit payments in 2010/11 to £41.9million (£39.2million in 2009/10).

2.5 Efficiencies have been achieved to manage spend within available resources and continue to be able to deliver on the Council's commitment for value for money. During 2010/11 the Council achieved ongoing efficiencies of over £1.3million. Looking forward the Authority will see a reduction in Central Government funding from 2011/12 onwards, following the Government's comprehensive spending review (16.2% reduction from 2010/11 to 2011/12). Along with other financial pressures this has required the Authority to identify a further £1.9million of ongoing efficiencies in 2011/12. The Authority has been notified of the provisional financial settlement from Central Government for 2012/13 but there is a great deal of uncertainty around the funding position of Local Government from 2013/14 onwards. It is likely the Authority will need to take a flexible approach to using available resources and seek alternative means of working in order to continue to manage spend within the overall available resources.

2.6 As of the 1 April 2011 the function of concessionary fares has transferred from the District Authorities in Hertfordshire to Hertfordshire County Council. In 2010/11 the Council paid a total of £0.887million to bus operators for the scheme. The Authority's Revenue Support Grant from Central Government for 2011/12 and onwards has been adjusted to reflect the fact that this will no longer be a cost to this Authority.

2.7 The net worth of the Council is £90.3million. This represents the theoretical net value of all the Authority's assets and liabilities. Over £83.9million of this value is contained within un-useable reserves, for example a significant proportion of the Authority's value is contained within it's property portfolio. The Authority does, however, have a total of £6.3million (£8.3million at 31 March 2010) of useable reserves at 31 March 2011 which can be used to fund revenue and capital expenditure. The Authority seeks to manage the amount of available reserves in a prudent way to ensure there are adequate resources for unknown financial risks and plans for ongoing capital investment. During 2010/11 the Authority has used £2million of it's useable reserves for the purposes intended e.g. capital investment and use of earmarked reserves.

2.8 The Authority has continued to apply funding (rather than borrowing) for the purchase of all capital investment and therefore continues to be in the position of a negative capital financing requirement. This means the Authority has not needed to make a minimum revenue provision towards the cost of capital in 2010/11. However, the Authority has made voluntary revenue contributions of £0.697million to fund capital investment. This is mainly for investment in information technology.

2.9 The Authority participates in the Local Government Pension Scheme (Note 16 to the accounts). The scheme is administered by Hertfordshire County Council. The net position of the pension fund has a significant impact on the Authority's accounts. The Authority has been notified by the fund actuary that the net liability has reduced by £28million during 2010/11 to just over £32million. This reduction, seen on the Balance Sheet, is the result of positive asset returns, falling long term inflation expectations and the Government's decision to change the index used to increase pensions from RPI to CPI.

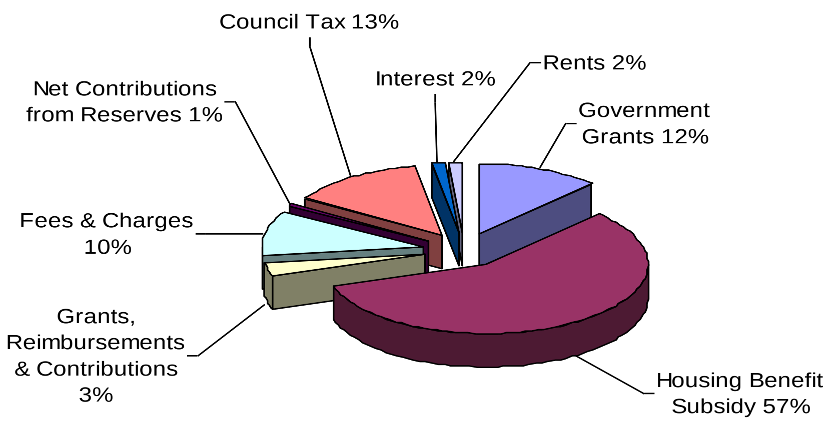
2.10 The Pension increase change from RPI to CPI has been recognised as a past service gain and as such is shown as a credit in the cost of services in the Comprehensive Income and Expenditure Statement. The relative size of this credit (£15million) does have a considerable impact on the net cost of services and is the main reason for the net difference of £13.5million between the net cost of services in 2009/10 of £24.2million and the net cost of services in 2010/11 of £10.5million. Further information on the pension scheme is given in Note 16.

3. Income and Expenditure

3.1 The four charts below show in broad terms where the money came from and what it was spent on in 2010/11. There is also a comparison with the previous financial year.

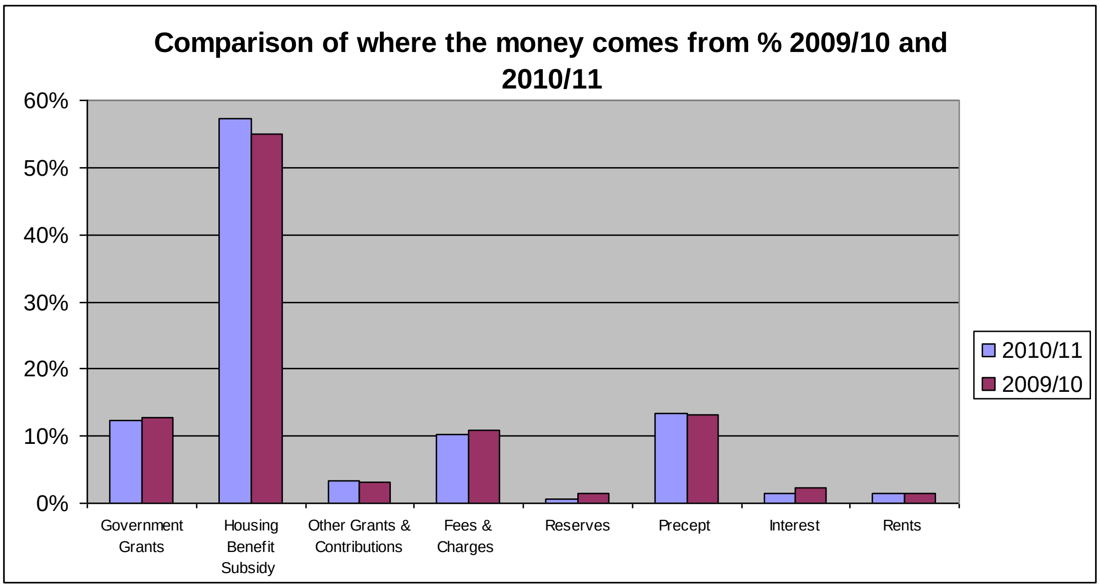
3.2 The 2010/11 gross income was £73.6million. This reflects all the income to the Authority recognised in the *Surplus or Deficit on Provision of Services* line in the Comprehensive Income and Expenditure Statement, with the exception of the past service gain on the pension fund (explained in paragraph 2.10). This gain is required to be recognised in accordance with generally accepted accounting practices but is not 'real' income to the Authority during the year. The largest single item of income was housing benefit subsidy, providing 57% of the income total. The precept from taxpayers accounted for 13%, Government Grant income for 12% and then the fourth largest source of income was from fees and charges, which accounted for 10%.

Chart 1: Where the Money comes from 2010/11

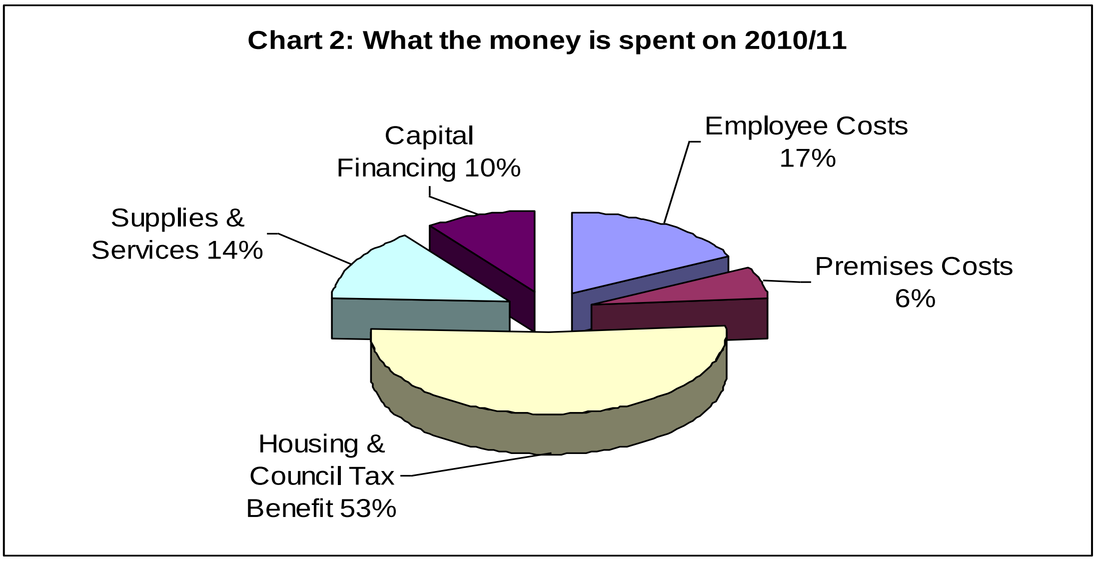


Foreword by the Strategic Director of Finance, Policy & Governance

3.3 The 2010/11 income of £73.6million is £1million (or 1.5%) higher than the £72.6million received in 2009/10. The chart below compares in percentage terms the two years' sources of income.

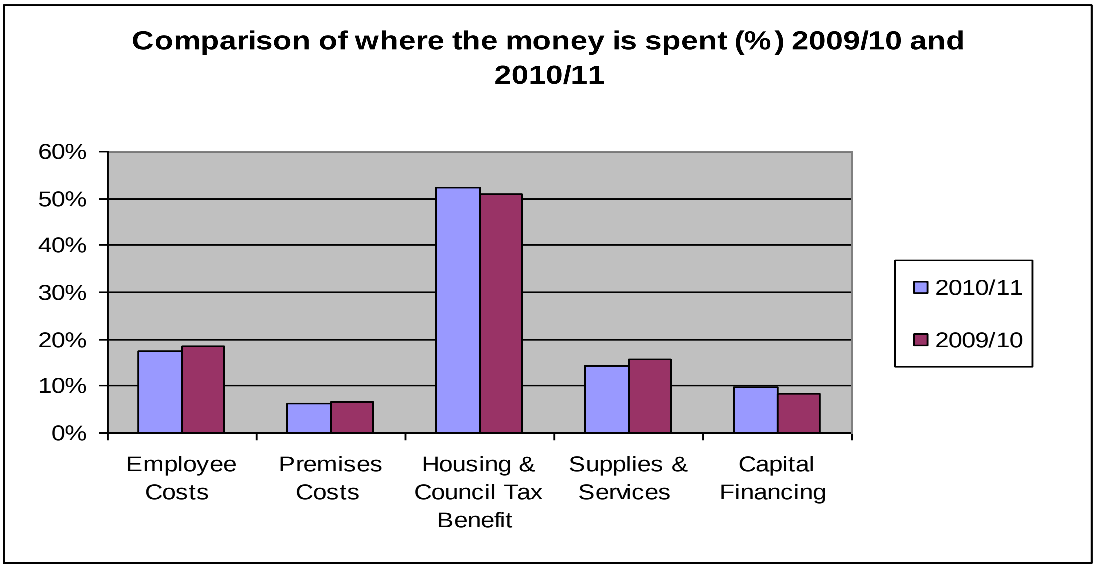


3.4 The 2010/11 gross expenditure was £80.1million. This reflects all the Authority's expenditure recognised in the *Surplus of Deficit on Provision of Services* line in the Comprehensive Income and Expenditure Statement, with the exception of the actuary accounting entries with regard to the Pension Fund which are required to be recognised in the Comprehensive Income and Expenditure Statement (paragraphs 2.9 and 2.10 refers) but are not expenditure to be funded from taxation and the revenue funding of capital which is not recognised in the Comprehensive Income and Expenditure Statement but is recognised in this chart under Capital Financing. The largest single item of expenditure was housing and council tax benefit payments, which accounted for 53% of all expenditure. Employee costs (including associated costs such as training and recruitment costs) accounted for 17% of costs. Supplies and services such as, operating vehicles and purchase of goods and services were 14% of the total expenditure. Financing charges accounted for 10% of the total and consist mainly of payments of interest on loans and contributions for capital expenditure. Premises costs (including rents, rates, utilities and repairs and maintenance) made up the remaining 6% of costs.



Foreword by the Strategic Director of Finance, Policy & Governance

3.5 The 2010/11 gross expenditure of £80.1million is £3.2million (or 4%) higher than the £76.9million spent in 2009/10. The chart below compares in percentage terms the two years' sources of expenditure and in percentage terms housing benefit payments remains the biggest source of spend for both years (51%, 2009/10).



4. General Fund Budget

4.1 The 2010/11 Original General Fund Net Budget was £18.9million (including parish precept payments), with an expected net contribution from the special reserve of £223,000. The balance at year-end on the General Fund was estimated to be a surplus of £1.6million. The actual General Fund balance as at the 31 March 2011 was a surplus of £1.9million, and there was no contribution from the special reserve. The 2010/11 general fund actual net spend was £19.0million. The minor increase in spend, over the original budget is the net result of a number of both adverse and favourable variances identified during the year. However, active financial management has ensured that the overall net spend across the Council was very close to budget.

4.2 The Council has a policy of seeking to maintain a prudent level of General Fund balance. At 31 March 2011, with a balance totalling £1.923 million, the General Fund balance was above the recommended minimum balance of £1.616 million for 2010/11, approved by Members on 4th February 2010.

5. Capital and Borrowing

5.1 In 2010/11 the Council had an original capital budget of £11.3million, approved by Council Members on 4th February 2010. The actual 2010/11 spend on capital items was £3.3million, of which £1.9million was funded from capital receipts. The remaining £1.4million was funded from revenue and third party contributions.

5.2 The economic climate delayed the completion of asset disposals during 2010/11 and hence reduced the availability of capital receipts for the funding of the capital programme. As a result a review of the capital programme was completed in the early summer of 2010/11 and the capital programme for the year was reduced to a working budget at the first quarter of £7.1million. Delays, re-scheduling of projects into 2011/12 and underspends on projects explain the remaining difference between the planned spend in 2010/11 and the actual year end spend. Further detail can be found in the capital programme 2010/11 outturn report.

Foreword by the Strategic Director of Finance, Policy & Governance

5.3 The Council funds the capital programme primarily from the proceeds of asset sales. In previous years the Council has funded part of the capital programme from loans. The value of long term loans owed to external parties for capital spending amount to £2.9million as at 31 March 2011. However, this sum should be viewed in relation to the value of the Council's assets, which are valued by a combination of replacement cost and historic cost, and have a net book value of £79million. Furthermore the Council had cash investments of £47.8million.

5.4 For 2011/12 - 2013/14 the Council has an approved capital programme of £16.5million. The major schemes are identified in the following table:

Capital Scheme	**2011/12 £'000**	**2012/13 £'000**	**2013/14 £'000**	**Total £'000**
Community Services	166	0	0	166
Computer Software and Equipment	277	0	0	277
Leisure Facilities	4,063	290	905	5,258
Museum & Arts Services	1,537	1,820	0	3,357
Advances & Cash Incentives	605	605	605	1,815
Asset Management	144	63	0	207
Parking Services	1,048	235	0	1,283
Growth Fund Projects	442	483	215	1,140
Renovation & Reinstatement Grants	842	780	780	2,402
Town Centre Enhancement	583	0	0	583
Total	**9,707**	**4,276**	**2,505**	**16,488**
To be Financed By:				
Capital Receipts	4,731	1,718	2,035	8,484
Government Grants and Other Contributions	3,962	1,378	470	5,810
Prudential Borrowing	937	1,180	0	2,117
Sums set aside from Revenue	77	0	0	77
Total	**9,707**	**4,276**	**2,505**	**16,488**

6. Group Accounts

6.1 Local Authorities have to consider all their interests, subsidiaries, associates and joint ventures and where material include the value of the interest in Group Accounts. The Council has reviewed all such categories and has no material interest that would require the Council to complete Group Accounts.

6.2 The Council is engaged in a joint agreement with other Hertfordshire District Authorities for the provision of a CCTV control room. This is a joint arrangement, not a separate entity, and so the Council's share of the jointly controlled assets and income and expenditure is included in these accounts.

7. Post Balance Sheet Events

7.1 Events may occur between the balance sheet date and the date the accounts are signed by the Strategic Director of Finance, Policy and Governance which may have a bearing on the financial results of the year. Under IAS 10 (Events after the reporting period) there is a requirement to disclose the date after which events will not have been recognised in the Statement of Accounts. This date is 9 September 2011, this being the date the final statement of accounts will be published prior to the Finance, Audit and Risk Committee for approval and signature.

8. Further Information

8.1 Further information about the accounts can be obtained by contacting the Strategic Director of Finance, Policy and Governance, Council Offices, Gernon Road, Letchworth Garden City, Herts. SG6 3JF.

Statement of Accounting Policies

1. GENERAL

1.1. The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003. Those Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

2. ACCRUALS OF INCOME AND EXPENDITURE

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards or ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Where revenue and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

3. ACQUIRED AND DISCONTINUED OPERATIONS

Acquired Operations

3.1. Acquired operations are those which the Authority has acquired during the accounting period. Transactions in relation to newly acquired functions are disclosed separately on the face of the Comprehensive Income and Expenditure Statement and distinguished from the other continuing functions. Functions that are transferred from another Authority are also disclosed separately in the comparative year. Examples of acquired operations are:

- Services and/or geographical areas for which responsibility has passed to the Authority due to the reorganisation of local government, or
- Services acquired as a consequence of legislation, e.g. a new statutory responsibility transferred from another entity.

Statement of Accounting Policies

Discontinued Operations

3.2 Discontinued operations are activities which the Authority has ceased completely (and not simply transferred to another part of the public sector). Transactions in relation to operations that are discontinued are presented separately on the face of the Comprehensive Income and Expenditure Statement and the Balance Sheet (including prior period comparatives).

4. CASH AND CASH EQUIVALENTS

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

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

5. EMPLOYEE BENEFITS

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits

5.4. As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until the employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

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

Statement of Accounting Policies

The Local Government Pension Scheme

5.6. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds (Iboxx Sterling Corporates Index, AA over 15 years).

- The assets of the Hertfordshire Local Government Pension Scheme attributable to the Authority are included in the balance sheet at their fair value:
  quoted securities – bid price
  unquoted securities – professional estimate
  unitised securities – average of the bid and offer rates
  property – market value.

5.7. The change in the net pensions liability is analysed into seven components:
Current service cost – the increase in liabilities as a result of years of service earned in the financial year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
Gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve
Contributions paid to the Hertfordshire Pension Scheme – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Statement of Accounting Policies

Discretionary Benefits

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

6. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

7. EXCEPTIONAL ITEMS

7.1. When items of income and expenditure are material and significant to the understanding of the Council's financial performance, their nature and amount is disclosed separately in the notes to the accounts.

8. FINANCIAL INSTRUMENTS

8.1. A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term 'financial instrument' covers both financial assets and financial liabilities.

Financial Liabilities

8.2. Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For the Council's borrowings, the amount presented in the Balance Sheet is the outstanding principal repayable; and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

8.3. Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

8.4. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the

Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

FINANCIAL ASSETS

8.5. Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

8.6. The Authority does not have any available for sale assets.

Loans and Receivables

8.7. Assets of this type will arise where the Council provides money, goods or services to another party and contracts to defer the settlement of the debt that arises, but in the meantime will not plan to trade the receivable on the market. Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

8.9. Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

9. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

- The Authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

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

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

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

Area Based Grant

9.5. Area Based Grant (ABG) is a general grant allocated by Central Government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-specific Grant Income in the Comprehensive Income and Expenditure Statement.

10. INTANGIBLE ASSETS

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

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

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

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

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

11. INVENTORIES AND LONG TERM CONTRACTS

11.1. Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in Progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

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

Statement of Accounting Policies

12. INVESTMENT PROPERTY

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

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

12.3. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

13.1. Jointly controlled operations are activities undertaken by the Authority in conjunction with other partners that involve the use of the assets and resources of the partners rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

13.2. Jointly controlled assets are items of property, plant or equipment that are jointly controlled by the Authority and other partners, with the assets being used to obtain benefits for the partners. The joint venture does not involve the establishment of a separate entity. The Authority accounts for only its share of the jointly controlled assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint venture and income that it earns from the venture.

14. LEASES

14.1. Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

The Authority as Lessee
Finance Leases

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

14.4. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

Statement of Accounting Policies

- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

The Authority as Lessor

Finance leases

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

14.9. Lease rentals receivable are apportioned between:

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

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

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

Operating Leases

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

15. OVERHEADS AND SUPPORT SERVICES

15.1. The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

16. PROPERTY, PLANT AND EQUIPMENT

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

Recognition

16.2. Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.

16.3. The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

Measurement

16.4. Assets are initially measured at cost, comprising:

- The purchase price
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

16.5. The Authority capitalises any borrowing costs directly incurred whilst an asset is under construction. Borrowing costs are not permitted to be capitalised once an asset is operational.

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

Statement of Accounting Policies

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

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

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

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

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

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

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

Impairment

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

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

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

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

Depreciation

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

16.18. Depreciation is calculated on a straight line allocation over the useful life of the property as estimated by the valuer. There is no depreciation in the year of disposal but a full year's depreciation charge in the year of acquisition. Assets are typically depreciated over the following lives:

Fixed Asset	Life
Operational Buildings	Up to 50 years
Vehicles & Plant	5 to 10 years
Community Assets	Up to 50 years
Infrastructure	Up to 40 years

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

16.20. An individual item of property, plant or equipment is componentised and each resultant significant component is recognised and depreciated separately subject to the following principles:

- Individual assets with a carrying value less than £500k are disregarded for componentisation (subject to an assessment of the materiality of any group of assets that have been disregarded).
- A component is judged to be significant and hence recognised and depreciated separately if the cost of the component is at least 20% of the overall cost of the asset and the component's useful life and required method of depreciation is different to the overall asset.
- The significance of a component relative to the overall asset is determined when an asset is enhanced, acquired or revalued (e.g. as part of the five-year rolling programme).
- The cost of a component is based on best estimates where historical cost of assets and components is not available.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

16.26. Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

17. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

18. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

18.1. Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

Statement of Accounting Policies

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

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

Contingent Liabilities

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

Contingent Assets

18.6. A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

19. RESERVES

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

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

20. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

20.1. Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

20.2. Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

20.3. While the Authority has a de-minimis level for capitalising expenditure on its own assets there is no de-minimis level for revenue expenditure funded from capital under statute.

Statement of Accounting Policies

21. TRUST FUNDS AND THIRD PARTY ASSETS

21.1. Where the Authority acts as sole managing trustee for a Trust the net balance of the transactions incurred in running the Trust is included in the Comprehensive Income and Expenditure Statement. The Authority also holds income received for S106 legal agreements and unilateral undertakings relating to the submission of planning applications and these are treated as receipts in advance in the Balance Sheet before they are applied.

22. VAT

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

Comprehensive Income and Expenditure Account

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

Restated 2009/10				Note	2010/11		
£'000	£'000	£'000			£'000	£'000	£'000
4,447	(1,086)	3,361	Central Services to the public		7,166	(1,298)	5,868
20,488	(6,053)	14,435	Cultural, Environmental, Regulatory & Planning Services		17,357	(4,675)	12,682
44,014	(42,266)	1,748	Housing Services		47,302	(44,796)	2,506
3,679	(2,332)	1,347	Highways & Transport Services		3,380	(2,214)	1,166
42	0	42	Adult Social Care		14	0	14
3,236	(8)	3,228	Corporate and Democratic Core		3,163	(76)	3,087
75	0	75	Non distributed costs		134	(14,988)	(14,854)
75,981	**(51,745)**	**24,236**	**Cost of Services**		**78,516**	**(68,047)**	**10,469**
		1,239	Other Operating Expenditure	9			721
		1,497	Financing and Investment Income & Expenditure	10			240
		0	(Surplus) or Deficit of Discontinued Operations				0
		(19,233)	Taxation and Non-Specific Grant Income	11			(19,459)
		7,739	**(Surplus) or Deficit on Provision of Services**				**(8,029)**
		(13,919)	(Surplus) or Deficit on Revaluation of non-current assets				3
		0	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				0
		31,752	Actuarial gains / losses on pension assets / liabilities	16			(14,577)
		17,833	**Other Comprehensive Income and Expenditure**				**(14,574)**
		25,572	**Total Comprehensive Income and Expenditure**				**(22,603)**

Best Value Accounting Code of Practice (BVACOP):
The above revenue service analysis is compliant with the latest accounting code of practice.

Movement in Reserves Statement

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

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	General Fund Balance	**Earmarked Reserves**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 31 March 2009	**1,584**	**4,328**	**5,507**	**86**	**11,505**	**81,755**	**93,260**
Movement in Reserves during 2009/10:							
Surplus or (deficit) on provision of services	(7,739)	0	0	0	(7,739)	0	(7,739)
Other Comprehensive Expenditure and Income	0	0	0	0	0	(17,833)	(17,833)
Total Comprehensive Expenditure and Income	**(7,739)**	**0**	**0**	**0**	**(7,739)**	**(17,833)**	**(25,572)**
Adjustments between accounting basis & funding basis under regulations **(Note 8)**	7,338	0	(2,778)	(35)	4,525	(4,525)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(401)**	**0**	**(2,778)**	**(35)**	**(3,214)**	**(22,358)**	**(25,572)**
Transfers (to)/from Earmarked Reserves **(Note 38)**	1,008	(1,008)	0	0	0	0	0
Increase / (Decrease) in Year	**607**	**(1,008)**	**(2,778)**	**(35)**	**(3,214)**	**(22,358)**	**(25,572)**
Balance at 31 March 2010	**2,191**	**3,320**	**2,729**	**51**	**8,291**	**59,397**	**67,688**
Movement in Reserve during 2010/11:							
Surplus or (deficit) on provision of services	8,029	0	0	0	8,029	0	8,029
Other Comprehensive Expenditure and Income	0	0	0	0	0	14,574	14,574
Total Comprehensive Expenditure and Income	**8,029**	**0**	**0**	**0**	**8,029**	**14,574**	**22,603**
Adjustments between accounting basis & funding basis under regulations **(Note 8)**	(8,593)	0	(1,636)	213	(10,015)	10,015	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**(564)**	**0**	**(1,636)**	**213**	**(1,986)**	**24,590**	**22,603**
Transfers (to)/from Earmarked Reserves **(Note 38)**	296	(296)	0	0	0	0	0
Increase / (Decrease) in Year	**(268)**	**(296)**	**(1,636)**	**213**	**(1,986)**	**24,590**	**22,603**
Balance at 31 March 2011	**1,923**	**3,024**	**1,093**	**264**	**6,305**	**83,986**	**90,291**

Balance Sheet as at 31st March 2011

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

Restated 1st April 2009 £'000	Restated 31st March 2010 £'000		Note	31st March 2011 £'000
51,761	63,452	Property, Plant and Equipment	24	61,269
13,853	13,874	Investment Property	25	13,615
5,157	5,157	Assets Held for Sale	26	3,750
388	372	Intangible Assets	29	442
8,758	4,008	Long Term Investments (non property)	34	14,258
225	204	Mortgages	34	193
105	34	Loans	34	14
0	0	Other Long Term Debtors	34	200
80,247	**87,101**	**Long Term Assets**		**93,741**
48	54	Inventories	31	51
9,813	8,735	Short Term Debtors	32	8,149
41,250	42,500	Short Term Non Property Investments	34	29,501
0	4,074	Cash & Cash Equivalents	12	4,425
51,111	**55,363**	**Current Assets**		**42,126**
(1,918)	(164)	Short Term Borrowing	34	(2,152)
(2,803)	(4,350)	Short Term Creditors	33	(3,105)
(1,817)	(4,264)	Receipts in Advance	33	(2,628)
(277)	0	Bank Overdraft	12	0
(6,815)	**(8,778)**	**Current Liabilities**		**(7,885)**
(3,209)	(3,044)	Long Term Borrowing	34	(2,892)
(453)	(423)	Long Term Creditors	30	(354)
(595)	(737)	Provisions (> 1 year)	36	(705)
(26,196)	(60,486)	Liability related to Pension Scheme	16	(32,189)
0	53	Deferred Credits		52
(830)	(1,361)	Capital Grants Receipt in Advance	18	(1,603)
(31,283)	**(65,998)**	**Long Term Liabilities**		**(37,691)**
93,260	**67,688**	**Net Assets**		**90,291**
11,505	8,291	Usable Reserves	38	6,305
81,755	59,397	Unusable Reserves	39	83,986
93,260	**67,688**	**Total Reserves**		**90,291**

Cash Flow Statement

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

Restated 2009/10 £'000		**2010/11 £'000**
7,739	Net (surplus) or deficit on the provision of services	(8,029)
(9,790)	Adjustments for non-cash movements	11,314
0	Adjustments for items that are investing and financing activities	0
(2,051)	**Net cash flows from operating activities**	**3,285**
4,700	Investing Activities	(1,167)
1,702	Financing Activities	(1,767)
4,351	**Net Increase or decrease in cash and cash equivalents**	**351**
(277)	Cash and Cash Equivalents at the beginning of the year	4,074
4,074	**Cash and Cash Equivalents at the end of the year**	**4,425**

Notes to the Core Financial Statements

1. TRANSITION TO IFRS

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

1. Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The benefit covered by this heading is holiday pay and banked flexible hours.

Employees build up an entitlement to paid holidays as they work. Those employees who are eligible for the flexible hours scheme can also build up a balance of hours when they have worked more than the contracted hours. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave and flexible hours earned but not taken at 31st March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Short Term Creditors	(2,693)	(110)
Accumulated Absences Account	0	110

31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Short Term Creditors	(4,239)	(111)
Accumulated Absences Account	0	111

2009/10 Comprehensive Income and Expenditure Statement – Cost of Services (Net)

	2009/10 Statements £'000	Adjustments Made £'000
Non-Distributed Costs	74	1

Notes to the Core Financial Statements

2. Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The distinction between operating leases and finance leases is made by assessing the extent to which risks and rewards to ownership of the leased asset lie with the lessor or the lessee. The comparison of the present value of the minimum lease payments to the fair value of the leased asset is just one potential indicator of a finance lease. The changes in accounting treatment can result in property, plant and equipment being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The Government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

The Council has one building lease where the accounting treatment has changed following the introduction of the Code. The Council leases the Letchworth multi-storey car park from the Letchworth Garden City Heritage Foundation. The lease term is 60 years from 19th April 1977. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been classified as a finance lease.

As a consequence of classifying the buildings element of the lease as a finance lease, the financial statements have been amended as follows:

- The Council has recognised an asset (the building), a finance lease liability, and a corresponding balance in the Revaluation Reserve.
- The operating lease charge within Highways and Transport Services has been reduced by the amount that relates to the buildings element of the lease payments.
- A depreciation charge has been included within Highways and Transport Services.
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account, and the General Fund has been charged with the Minimum Revenue Provision (with the credit being made to the Capital Adjustment Account). These transfers are reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.
- The interest element of the lease payment in respect of the buildings element is charged to the Financing and Investment income and expenditure line in Surplus or Deficit on the Provision of Services.

The Council also has five other leases where the accounting treatment has changed following the introduction of the Code. The council has four separate leases for wheeled compost bins which had a total initial value of £517,800 and a lease for an envelope inserter machine which had an initial value of £32,325. These leases were previously classified as operating leases, but under the Code, have been classified as finance leases.

The financial statements have been amended as follows:

- The Council has recognised the wheeled compost bins and envelope inserter as separate assets and recognised separate corresponding finance lease liabilities.
- The operating lease charge within Cultural, Environmental & Planning Services (in the case of the wheeled compost bins) and Central Services (in the case of the envelope inserter machine) has been reduced by the amount that relates to the lease payments.
- A depreciation charge has been included within Cultural, Environmental & Planning Services (in the case of the wheeled compost bins) and Central Services (in the case of the envelope inserter machine).
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account, and the General Fund has been charged with the Minimum Revenue

Notes to the Core Financial Statements

Provision (with the credit being made to the Capital Adjustment Account). These transfers are reflected in the Balance Sheets as at 1 April 2009 and 31 March 2010, and the adjustments that relate to 2009/10 are reported in the Movement in Reserves Statement for the year.

- The interest element of the lease payment is charged to the Financing and Investment income and expenditure line in Surplus or Deficit on the Provision of Services.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Property, Plant and Equipment	46,435	925
Finance Lease Liability	0	(453)
Capital Adjustment Account	95,301	(120)
Revaluation Reserve	8,243	592

31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Property, Plant and Equipment	58,028	856
Finance Lease Liability	0	(423)
Capital Adjustment Account	93,594	(126)
Revaluation Reserve	21,913	559

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements £'000	Adjustments Made £'000
Central Services to the Public*	3,314	3
Cultural, Environmental, Regulatory & Planning Services*	13,459	(15)
Highways & Transport Services*	1,318	22
Financing and Investment income and expenditure	2,306	28

*cost of services (net)

The change to the net expenditure of continuing operations (shown on the Comprehensive Income and Expenditure Statement) consists of the removal of the operating lease charge (£63,000) and the inclusion of the depreciation charge (£102,000).

The net increase in Surplus or Deficit on the Provision of Services is removed by the transfer of the depreciation charge to the Capital Adjustment Account and the inclusion of the Minimum Revenue Provision charge of £63,000. These transfers are shown in the Movement in Reserves Statement.

3. Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

Notes to the Core Financial Statements

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- The balance of unspent capital grants were previously recognised as a receipt in advance under current liabilities. Those capital grants at 31 March 2009 for which there were no conditions attached have been transferred to the Capital Grants Unapplied Account.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- A grant with conditions attached was received in 2009/10 but not used. There is reasonable assurance that the conditions will be met. Following the change in accounting policy, the grant is recognised on the Balance Sheet in the Capital Grants Received in Advance Account until the conditions of the grant are satisfied.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Government Grants Deferred Account	(3,914)	3,914
Receipts in Advance	(2,733)	916
Capital Grants Received in Advance	0	(830)
Capital Adjustment Account	95,301	(3,914)
Capital Grants Unapplied Account	0	(86)

31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Government Grants Deferred Account	(4,004)	4,004
Receipts in Advance	(5,678)	1,448
Capital Grants Received in Advance	0	(1,362)
Capital Adjustment Account	93,594	4,039
Capital Grants Unapplied Account	0	(51)

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements £'000	Adjustments Made £'000
Central Services to the Public*	3,314	43
Cultural, Environmental, Regulatory & Planning Services*	13,459	566
Housing Services*	1,748	337
Highways and Transport Services*	1,318	206
Taxation and Non Specific Grant Income	(18,878)	(1,242)

*cost of services (net)

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and the current accounting policies.

Notes to the Core Financial Statements

4. Property, Plant and Equipment

Under the code, the definition of an investment property is "property held solely to earn rentals or for capital appreciation or both, rather than for:
a) use in the production or supply of goods or services or for administrative purposes, or
b) sale in the ordinary course of operations."

The Code requires gains and losses arising from changes in the fair value of investment property to be recognised in Surplus or Deficit on the Provision of Services and does not allow any balance relating to investment properties to be held in the Revaluation Reserve.

Following a review of the Council's investment property portfolio it has been necessary to re-classify four properties (Jubilee House, Thomas Bellamy House, Barkway Street Bus Shelter and Barkway Street Public Convenience) as operational land and buildings. As a consequence the financial statements have been amended as follows:

- The carrying value for these four properties at 31 March 2009 has been transferred from Investment Properties to Property, Plant and Equipment
- A depreciation charge has been included within Cultural, Environmental, Regulatory, & Planning Services and the Highways and Transport Services
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account.
- The balance in the Revaluation Reserve for investment properties as at 31 March 2009 has been written off to the Capital Adjustment Account.
- The revaluation and impairment of investment properties during 2009/10 have been recognised in the Financing and Investment Income and Expenditure line in the Surplus or Deficit on the Provision of Services.

Under the Code, property previously classed as Surplus Properties do not necessarily qualify to meet the Asset Held for Sale criteria. The code defines assets as 'held for sale' if their carrying amount is going to be recovered principally through a sale transaction rather than through continued use and a list of specific criteria have to be met for assets to qualify.

As a consequence the financial statements have been amended as follows:

- Just three items of land have met the criteria of 'held for sale' and the remaining assets held as 'surplus' at 31 March 2009 have been transferred to Property, Plant and Equipment
- A depreciation charge has been included within Cultural, Environmental, Regulatory and Planning Services
- The depreciation charge has been transferred from the General Fund to the Capital Adjustment Account.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £'000	**Adjustments Made £'000**
Property, Plant & Equipment	46,435	471
Investment Property	14,224	(371)
Assets Held for Sale	9,188	(4,031)
Revaluation Reserve	8,243	(1,147)
Capital Adjustment Account	95,301	1,147

Notes to the Core Financial Statements

31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Property, Plant & Equipment	58,028	558
Investment Property	14,345	(471)
Assets Held for Sale	9,271	(4,114)
Revaluation Reserve	21,913	(1,247)
Capital Adjustment Account	93,594	1,231

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements £'000	Adjustments Made £'000
Cultural, Environmental, Regulatory & Planning Services*	13,459	15
Highways and Transport Services*	1,318	1
Financing & Investment Income & Expenditure	2,306	(98)

*cost of services (net)

There is no change to the General Fund Balance, as depreciation charges and gains or losses arising from changes in the fair value of properties are transferred out of the General Fund under both the previous and the current accounting policies.

5. Cash and Cash Equivalents

Under the Code, the definition of cash is "cash on hand and demand deposits" and the definition of cash equivalents is "short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value". Under the previous accounting arrangements the inclusion of cash equivalents was not required and the heading was limited to "cash" only.

There is no change to the opening 1 April 2009 Balance Sheet as there were no investments which met the definition of cash equivalent. The following changes have been made to the Balance Sheet at 31 March 2010:

31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Cash and Cash Equivalents	180	3,895
Short Term Non Property Investments	46,395	(3,895)

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the Authority in the 2011/12 financial statements.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued, but is not yet required to be adopted by the Authority, in this case heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. However, the Authority is required to make disclosure of the estimated effect of the

Notes to the Core Financial Statements

new standard in these (2010/11) financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Authority's Balance Sheet in the 2011/12 financial statements.

Heritage assets are assets that are held by the Authority principally for their contribution to knowledge or culture. The heritage assets held by the Authority are the collections of assets and artefacts either exhibited or stored in the Local Authority Museums (Letchworth and Hitchin Museums and Art Galleries) or the Museum Resource Centre and store (Burymead Road, Hitchin).

The principal collections of heritage assets include (all numbers are approximations):

- Archaeological (small finds such as coins, jewellery, nails) – 10,000 items
- Archaeological (other finds such as pots and broken pottery, human and animal bone, building materials) – 350,000 items
- Art collection – 2,600 items
- Ceramics and glass – 600 items
- Costume and costume accessories – 4,500 items
- Documents – 20,000 items
- Military – 1,000 items
- Natural Sciences – 500,000 items
- Photography – 500,000 items
- Social History – 22,000 items

The collections are not currently recognised in the financial statements as in most cases no information is available on the cost of the assets.

The Code will require that heritage assets are measured at valuation in the 2011/12 financial statements (including 2010/11 comparative information). The 2011/12 Code will permit some relaxations in the valuation requirements of heritage assets and this will mean that the Authority is able to recognise some of its collections of heritage assets in the Balance Sheet. The Authority anticipates it will be able to recognise 14 pieces from the art collection which are considered to have a material value (total valuation of £372,000) using at its base the individual insurance valuations (which are based on market values) held by the Authority. The Authority is unlikely to be able to recognise the majority of the collections in future financial statements as it is of the view that obtaining valuations for the vast majority of these collections would involve a disproportionate cost of obtaining the information in comparison to the benefits to the users of the Authority's financial statements – this exemption is permitted by the 2011/12 Code.

The carrying value of heritage assets currently held in the Balance Sheet as Community Assets (at cost) within Property, Plant and Equipment at 31 March 2011 is £28,893. A market value is not available and is not expected to be available in future financial statements. The carrying amount of the remaining community assets at 31 March 2011 is £1.8million.

The Authority estimates that the value of all the collections from its insurance records is £2.4million as at 1 April 2010. As these assets have not yet been recognised in the Balance Sheet recognition would require a corresponding increase in the Revaluation Reserve, i.e. a revaluation gain.

The Authority considers that the heritage assets held by the Authority will have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to the Authority's heritage assets.

Community Assets

As a consequence of the adoption of FRS 30 in the Code, the Code added the option for local authorities to extend the measurement and disclosures required by heritage assets to community assets, a sub classification of Property, Plant and Equipment in the Balance Sheet. The Authority has opted to not change its accounting policy in relation to the measurement and disclosure of community assets in the financial year 2011/12 as it believes depreciated replacement cost is a reasonable measurement of the assets and there remains no readily available market value to use as fair value.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies (see the Statement of Accounting Policies), the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority has determined that the lease of Letchworth multi-storey car park from Letchworth Garden City Heritage Foundation is a finance lease and has recognised the property as an asset on the balance sheet with a carrying value at the 31 March 2011 of £580,180. A liability for the lease repayments has also been recognised. This judgement has been made due to; the length of the lease being most of the useful life of the building, the significant capital investment planned in the building and the materiality of the income earned from operating the property.
- The majority of the Authority's investment properties are industrial sites which attract rental income at the market rate. As such, the properties clearly meet the definition for classification as investment. The Authority has determined that the ownership of the Chuchgate site in Hitchin is also an investment property (carrying value of £1.6million) as there is no alternative policy for ownership other than for rental income or capital appreciation.
- The Authority spent £518,303 in 2009/10 and a further £5,789 in 2010/11 on the Churchgate development project. This has been accounted for as revenue expenditure funded by capital under statute on the basis that the project will result in an enhanced third party asset.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over estimated useful lives. If for any reason an individual asset should deteriorate at a quicker rate than expected then this could bring into doubt the useful lives assigned to individual assets.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings would increase by £251,000 for every year that useful lives had to be reduced.

Notes to the Core Financial Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Investment Properties	Investment Properties are not depreciated but are revalued annually according to market conditions at the year-end. In the current economic climate it is uncertain if there will be a significant change in property prices over the next 12 months. However, the majority of the Authority's investment properties are ground leases which are considered to be relatively secure investments and less liable to large swings in value.	A yield of 7.5% has been used in the calculation of the value of investment properties. A 0.5% reduction in the yield would reduce the carrying value of investment property by approximately £1million (this is a simple estimation for illustration only and does not consider the complexities and circumstances of individual assets).
Debtors	At 31 March 2011 the Authority had a balance of short term debtors of £9.1million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of £0.9million was appropriate. However, in the current economic climate it is not certain if such an allowance is sufficient.	If collection rates were to deteriorate, a doubling of the amount of impairment of the doubtful debt would require an additional £0.9million to be set aside.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured and the sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out in the table below. The assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability had decreased by £28.3million, as a result of positive asset returns, falling long term inflation expectations and the pension increase change from RPI to CPI.

Change in assumptions at year ended 31st March 2011	Approximate % Increase to Employer Liability	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	9%	10,955
1 year increase in Member Life Expectancy	3%	3,559
0.5% increase in the Salary Increase Rate	2%	1,920
0.5% increase in the pension increase rate	8%	9,100

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The Code of Practice requires the disclosure of the nature and amount of any material items of income and expenditure which are not separately disclosed on the face of the Comprehensive Income and Expenditure Statement.

The following material items of income and expenditure are included in the Cost of Services in the Comprehensive Income and Expenditure Statement:

Notes to the Core Financial Statements

Category on Comprehensive Income and Expenditure Statement	Description of Material Item	Comment
Non Distributed Costs	Past Service Gain / Loss to the Pension Fund	A credit of £15million for the past service gain on the pension fund is included as a non distributed cost. The past service gain is due to the pension increase change from RPI to CPI (further information provided in note 16). There was a past service cost of £43,000 in 2009/10.
Housing Services	Housing and Council Tax Benefits	The Authority paid a total of £33.8million of Housing Benefit payments and £8.2million of Council Tax Benefit payments in 2010/11 (£31.5million and £7.7million in 2009/10, respectively). This was mostly funded by a grant subsidy from the Department for Work and Pensions of £41.3million (£38.9million in 2009/10)
Highways and Transport Services	Concessionary Fares	The payment to the bus operators for concessionary fares was £886,886 in 2010/11 (£847,648 in 2009/10). As of 1 April 2011 this function has transferred to Hertfordshire County Council and, therefore, will not be included as a Cost of Service for this Authority in 2011/12. The Authority's Revenue Support Grant from Central Government for 2011/12 will be adjusted accordingly.

6. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2010/11 or 2009/10. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2010/11. All operations are therefore classified as '*continuing operations*'.

7. PRIOR PERIOD ADJUSTMENTS

There have been no changes in accounting policies, other than those described in note 1 for the transition to IFRS, or any material errors to require a prior period adjustment.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

Notes to the Core Financial Statements

The first table shows the adjustments made in the comparative year 2009/10:

2009/10	Useable Reserves			Movement in Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(3,096)	0	0	3,096
Movements in the market value of Investment Properties	98	0	0	(98)
Amortisation of Intangible Assets	(138)	0	0	138
Capital Grants and contributions applied	1,207	0	35	(1,242)
Revenue Expenditure funded from capital under statute	(3,384)	0	0	3,384
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	310	0	0	(310)
Capital Expenditure charged against the General Fund	155	0	0	(155)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	108	(108)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	2,893	0	(2,893)
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool.	(15)	15	0	0
Transfer from deferred capital receipts reserve upon receipt of cash.	0	(22)	0	22
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(4,644)	0	0	4,644
Employers pensions contributions and direct payments to pensioners payable in year	2,107	0	0	(2,107)
Adjustments primarily involving the Collection Fund Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements.	(46)	0	0	46
Total Adjustments	**(7,338)**	**2,778**	**35**	**4,525**

Notes to the Core Financial Statements

The following table shows the adjustments made in 2010/11:

2010/11	Useable Reserves			Movement in Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments Primarily involving the Capital Adjustment Account: Reversal of items debited or credited to the comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	(5,148)	0	0	5,148
Movements in the market value of Investment Properties	(259)	0	0	259
Amortisation of Intangible Assets	(231)	0	0	231
Capital Grants and contributions applied	983	0	(212)	(771)
Revenue Expenditure funded from capital under statute	(1,325)	0	0	1,325
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	(100)	0	0	100
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement::				
Statutory Provision for the financing of capital investment	69	0	0	(69)
Capital Expenditure charged against the General Fund	628	0	0	(628)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	247	(247)	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	1,889	0	(1,889)
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool.	(14)	14	0	0
Transfer from deferred capital receipts reserve upon receipt of cash.	0	(20)	0	20
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	11,517	0	0	(11,517)
Employers pensions contributions and direct payments to pensioners payable in year	2,203	0	0	(2,203)
Adjustments primarily involving the Collection Fund Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements.	7	0	0	(7)
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	16	0	0	(16)
Total Adjustments	**8,593**	**1,636**	**(212)**	**(10,017)**

Notes to the Core Financial Statements

9. OTHER OPERATING EXPENDITURE

2009/10 £000		2010/11 £000
1,332	Parish council precepts	854
0	Levies	0
15	Payments to the Government Housing Capital Receipts Pool	14
(108)	(Gains)/losses on the disposal of non-current assets	(147)
1,239	**Total**	**721**

10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2009/10 £000		2010/11 £000
361	Interest payable and similar charges	303
3,634	Pensions interest cost and expected return on pensions assets	1,545
(1,676)	Interest receivable and similar income	(1,018)
(822)	Income and expenditure in relation to investment properties	(590)
1,497	**Total**	**240**

11. TAXATION & NON-SPECIFIC GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11.

2009/10 £000	**Credited to Taxation and Non Specific Grant Income**	2010/11 £000
10,865	Council Tax Income	10,642
1,479	Revenue Support Grant	1,023
6,408	Redistributed National Non-Domestic Rates	7,046
127	Area Based Grant	119
354	Capital Grants and Contributions (see note 18)	629
19,233		**19,459**

12. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

1st April 2009 £'000	31st March 2010 £000		31st March 2011 £000
22	8	Cash held by the Authority	13
(299)	171	Bank current accounts	312
0	3,895	Short-term Deposits with Banks / Building Societies	3,100
0	0	Short-term Deposit with Other Local Authority	1,000
(277)	**4,074**	**Total**	**4,425**

13. UNDISCHARGED OBLIGATIONS ARISING FROM LONG TERM CONTRACTS

The Authority is committed to making payments estimated at £8.9million in 2011/12. The estimated liability of the contracts from 1 April 2011 to contract expiry is £23.1million. Those contracts with an annual value of over £25,000 and with more than one year left to run, are shown below.

Contractor	Service	Payment 11/12 £'000	Contract expiry date
Veolia Environmental Services (UK) PLC	Waste collection, Recycling, Street Cleansing	5,095	31 July 2014
Stevenage Leisure Limited	Royston Leisure Centre, Hitchin Swim Centre	122	31 March 2017
Stevenage Leisure Limited	Letchworth Outdoor Pool, Letchworth Leisure Centre, Fernhill	86	31 March 2014
Liberty Property Services	Public Convenience Cleaning	98	31 May 2014
Eastern Landscape Service Ltd, Acacia Tree Surgery, Maydencroft Rural Ltd & PR Newson	Tree Maintenance	163	31 October 2013
1st Choice Recruitment, Interaction Recruitment, Spring Personnel, Steria Recruitment	Tree Maintenance	230	30 June 2014
G4S Cash Services (UK) Ltd	Car Park Coin Collection	35	30 June 2012
Allianz Engineering, ACE European Ltd, DAS Legal Expenses Insurance, Travelers Insurance Company,	Provision of Insurance Services	260	31 March 2013
Cirrus Communications	Care Line Equipment	100	31 March 2015
Vodafone	Mobile Phones	35	31 December 2012
PSK Industrial Cleaning Services	Building Cleaning	158	31 March 2013
Total Value		**6,382**	

14. TRADING OPERATIONS

The Council has no trading operations.

15. CONTRIBUTION TO HOUSING POOLED CAPITAL RECEIPTS

The Council transferred its housing stock in March 2003, however capital receipts relating to right to buy mortgages were still received in 2010/11. The payment of £13,692 is shown in the Comprehensive Income and Expenditure Account under Other Operating Expenditure (See Note 9). The payment is offset by an appropriation from Useable Capital Receipts and is shown in the Statement of Movement on the General Fund Balance.

16. PENSION SCHEMES

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

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

Further information concerning the scheme 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, Herts. SG13 8DQ.

Notes to the Core Financial Statements

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

Local Government Pension Scheme	**2009/10**	**2010/11**
Comprehensive Income and Expenditure Account:	**£'000**	**£'000**
Cost of Services:		
Current Service Cost	967	1,926
Past Service Costs (including curtailments)	43	(14,988)
Financing and Investment Income and Expenditure:		
Interest Costs	5,882	6,860
Expected Return on Assets in the Scheme	(2,248)	(5,315)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**4,644**	**(11,517)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
Actuarial (gains) and losses	31,752	(14,577)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**36,396**	**(26,094)**

Movement in Reserves Statement:	**2009/10 £'000**	**2010/11 £'000**
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(4,644)	11,517
Actual Amount charged against the General Fund balance for pensions in the year:		
• Employers' contributions payable to the scheme	2,107	2,203
Net chargeable amount against the General Fund balance	**2,107**	**2,203**

The significant net gain of £26.094 million charged to the Comprehensive Income and Expenditure Statement during the year is mainly a result of the following key changes:

- The deficit has reduced due to positive asset returns and falling long term inflation expectations;
- The deficit has fallen further due to the pension increase change from RPI to CPI, see note * below the next table
- The projected pension expense for next year has also fallen for the same reasons.

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £32.6million. The cumulative actuarial loss to the 31 March 2010 was £47.2million.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities:

Local Government Pension Scheme	**2009/10**	**2010/11**
	£'000	**£'000**
Opening Balance 1 April	86,286	137,185
Current Service Cost	967	1,926
Interest Cost	5,882	6,860
Contributions by scheme participants	626	631
Actuarial (gains) and losses	47,117	(8,698)
Benefits paid	(3,736)	(4,277)
Past Service Gains*	25	(15,022)

Notes to the Core Financial Statements

Losses on Curtailments	18	34
Closing Balance 31 March	**137,185**	**118,639**

*In the UK budget statement on the 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing the Authority's liabilities in the scheme by £15.022 million and has been recognised as a past service gain in accordance with guidance set down in UTIF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the general fund.

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme	**2009/10**	**2010/11**
	£'000	**£'000**
Opening Balance 1 April	60,090	76,699
Expected Rate of Return	2,248	5,315
Employers Contributions	2,104	2,203
Contributions by scheme participants	626	631
Actuarial gains and (losses)	15,367	5,879
Benefits paid	(3,736)	(4,277)
Closing Balance 31 March	**76,699**	**86,450**

The expected return on scheme assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 31 March 2010 for the year to 31 March 2011).

Expected returns on equity investments is based on total returns which are specified by a risk premium relative to cash. The same principle is applied to both UK and overseas (developed market) equities.

The actual return on scheme assets in the year was £6.729million (2009/10: £19.033 million).

The scheme history is as follows:

	31 March 2007 £'000	**31 March 2008 £'000**	**31 March 2009 £'000**	**31 March 2010 £'000**	**31 March 2011 £'000**
Present Value of Liabilities	(107,017)	(89,054)	(86,286)	(137,185)	(118,639)
Fair Value of Assets	82,545	77,805	60,090	76,699	86,450
Deficit in the scheme	**(24,472)**	**(11,249)**	**(26,196)**	**(60,486)**	**(32,189)**

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £118.639 million has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £32.189 million. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension scheme by the Council in the year to 31 March 2012 is £2,072,000.

Notes to the Core Financial Statements

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the latest formal valuation of the Fund as at 31 March 2011. The main assumptions used in their calculations are:

	31 March 2010 %	31 March 2011 %
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.8	7.5
Bonds	5.0	4.9
Property	5.8	5.5
Cash	4.8	4.6
Mortality Assumptions:		
Longevity at 65 for current pensioners:		
Men	22.7	21.0
Women	26.1	23.8
Longevity at 65 for future pensioners		
Men	24.8	22.9
Women	28.3	25.7
Rate of inflation	3.8	2.8
Rate of increase in salaries	5.3	5.1
Rate of increase in pensions	3.8	2.8
Discount rate	5.5	5.5
Proportion of Employees opting to take a commuted sum		
- pre April 2008 service	50.0	50.0
- post April 2008 service	75.0	75.0

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

	Proportion of Total Assets 2009/10 %	Proportion of Total Assets 2010/11 %
Equities	73.0	71.0
Bonds	19.0	19.0
Property	4.0	3.0
Cash	4.0	7.0
	100	**100**

History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

Notes to the Core Financial Statements

	31 March 2007 %	31 March 2008 %	31 March 2009 %	31 March 2010 %	31 March 2011 %
Differences between the Expected and Actual Return on Assets	0.2	15.2	22.2	(29.6)	(13.9)
Experience gains and (losses) on liabilities	0	(7.5)	0	0	0

17. AGENCY SERVICES

The Authority provided highway verge maintenance and ground maintenance at Letchworth Library for Hertfordshire County Council. It also provides a grounds and building maintenance service to Royston Town Council. Income and expenditure relating to these services are listed below:

	2009/10 £'000	2010/11 £'000
Expenditure incurred in providing Highway verge and grounds maintenance services at Letchworth Library to Hertfordshire County Council	257	282
Management fee payable by the County Council	(256)	(281)
Net deficit arising on the agency agreement	**1**	**1**
Expenditure incurred in providing a grounds and building maintenance service to Royston Town Council	37	36
Management fee payable by the Town Council	(18)	(12)
Net deficit arising on the agency agreement	**19**	**24**

18. GRANT INCOME

The Authority credited the following **capital** grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2009/10 £'000	2010/11 £'000
Credited to Taxation and Non Specific Grant Income		
S106 Developer Contributions	93	88
Heritage Lottery Fund	77	308
WREN Grant	88	25
Waste, Performance & Efficiency Grant	45	0
Playbuilder Grant	51	0
Performance Reward Grant	0	213
Housing and Planning Delivery Grant	0	(5)
Total	**354**	**629**
Credited to Services		
Disabled Facilities Grant	245	282
Regional Housing Pot Capital Grant	92	64
Growth Area Fund	62	96
Hertfordshire County Council Contributions	253	(89)
Developer Contribution	200	0
Total	**852**	**353**

The Authority credited the following **revenue** grants, contributions and donations to the net cost of services in the Comprehensive Income and Expenditure Statement:

Notes to the Core Financial Statements

	2009/10 £'000	2010/11 £'000
Benefits Administration and Fraud Initiative Grants	1,006	971
Housing and Council Tax Benefit Subsidy	38,867	41,303
Housing & Planning Delivery Grant	517	0
Waste minimisation – Herts County Council contribution	261	378
Waste Service Transport Subsidy	116	47
National Non-Domestic Rates Administration Grant	197	196
Performance Reward Grant	0	318
Local Authority Business Growth Initiative	59	74
Homelessness Prevention Grant	26	69
Big Lottery Fund	57	58
Defective Dwellings Grant	20	40
Play Builder Grant	3	1
Sport North Herts	5	0
Total	**41,134**	**43,455**

The Authority has received grants from the Growth Area Fund which have yet to be recognised as income in the Comprehensive Income and Expenditure Statement as they have conditions attached to them that may require the monies to be returned to the giver if the criteria of the grant is not met. The balances at the 31 March 2011 is £1.6million.

19. EMPLOYEES REMUNERATION

The Authority is required to include in the notes to the accounts the number of employees in the accounting period whose remuneration was in excess of £50,000. The remuneration is shown in each bracket of a scale in multiples of £5,000. For this purpose remuneration means all amounts paid to or receivable by an employee, other than employers pension contributions, and includes sums due by way of taxable expenses and the estimated money value of any benefits. There were no leavers during 2010/11 whose remuneration was in excess of £50,000.

Remuneration Band	**2009/10 Restated*** Employees	**2010/11** Employees
£50,000-54,999	9	11
£55,000-£59,999	1	1
£60,000-£64,999	4	6
£65,000-£69,999	0	0
£70,000-£74,999	1	1
£75,000-£79,999	1	0
£80,000-£84,999	0	1
£85,000-£89,999	2	2
£90,000-£114,999	0	0
£115,000-£119,999	1	1
Total	**19**	**23**

*The 2009/10 remuneration has been restated for the allowance paid for the position of Returning Officer (£8,035 in 2009/10) which is considered separately.

The Authority is also required to disclose individual remuneration details for senior employees whose salary is £50,000 or more per year. The first table which follows details the individual remuneration for senior employees whose salary was £50,000 or more in 2010/11. The second table details the equivalent information for the comparative year, 2009/10. The Authority is voluntarily opting to disclose the name of the Chief Executive and Strategic Directors.
The actual salary for the financial year might be less than £50,000 if the employee only worked for part of the year.

Notes to the Core Financial Statements

Senior Employee Remuneration in 2010/11

Post Title	**Salary** (including fees & allowances) £	**Expense Allowances** £	**Benefits in Kind** (e.g. Car Allowance) £	**Total Remuneration** (excluding pension contributions) £	**Pension Contributions** £	**Total Remuneration** (including pension contributions 2010/11) £
John Campbell* Chief Executive	117,205	0	0	117,205	25,584	142,789
Norma Atlay Strategic Director of Finance Policy and Governance	83,370	0	4,000	87,370	18,842	106,212
John Robinson Strategic Director of Customer Services	87,370	0	0	87,370	18,842	106,212
David Scholes Strategic Director of Planning Housing and Enterprise	82,333	0	0	82,333	17,703	100,036
Head of Revenues and Benefits	66,947	558	3,500	71,005	15,130	86,135
Head of Policy Partnership and Community Development	61,765	195	0	61,960	13,157	75,117
Corporate Strategic Planning and Enterprise Manager	60,129	0	0	60,129	12,911	73,040
Head of Housing and Public Protection Service	61,423	231	0	61,654	13,157	74,811
Head of Leisure and Environmental Services	59,566	0	2,149	61,715	13,157	74,872
Corporate Human Resources Manager	61,715	315	0	62,030	13,157	75,187
Head of Community and Cultural Services	58,215	0	3,500	61,715	13,157	74,872
Head of Development and Building Control	51,231	0	3,000	54,231	11,578	65,809
Head of Finance Performance and Asset Management	56,477	542	0	57,019	11,973	68,992
Head of Customer Services & IT	51,151	0	3,364	54,515	11,529	66,044

*The Chief Executive also held the position of Returning Officer for the Council and received £6,594 of expense allowances for this role in 2010/11

Notes to the Core Financial Statements

Senior Employee Remuneration in 2009/10

Post Title	Salary (Including fees & allowances) £	Expense Allowances £	Benefits in Kind (e.g. Car Allowance) £	Total Remuneration (excluding pension contributions) £	Pension Contributions £	Total Remuneration (including pension contributions) 2009/10 £
John T Campbell* Chief Executive	117,205	0	0	117,205	27,400	144,605
Norma Atlay Strategic Director of Finance, Policy and Governance	83,370	0	4,000	87,370	18,842	106,212
John Robinson Strategic Director of Customer Services	87,337	0	0	87,337	18,842	106,179
David Scholes Strategic Director of Planning, Housing and Enterprise	78,967	0	0	78,967	16,963	95,930
Head of Revenues and Benefits	66,948	160	3,500	70,608	15,130	85,738
Head of Policy, Partnership and Community Development	64,692	0	0	64,692	12,762	77,454
Corporate Strategic Planning and Enterprise Manager	61,715	0	0	61,715	13,213	74,928
Head of Housing and Public Protection Service	37,561	131	0	37,692	7,993	45,685
Head of Leisure and Environmental Services	58,215	0	3,500	61,715	13,157	74,872
Corporate Human Resources Manager	59,969	105	0	60,074	12,762	72,836
Head of Community and Cultural Services	56,469	0	3,500	59,969	12,762	72,731
Head of Development and Building Control	50,861	0	3,000	53,861	11,137	64,998
Environmental Health Manager	53,217	23	0	53,240	11,101	64,341
Head of Finance, Performance and Asset Management	41,352	0	0	41,352	8,748	50,100
Head of Customer Services & IT	19,869	0	0	19,869	4,194	24,063

*The Chief Executive also held the position of Returning Officer for the Council and received £8,035 of expense allowances for this role in 2009/10.

Notes to the Core Financial Statements

20. TERMINATION BENEFITS

The Authority terminated the contracts of eight employees in 2010/11, incurring liabilities of £112,730 (£89,618 in 2009/10).

21. MEMBERS' ALLOWANCES

The Authority is required under the Local Authorities (Members' Allowances) (England) Regulations 2003, to disclose the total amount of Members' allowances paid. The following table shows the amount of Members' allowances paid in 2010/11 compared to the previous financial year:

	2009/10 £'000	2010/11 £'000
Allowances	259	256
Expenses	15	14
Total	**274**	**270**

22. FEES PAYABLE TO THE AUTHORITY'S APPOINTED EXTERNAL AUDITORS

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors. The 2010/11 audit fees have been estimated for the element of grant based audit work in conjunction with the Council's external auditors.

	2009/10 £'000	2010/11 £'000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	109	111
Fees payable to the Audit Commission with regard to external audit services.	9	0
Fees payable to external auditors for the certification of grant claims and returns for the year	23	28
Total	**141**	**139**

23. RELATED PARTY TRANSACTIONS

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

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

Members of the Council have direct control over the Council's financial and operating policies. During 2010/11, works and services to the value of £168,251 were commissioned from companies in which 19 Members had an interest. Contracts were entered into in full compliance with the Council's Financial Regulations and Procurement Rules. In addition, grants totalling £673,215 were paid to voluntary organisations in which 28 Members had an interest. The grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussions or decision relating to the grants. Details of all of these transactions

Notes to the Core Financial Statements

are recorded in the Register of Members' Interest and Disclosure of Personal Interest at Meetings. Both these documents are available for public inspection at Council Offices, Gernon Road, Letchworth Garden City, Hertfordshire.

Four Council Members have a place on the board of North Hertfordshire Homes. Receipts from Service Level Agreements (SLA's), between the Council and North Hertfordshire Homes (NHH) totalled £471,482. £140,828 was paid to NHH under reciprocal SLA's.

The Council has no substantial interests in companies or joint ventures.

24. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment balances during the year and in the 2009/10 comparable year is detailed in the following tables.
Within each classification heading are the following types of assets:

Land & Buildings	– Offices, Depots, Leisure Facilities, Community Centres, Museums and Pavilions
Infrastructure Assets	– Capital Works to Public Roads and Drainage Schemes
Community Assets	– Commons and Parks

REVALUATIONS
The Council has a 5 year rolling revaluation programme for its properties. Valuations of the Council's properties are carried out by the Council's Senior Estates Surveyor, Mr David Charlton, who is a professional member of the Royal Institution of Chartered Surveyors. Typically an investment value, depreciated replacement cost or a comparative value is used to value the assets while for car parks the valuation is based upon an appropriate yield percentage reflecting the individual circumstances. Revaluations completed during the year were done as at 1 April 2010.

An impairment review was completed as at 31 March 2011 to ascertain if the carrying value of the assets had decreased materially since the last revaluation. No assets were identified to have been impaired.

While a market value is used to place a value on the Council's assets in some cases this is not always possible when an asset is either very specialised or has a restricted use. In such cases an estimate of the cost to re-build a similar asset (to provide the same function), using modern building practices and the latest information from the Building Cost Information Services is used as the value of the asset.

DEPRECIATION
Depreciation is the measure of the cost or re-valued amount of economic benefit of the tangible fixed assets that have been consumed during the year. Depreciation is charged on a straight line method and depreciated over the useful economic life of the asset. (see Statement of Accounting Policies).

DISPOSALS
There were two asset disposals in 2010/11 which provided total capital receipts of £247,000. The disposals were land items at Radwell Lane, Radwell and Roman Road, Graveley. The carrying value of the Roman Road land was £100,000. The land at Radwell Lane did not have a carrying value. The net gain, shown on the Comprehensive Income and Expenditure Statement is, therefore, £147,000.

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2009/10

	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost of Valuation							
At 1st April 2009	**47,725**	**5,333**	**93**	**2,089**	**3,945**	**445**	**59,630**
Additions	32	477	0	57	0	252	**818**
Donations	0	0	0	0	0	0	**0**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	20	0	0	6	0	(26)	**0**
Write Off to Revenue	0	0	0	0	0	(27)	**(27)**
Revaluations recognized in the Revaluation Reserve	12,107	0	0	15	69	0	**12,191**
Impairments	0	0	0	0	0	0	**0**
At 31st March 2010	**59,884**	**5,810**	**93**	**2,167**	**4,014**	**644**	**72,612**
Depreciation & Impairments							
At 1st April 2009	(4,409)	(3,161)	(16)	(269)	(14)	0	**(7,869)**
Charges for 2009/10	(1,341)	(770)	(2)	(45)	(4)	0	**(2,162)**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	**0**
Depreciation written out to the Revaluation Reserve	1,732	0	0	0	14	0	**1,746**
Impairment Losses / (Reversals) recognised in the Revaluation Reserve	(18)	0	0	0	0	0	**(18)**
Impairment Losses / (Reversals) recognised in the I&E Account	(857)	0	0	0	0	0	**(857)**
At 31st March 2010	**(4,893)**	**(3,931)**	**(18)**	**(314)**	**(4)**	**0**	**(9,160)**
Balance Sheet amount at 31st March 2010	**54,991**	**1,879**	**75**	**1,853**	**4,010**	**644**	**63,452**
Balance Sheet amount at 1st April 2009	**43,316**	**2,172**	**77**	**1,820**	**3,931**	**445**	**51,761**

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2010/11

	Land & Buildings	Vehicles, Plant & Equipment	Infra-structure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cost of Valuation							
At 1st April 2010	**59,884**	**5,810**	**93**	**2,167**	**4,014**	**644**	**72,612**
Additions	188	587	0	0	66	821	**1,662**
Donations	0	0	0	0	0	0	**0**
Disposals	(100)	0	0	0	0	0	**(100)**
Reclassifications	8	83	0	0	2	(93)	**0**
Write Off to Revenue	0	0	0	0	0	0	**0**
Upward Revaluations	813	0	0	0	(295)	0	**518**
Impairments	(143)	0	0	0	(2,149)	0	**(2,292)**
At 31st March 2011	**60,650**	**6,480**	**93**	**2,167**	**1,638**	**1,372**	**72,400**
Depreciation & Impairments							
At 1st April 2010	(4,893)	(3,931)	(18)	(314)	(4)	0	**(9,160)**
Charges for 2010/11	(1,345)	(689)	(3)	(45)	(4)	0	**(2,086)**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	**0**
Revaluations	116	0	0	0	0	0	**116**
At 31st March 2011	**(6,123)**	**(4,620)**	**(21)**	**(359)**	**(8)**	**0**	**(11,130)**
Balance Sheet amount at 31st March 2011	**54,527**	**1,860**	**72**	**1,808**	**1,630**	**1,372**	**61,269**
Balance Sheet amount at 1st April 2010	**54,991**	**1,879**	**75**	**1,853**	**4,010**	**644**	**63,452**

Notes to the Core Financial Statements

25. INVESTMENT PROPERTIES

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

	2009/10 £'000	2010/11 £'000
Rental Income from Investment Property	(828)	(869)
De-minimus Land Sales	0	(19)
Direct Operating Expenses arising from Investment Property	27	20
Net Gain / (Loss)	**(801)**	**(868)**

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

The future minimum lease payments (rental income) expected from contractual obligations are:

	2009/10	2010/11
	£'000	£'000
Not later than one year	(869)	(843)
Later than one year and not later than five years	(3,370)	(3,367)
Later than five years	(50,842)	(50,076)

The following table summarises the movement in the fair value of investment properties over the year:

	2009/10 £'000	2010/11 £'000
Balance at Start of the Year	**13,853**	**13,874**
Additions;		
Net Gains / Losses from Fair Value adjustments	21	(259)
Balance at End of Year	**13,874**	**13,615**

26. ASSETS HELD FOR SALE (Non-Current)

	2009/10 £'000	2010/11 £'000
Balance at Start of the Year	**5,157**	**5,157**
Assets newly classified as held for sale		
Property, Plant & Equip	0	0
Intangible Assets	0	0
Other Assets / Liabilities in Disposal Groups	0	0
Revaluation Losses	0	(1,407)
Revaluation Gains	0	0
Impairment Losses	0	0
Assets Declassified as Held for Sale		
Property, Plant & Equip	0	0
Intangible Assets	0	0
Other Assets / Liabilities in Disposal Groups	0	0
Assets Sold	0	0
Transfers from Non-Current to Current	0	0
Other Movements	0	0
Balance Outstanding at End of Year	**5,157**	**3,750**

Notes to the Core Financial Statements

27. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. All the capital expenditure incurred in the year has been financed immediately and so there is no increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£36.935million at 31st March 2011) because the Authority has set aside capital receipts which exceed the amount of outstanding loans and borrowings.

	2009/10 £'000	2010/11 £'000
Capital Investment:		
Operational Assets		
Land & Buildings	32	188
Vehicles, Plant & Equipment	445	587
Community Assets	57	0
Investment Properties	0	0
Assets Surplus to Requirements	0	66
Non-Operational Assets		
Assets Under Construction	251	821
Intangible Assets - Software	122	300
Revenue Expenditure Funded from Capital under Statute	3,384	1,325
Total Capital Investment	**4,291**	**3,287**
Sources of Finance:		
Capital Receipts	2,893	1,890
Government Grants and Other Contributions	1,242	769
Sums set aside from Revenue	156	628
Total Finance Sources	**4,291**	**3,287**

Capital expenditure and income is accounted for on an accruals basis, and is financed in the year the accrual appears in the accounts.

28. CONSTRUCTION CONTRACTS

As at the 31st March 2011 the Council had committed £594,798 to capital projects for a number of capital schemes within the capital programme (see the Forward, page 8). These are as follows:

Capital Scheme	Commitment £'000
Great Ashby Community Centre	23
Community Facilities	**23**
Integra Upgrade	43
Computer Software & Equipment	**43**
Disabled Facilities Grant	40
Housing Development	**40**
N Herts Leisure Centre Roof Replacement	15
Leisure Facilities	**15**
Museum Service Development	28
Museum & Arts	**28**
Avenue Park Paddling Pool	4
Howard Park	356
Avenue Park Play Builder	51
Parks Development	**411**
George Lane / Fish Hill Square	35
Town Centres	**35**
Total Commitments	**595**

Notes to the Core Financial Statements

29. INTANGIBLE ASSETS

	Purchased Software Licences £'000
Original Cost	995
Amortisations to 1st April 2010	(623)
Balance at 1st April 2010	**372**
Expenditure in Year	301
Written off to Revenue in Year	(231)
Balance at 1st April 2011	**442**

Software Licences are held for a number of systems which are detailed below, (there has been no change to the method of amortisation):

Software	Original Cost £'000	Life of software
Citrix	51	3 years
Service @ North-Herts	536	3-5 years
Elections Management System	13	5 years
Human Resources System	10	5 years
Electronic Payments System	20	3 years
Northgate E System	35	5 years
GIS System	34	5 years
Property & Asset Management System (GVAS)	36	5 years
IWorld Server Software	6	5 years
Traffic Mgt Act Equipment	9	5 years
Remote / Mobile Working	157	5 years
Corporate Management Performance System	23	5 years
Archiving Data System	13	5 years
Corporate Customer Property Index	47	5 years
Enterprise / Citrix / Plantech	252	3 years
Telephony	53	5 years
Total	**1,295**	

30. ASSETS HELD UNDER LEASE AND FOR LEASE

Operating Leases

Vehicles, Plant and Equipment

The Authority uses staff lease cars and service vans and I.T. equipment financed under terms of an operating lease. The amount paid under these arrangements in 2010/11 was £145,743.34 (2009/10 restated at £146,458.79). In addition, £362 was paid in fees.

The IFRS based Code has resulted in the reclassification of a number of leases (wheeled compost bins and an envelope inserter machine) previously classified as operating to finance leases. Further explanation for this reclassification is provided in note 1.

Property

The Authority paid £250,985 in rent / leasing charges for properties in 2010/11. The most significant amount of £200,000 was paid for the District Council Offices. This agreement is due to expire in December 2016.

Notes to the Core Financial Statements

Commitments under operating leases
The Authority was committed at 31 March 2011 to making payments of £1.571million under operating leases over the following periods:

	31 March 2010 £'000	31 March 2011 £'000
Not later than one year	396	359
Later than one year and not later then five years	1,028	895
Later than five years	519	317
	1,943	**1,571**

Authority as Lessor – the Authority has granted various leases to commercial and industrial organisations under terms of an operating lease. The amount received under these arrangements in 2010/11 was £982,224, (2009/10 £958,153). The gross value of assets held for these leases is £13.615 million and is detailed in Note 25, Investment Properties.

Finance leases
The Council has one building lease where the accounting treatment has changed following the introduction of the IFRS Code. The Council leases the Letchworth multi-storey car park from the Letchworth Garden City Heritage Foundation. The lease term is 60 years from 19th April 1977. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been classified as a finance lease.

The Council also has five other leases where the accounting treatment has changed following the introduction of the IFRS Code. The council has four separate leases for wheeled compost bins which had a total initial value of £517,800 and a lease for an envelope inserter machine which had an initial value of £32,325. These leases were previously classified as operating leases, but under the Code, have been classified as finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2010 £'000	31 March 2011 £'000
Other Land and Buildings	616	580
Vehicles, Plant & Equipment	240	174
	856	754

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest and the finance costs payable in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2010 £'000	31 March 2011 £'000
Finance Lease-Liabilities	423	354
Finance costs in future years	280	252
Minimum Lease Payments	**703**	**606**

Notes to the Core Financial Statements

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2010	31 March 2011	31 March 2010	31 March 2011
	£'000	£'000	£'000	£'000
Not later than one year	97	97	69	72
Later than one year and not later than five years	283	207	207	143
Later than five years	323	302	147	139
	703	**606**	**423**	**354**

31. INVENTORIES

1 April 2009 £'000		31 March 2010 £'000	31 March 2011 £'000
	Works in progress:		
0	Rechargeable work	0	0
	Inventory:		
11	Print room purchases	13	10
37	Central Purchasing	41	41
48		54	51
48	**Total**	**54**	**51**

32. DEBTORS

1 April 2009 £'000		31 March 2010 £'000	31 March 2011 £'000
3,216	Central Government Bodies	1,850	3,176
0	Impairment	0	0
3,216	**Net Total Central Government Bodies**	**1,850**	**3,176**
439	Other Local Authorities	553	1,252
0	Impairment	0	0
439	**Net Total Other Local Authorities**	**553**	**1,252**
2,830	Ratepayers/Council Tax payers	1,491	823
(378)	Impairment	(389)	(369)
2,452	**Net Total Ratepayers / Council Tax payers**	**1,102**	**454**
1,214	Housing Benefit Overpayments	1,101	903
(874)	Impairment	(411)	(415)
340	**Net Total Housing Benefit Overpayments**	**690**	**488**
3,556	Other Entities and Individuals	4,701	2,936
(190)	Impairment	(161)	(157)
3,366	**Net Total Other Entities and Individuals**	**4,540**	**2,779**
9,813	**Total Net Debtors**	**8,735**	**8,149**

33. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

1 April 2009 £000	Short Term Creditors	31 March 2010 £000	31 March 2011 £000
297	Central government bodies	145	288
273	Other local authorities	240	234
1	NHS bodies	1	1
2,232	Other entities and individuals*	3,964	2,582
2,803	**Total**	**4,350**	**3,105**

*includes an accrual for employee holiday pay (£95k at 31 March 2011)

Notes to the Core Financial Statements

1 April 2009 £000	Receipts in Advance	31 March 2010 £000	31 March 2011 £000
76	Central government bodies	2,159	323
0	Other local authorities	0	149
0	NHS bodies	0	0
0	Public corporations and trading funds	0	0
1,741	Other entities and individuals	2,105	2,156
1,817	**Total**	**4,264**	**2,628**

34. FINANCIAL INSTRUMENTS

Authorities are required to define all the financial instruments disclosed in the Balance Sheet into further categories. For this purpose the accrued interest receivable / payable, disclosed on the Balance Sheet as a debtor / creditor, is included in this note within the principal financial asset or financial liability.

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-term		Current	
	31 Mar '10 £'000	31 Mar '11 £'000	31 Mar '10 £'000	31 Mar '11 £'000
Financial Liabilities at amortised cost:				
Creditors payable in one year	0	0	4,350	3,105
Borrowing	3,044	2,892	184	2,171
Total Financial Liabilities:	**3,044**	**2,892**	**4,534**	**5,276**
Financial Assets (loans & receivables):				
Debtors	238	407	8,757	8,023
Investments	4,008	14,258	46,945	33,938
Total Financial Assets:	**4,246**	**14,665**	**55,702**	**41,961**

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are made up as follows:

	Financial Liabilities At amortised cost £'000		Financial Assets Loans & Receivables £'000		Total £'000	
	2010	2011	2010	2011	2010	2011
Interest expense	(332)	(275)	-	-	(332)	(275)
Losses on derecognition	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Interest Payable & Similar Charges	**(332)**	**(275)**	**-**	**-**	**(332)**	**(275)**
Interest Income	-	-	1,676	1,018	1,676	1,018
Gains on derecognition	-	-	-	-	-	-
Interest & investment income	**-**	**-**	**1,676**	**1,018**	**1,676**	**1,018**
Losses on revaluation	-	-	-	-	-	-
Net gain/(loss) for year	**(332)**	**(275)**	**1,676**	**1,018**	**1,344**	**743**

Notes to the Core Financial Statements

Financial Liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost. Their fair value is assessed as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, using the following assumptions:

- A 'premature repayment' set of rates, supplied by lenders, in force on the 31 March 2011 has been used to supply the fair value for loans
- Transaction costs on all financial liabilities and financial assets are immaterial (transaction costs do not include internal administrative costs)
- Interest payable and receivable reflects market rates
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values are calculated as follows:

	31 March '10		31 March '11	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	£'000	**£'000**	**£'000**	**£'000**
Financial Liabilities	7,578	8,476	8,168	9,095

The fair value is more than the carrying amount because the Council's portfolio of loans includes fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This commitment to pay interest above current market rates increases the amount that the Council would have to pay if the lender requested or agreed to early repayment of the loans.

	31 March '10		31 March '11	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	£'000	**£'000**	**£'000**	**£'000**
Loans & Receivables	60,029	60,029	55,465	55,465

The fair value is no different to the carrying amount because the Authority's portfolio of investments reflects the interest market rates available at the Balance Sheet date and the relevant transaction costs are immaterial.

Nature and Extent of Risks Arising from Financial Instruments

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council
- Liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a Central Treasury Team, under policies approved by the Council in the annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Notes to the Core Financial Statements

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

The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Treasury Management Strategy ensured that its counterparty lists and limits reflected a prudent attitude towards organisations with whom funds were deposited, and limited its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices adopted by the Council. It also maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements. The table below details the investment limits for 2010/11.

	Maximum Amount of Investment Allowable Per Counterparty £ million	Amount Invested as at 31 March 2011* £ million	Default on investments during 2010/11 £ million
UK Clearing Banks	9.00	7.10	0.00
UK Clearing Banks – Wholly owned Subsidiaries	9.00	0.00	0.00
Discount Houses (Guaranteed by Bank of England)	9.00	0.00	0.00
Building Societies (Assets £4.5bn)	9.00	5.50	0.00
Building Societies (Assets £2.5bn to £4.5bn)	9.00	7.00	0.00
Building Societies (Assets £1bn to £2.5bn)	6.00	5.50	0.00
Building Societies (Assets £0.3bn to £1bn)	4.00	21.75	0.00
Public Corporations	9.00	0.00	0.00
Other Local Authorities	9.00	1.00	0.00
Foreign (AAA rated) Banks	0.00	0.00	0.00
Total Invested		**47.85**	

* This column shows the total invested in all counterparties in the group (for example, there was £7.1million invested in three separate UK clearing banks as at 31 March 2011). The Council has not invested above the maximum allowable per counterparty at any time during the year.

The analysis of these £47.85million of investments by credit rating at year end is as follows:

	AAA or equivalent	AA / AA-or equivalent	A / A- or equivalent	BBB+ or equivalent	Not rated
Investments	0.00	£7.10million	£1.25million	£6.50million	£33.00million

The Council does not allow credit facilities for customers with relationship to payments for the provision of Council services. The past due amount can be analysed by age as follows:

	£'000
Less than three months	1,805
Three months to six months	195
Six months to one year	77
More than one year	470
	2,547

Notes to the Core Financial Statements

Liquidity Risk
As the Council has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council reviews its borrowing requirements as part of its annual Treasury Management Strategy and the standard policy has been to limit the amount of borrowing and reduce the exposure to liquidity risk. The strategy during 2010/11 was to utilize capital receipts set aside reserves and no new long term borrowing was taken out.

The total financial liability is made up as follows:

	Total Outstanding at 31 March	
	2010	**2011**
	£'000	**£'000**
Public Works Loan Board	2,209	2,044
Banks and Other Monetary Sectors	1,000	3,000
Other Financial Institutions	-	-
Other Sources	-	-
Total Borrowing	**3,209**	**5,044**
Less: Debt Maturing in 12 Months	164	2,152
Total Net Borrowing	**3,045**	**2,892**

At 31st March 2011 the average rates of interest on the different varieties of loans were as follows:

	%
Other Loans	9.63
Public Works Loan Board	8.10

The consolidated rate of interest, the rate used for internal transactions, was 8.64%.

The maturity analysis of the long term financial liabilities is as follows:

	P.W.L.B.	**Banks etc.**	**Other**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Maturing in more than 1 and less than 2 years	627	0	0	627
Maturing in more than 2 and less than 5 years	750	0	0	750
Maturing in more than 5 and less than 10 years	110	1,000	0	1,110
Maturing in more than 10 years	405	0	0	405
Total	**1,892**	**1,000**	**0**	**2,892**

Market Risk
Interest rate risk
The Council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall

Notes to the Core Financial Statements

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be included in the Surplus or Deficit on Provision of Services and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income and Expenditure.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Council's cost of borrowing and provide compensation for a proportion of any higher costs.

The Council has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowings	N/A
Increase in interest receivable on variable rate investments	N/A
Increase in government grant receivable for financing costs	De-minimis
Impact on Income and Expenditure Account	0
Decrease in fair value of fixed rate loans	35

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

Price risk
The Council does not have any equity shares or shareholdings and thus has no exposure to a loss arising from movements in the prices of shares.

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

35. INSURANCE

The Council maintains and reviews an insurance reserve which at 31 March 2011 had a balance of £83,117, a decrease of £23,422 from the balance at 31 March 2010.
The balance held in the insurance provision is to cover either the insurance policy excess of known claims, or the amount of any outstanding claim against the Council's self-insurance.

The Insurance Reserve is in place to cover the risks of:-
- "claw-back" under the MMI Scheme of Arrangement
- Self-insurance of a number of items for which there is no external insurance cover

Notes to the Core Financial Statements

The Council does not insure its own properties against the perils of malicious damage, accidental damage and subsidence. Theft from buildings (such as lead) is not covered although theft of contents is insured.

The Council has decided to self-insure some assets such as Town Centre CCTV equipment (£232,200), damage to car park machines (£192,500 total value at risk) and reprographics equipment (£303,768).

36. PROVISIONS

Provisions (> 1year)

	Insurance Fund £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2010	71	666	737
Additional provisions made in 2010/11	43	0	43
Amounts used in 2010/11	(54)	(21)	(75)
Unused amounts reversed in 2010/11	0	0	0
Unwinding of discounting in 2010/11	0	0	0
Balance at 31 March 2011	**60**	**645**	**705**

The Insurance Fund is money held to cover outstanding claims from previous years. The Council also has an insurance reserve of £83,117 (Note 35 and 38).

The other provisions are:

- Leisure Contract provision, to compensate one of the Leisure Management Contractors for any future employment cost as specified within the contract if they fall due.
- Homeless Deposit guarantees, this provision is for guaranteed deposits given to private landlords for any loss or damage arising from the tenancy of housing persons threatened with homelessness.
- Baldock Road pavilion provision. This provision is for rebuilding the pavilion which was burnt down. The monies were generated as a result of an insurance claim.
- Maintenance of Graves, a provision for graves that the Council has responsibility for maintaining.

37. TRUST FUNDS AND THIRD PARTY FUNDS

TRUST FUNDS

The Council acts as the sole managing trustee for Hitchin Town Hall Gymnasium and Workman's Hall Trust . Without the annual contribution from the Council the Trust would not have had adequate resources to manage the Gymnasium and Workman's Hall during the year. The Trust's accounts reflect the fixed asset and the in year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2011, is included in the Council's accounts.

THIRD PARTY FUNDS

The Council holds income received for S106 legal agreements or unilateral undertakings relating to the submission of planning applications. This income is 'ring-fenced' to different types of capital expenditure/locations within the district. The funds will be used to finance the Council's capital programme, when schemes meet the funding criteria and are treated as a receipt in advance in the Balance Sheet, under current liabilities.

The total value of all S106 contributions as at the 31 March 2011, available to fund capital and revenue activities is £1,506,316. (2009/10, £1,153,862).

Notes to the Core Financial Statements

38. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and the following notes.

	Restated Balance at 1 April 2009 £'000	Net Movement in Year £'000	Restated Balance at 31 March 2010 £'000	Net Movement in Year £'000	Balance at 31 March 2011 £'000
Useable Capital Receipts	5,507	(2,778)	2,729	(1,636)	1,093
Earmarked Reserves	4,328	(1,008)	3,320	(296)	3,024
Capital Grants Unapplied	86	(35)	51	213	264
General Fund Reserve	1,584	607	2,191	(267)	1,924
Total Useable Reserves	**11,505**	**(3,214)**	**8,291**	**(1,986)**	**6,305**

USEABLE CAPITAL RECEIPTS

	2009/10 £'000	2010/11 £'000
Amounts receivable	130	267
Amounts applied to finance new capital investment	(2,893)	(1,889)
Payments to Capital Receipts Pool	(15)	(14)
Total decrease in realised capital resources	**(2,778)**	**(1,636)**
Balance brought forward at 1st April	5,507	2,729
Balance carried forward at 31st March	2,729	1,093

EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

Notes to the Core Financial Statements

		2009/10			2010/11		
	Balance as at 1 April 2009	Transfers out	Transfers in	Balance at 31 March 2010	Transfers out	Transfers in	Balance at 31 March 2011
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Special Reserve	2,419	(1,452)	0	967	0	0	967
Housing & Planning Delivery	511	(9)	571	1,073	(306)	184	951
Information Technology Reserve	830	(324)	230	736	(520)	235	451
Environmental Warranty Reserve	209	0	0	209	0	0	209
Insurance Reserve	126	(24)	5	107	(32)	8	83
Cemetery Mausoleum Reserve	33	0	0	33	0	48	81
S106 Monitoring Reserve	21	0	15	36	0	17	53
Building Control Reserve	95	(60)	15	50	(29)	0	21
Museum Exhibits Reserve	12	0	0	12	0	0	12
Property Maintenance Reserve	10	(3)	0	7	0	0	7
Hitchin Museum Donations	1	0	0	1	0	1	2
Leisure Management Maintenance	10	(3)	0	7	(7)	0	0
Concessionary Fares Reserve	51	(7)	38	82	(82)	0	0
Performance Reward Grant	0	0	0	0	0	187	187
Total Earmarked Reserves	**4,328**	**(1,882)**	**874**	**3,320**	**(976)**	**680**	**3,024**

The Authority has taken the decision to set aside resources in a number of Earmarked Reserves to be used for specific purposes. The Reserves are reviewed annually during the budget estimate process to ensure the balance available is appropriate for the purpose. A description of each earmarked reserve is provided below:

The **Special Reserve** was originally the residual balance from the HRA that was used to fund the realignment of costs of the Council following stock transfer. As part of the Council's medium term financial strategy to manage budget movements, this reserve is maintained for any special financial pressures such as pump priming for initiatives for shared services, changes in working practice, major contract renewals, unexpected contract variation and other financial pressures.

The **Housing & Planning Delivery Reserve** was first formed when in 2002 the Government announced additional funding to Authorities in the form of the Planning Delivery Grant (PDG), to realise the Government's Communities Plan Objectives. The Council has taken a medium to long term approach to the allocation of HPDG funding (the grant was renamed Housing & Planning Delivery). HPDG spending plans are approved by Cabinet and unspent funding is held in a specific reserve to meet approved spending in subsequent years. The Authority has also made a commitment to the Local Development Framework and funds are held in this reserve for this purpose.

The **Information Technology Reserve** is used to ensure the Authority has adequate resources to purchase hardware and software items when they are required.

The **Environmental Warranty Reserve** is required because an environmental warranty was provided to North Herts Homes on the transfer of the Housing stock. The Council needs to make a provision for these warranties and a sum of £208,845 was set aside for this purpose.

The **Insurance Reserve** is used to finance potential claims for risks that are already covered by external policies together with higher excesses currently being borne by the Council.

The **Cemetery Mausoleum reserve** is held to cover the Authority's obligation to supply Mausoleum niches at the Wilbury Hills Cemetery and is funded from the sale of currently available niches.

The **S106 Planning Monitoring** reserve is used to cover the cost of monitoring s106 obligations in future years.

Notes to the Core Financial Statements

The **Building Control Reserve** is required as in accordance with guidance. Building Control surpluses are held in a separate account. These surpluses are then available to be used to offset any projected future costs when carrying out reviews of Scheme Charges or to be reinvested into the service to improve quality and performance in line with the duty of providing best value.
The **Museum Exhibits Reserve** funds the purchase of museum exhibits and is funded from donations.
The **Property Maintenance Reserve** is to cover the cost of any unplanned emergency maintenance costs that may occur at any of the Council's properties.
Hitchin Museum Donations fund the purchase of museum exhibits specifically related to Hitchin Museum.
The **Leisure Management Maintenance Reserve** is to cover the cost of any future repairs liabilities on the leisure facilities.
The **Concessionary Fares Reserve** has been used to cover the cost of any variances in actual costs to original estimates for Concessionary Fares after grant smoothing has been applied. The responsibility for concessionary fares transferred to Hertfordshire County Council on the 1 April 2011 so the reserve is no longer required. Any remaining balance has been transferred to the General Fund in 2010/11.
The **Performance Reward Grant** was awarded for success against targets in the Local Area Agreement. This earmarked reserve represents the revenue element of the grant and is allocated to schemes in the District.

39. UNUSABLE RESERVES

	Restated Balance at 1 April 2009 £'000	**Net Movement in Year £'000**	**Restated Balance at 31 March 2010 £'000**	**Net Movement in Year £'000**	**Balance at 31 March 2011 £'000**
Revaluation Reserve (note 39A)	**7,689**	13,535	**21,224**	(514)	**20,710**
Capital Adjustment Account (note 39B)	**100,241**	(1,537)	**98,704**	(3,197)	**95,505**
Deferred Capital Receipts (note 39C)	**79**	(20)	**59**	(18)	**41**
Pensions Reserve (note 39D)	**(26,196)**	(34,290)	**(60,486)**	28,297	**(32,189)**
Short Term Accumulating Compensated Absences Account	**(111)**	0	**(111)**	16	**(95)**
Collection Fund Adjustment Account (note 39E)	**53**	(46)	**7**	7	**14**
Total Unusable Reserves	**81,755**	**(22,358)**	**59,397**	**24,591**	**83,986**

Note 39A – Revaluation Reserve
The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Notes to the Core Financial Statements

	2009/10 £'000	2010/11 £'000
Balance at 1st April	**7,689**	**21,224**
Upward revaluation of assets	13,937	1,577
Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services.	(18)	(1,580)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the provision of services.	0	0
Difference between fair value depreciation and historical cost depreciation.	(384)	(413)
Accumulated gains on assets sold or scrapped.	0	(98)
Amount written off to the Capital Adjustment Account	0	0
Balance at 31st March	**21,224**	**20,710**

Note 39B – Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations which are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. The Account has also been credited with all the Housing capital receipts required by regulation to be set aside at the time of the Housing stock transfer in 2003.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2009/10 £'000	2010/11 £'000
Balance at 1st April	**100,241**	**98,704**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(3,096)	(5,148)
Revaluation losses on Property, Plant and Equipment.	0	0
Amortisation of Intangible assets	(138)	(231)
Revenue expenditure funded from capital under statute	(3,384)	(1,325)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the comprehensive Income & Expenditure Statement.	0	(100)
Sub-Total	**(6,618)**	**(6,804)**
Adjusting amounts written out of the Revaluation Reserve.	384	511

Notes to the Core Financial Statements

	2009/10 £'000	2010/11 £'000
Net written out amount of the cost of non-current assets consumed in the year.	308	0
Capital Financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	2,893	1,890
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,242	768
Application of grants to capital financing from the Capital Grants Unapplied Account	0	0
Statutory provision for the financing of capital investment charged against the General Fund	0	67
Capital expenditure charged against the General Fund	156	628
Sub-Total	**4,291**	**3,353**
Movements in the market value of investment properties debited or credited to the comprehensive Income and Expenditure Statement	98	(259)
Movement in the Donated Assets Account credited to the comprehensive Income and Expenditure Statement	0	0
Balance carried forward at 31st March	**98,704**	**95,505**

Note 39C – Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. These arise principally from mortgages on sales of Council Houses and from the main part of mortgages held under long term debtors. Under statutory arrangements, the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2009/10 £'000	2010/11 £'000
Balance at 1st April	**79**	**59**
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the comprehensive Income and Expenditure Statement	0	0
Transfer to the Capital Receipts Reserve upon receipt of cash	(20)	(18)
Balance at 31st March	**59**	**41**

Note 39D – Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current

Notes to the Core Financial Statements

employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2009/10	2010/11
	£'000	£'000
Balance at 1st April	**(26,196)**	**(60,486)**
Actuarial gains or losses on pension assets and liabilities	(31,753)	14,577
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	(4,644)	11,517
Employers pensions contributions and direct payments to pensioners payable in the year.	2,107	2,203
Balance at 31st March	**(60,486)**	**(32,189)**

Note 39E – Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2009/10	2010/11
	£'000	£'000
Balance at 1 April	**53**	**7**
Amount which by council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements.	(46)	7
Balance at 31 March	**7**	**14**

40. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- Charges in relation to capital expenditure (depreciation, revaluation, impairment losses, amortisations and revenue expenditure funded by capital under statute charged to services in the Comprehensive Income and Expenditure Statement) are reported to the relevant directorates but reversed out on the bottom line reported to Cabinet.
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- Interest received and paid and income and expenditure relating to investment properties is reported (whereas it is included on the Comprehensive Income and Expenditure Statement below the net cost of services).
- Transfer to and from earmarked reserves are reported in the budget reports but excluded on the Comprehensive Income and Expenditure Statement.

Notes to the Core Financial Statements

The income and expenditure of the Authority's directorates recorded in the budget reports for the year is as follows:

For the year ended 31 March 2011	Chief Executive	Planning, Housing & Enterprise	Customer Services	Finance, Policy & Governance	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(17)	(1,232)	(4,057)	(1,478)	**(6,784)**
Recharges to other services	(661)	(5,387)	(9,175)	(8,650)	**(23,873)**
Investment property rentals	0	0	0	(982)	**(982)**
Interest income	(6,316)	0	0	(17)	**(6,333)**
Government grants	(245)	(1,118)	(1,043)	(43,154)	**(45,560)**
Total Income	**(7,239)**	**(7,737)**	**(14,275)**	**(54,281)**	**(83,532)**
Employee expenses	(673)	3,176	4,168	4,632	**11,303**
Other operating expenses	867	2,064	10,341	45,093	**58,365**
Interest payments	7,149	0	0	14	**7,163**
Support service recharges	2,789	7,763	6,859	6,038	**23,449**
Depreciation, amortisation and impairment	(5,561)	1,064	2,029	3,836	**1,368**
Total Operating Expenses	**4,571**	**14,067**	**23,397**	**59,613**	**101,648**
Net Cost of Services	**(2,668)**	**6,330**	**9,122**	**5,332**	**18,116**

The income and expenditure of the Authority's directorates for the comparative year 2009/10 is as follows:

For the year ended 31 March 2010	Chief Executive	Planning, Housing & Enterprise	Customer Services	Finance, Policy & Governance	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	(17)	(1,251)	(4,591)	(1,317)	**(7,176)**
Recharges to Other Services	(637)	(5,248)	(8,427)	(8,901)	**(23,213)**
Investment Income	0	0	0	(958)	**(958)**
Interest Income	(3,904)	0	0	(19)	**(3,923)**
Government grants	(192)	(1,775)	(1,125)	(40,226)	**(43,318)**
Total Income	**(4,750)**	**(8,274)**	**(14,143)**	**(51,421)**	**(78,588)**
Employee expenses	(2,026)	2,992	3,897	4,612	**9,475**
Other operating expenses	1,075	2,915	11,166	42,207	**57,363**
Interest Payments	6,229	0	0	14	**6,243**
Support Service Recharges	2,836	7,491	6,510	6,152	**22,989**
Depreciation, amortisation and impairment	(4,786)	2,659	2,531	674	**1,078**
Total operating expenses	**3,328**	**16,057**	**24,104**	**53,659**	**97,148**
Net Cost of Services	**(1,422)**	**7,783**	**9,961**	**2,238**	**18,560**

Notes to the Core Financial Statements

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

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2009/10 £'000	2010/11 £'000
Cost of Services in Service Analysis	18,560	18,116
Add services not included in main analysis	0	0
Add amounts not reported to management	(1,096)	(15,289)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	6,773	7,642
Net Cost of Services in Comprehensive Income and Expenditure Statement	**24,237**	**10,469**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

The reconciliation for 2010/11 is as follows:

Reconciliation to Subjective Analysis	Service Analysis £'000	Not reported to mgmt £'000	Not included In I&E £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(6,784)	0	0	0	**(6,784)**	0	**(6,784)**
Recharges to Other Services	(23,874)	0	0	0	**(23,873)**	0	**(23,873)**
Interest and investment income	(7,315)	0	1,887	0	**(5,428)**	(1,887)	**(7,315)**
Income from council tax	0	0	0	0	**0**	(10,642)	**(10,642)**
Government grants and contributions	(45,560)	0	119	0	**(45,441)**	(8,817)	**(54,258)**
Total Income	**(83,533)**	**0**	**2,006**	**0**	**(81,526)**	**(21,346)**	**(102,872)**
Employee expenses	11,303	0	0	3,815	**15,118**	1,545	**16,663**
Other service expenses	58,366	(13,744)	6,475	19,635	**70,732**	0	**70,732**
Support Service recharges	23,450	0	0	(23,825)	**(375)**	0	**(375)**
Depreciation, amortisation and impairment	1,368	0	0	0	**1,368**	279	**1,647**
Interest Payments	7,162	(1,545)	(303)	0	**5,314**	303	**5,617**
Precepts & Levies	0	0	0	0	**0**	854	**854**
Payments to Housing Capital Receipts Pool	0	0	(14)	0	**(14)**	14	**0**
Gain or Loss on Disposal of Fixed Assets	0	0	(147)	0	**(147)**	(147)	**(294)**
Total operating expenses	**101,649**	**(15,289)**	**6,011**	**(375)**	**91,996**	**2,848**	**94,844**
Surplus or deficit on the provision of services	**18,116**	**(15,289)**	**8,017**	**(375)**	**10,470**	**(18,498)**	**(8,028)**

Notes to the Core Financial Statements

The reconciliation for comparative year 2009/10 is as follows:

Reconciliation to Subjective Analysis	Service Analysis £'000	Not reported to mgmt £'000	Not included In I&E £'000	Allocation of Recharges £'000	Net Cost of Services £'000	Corporate Amounts £'000	Total £'000
Fees, charges & other service income	(7,176)	0	0	0	**(7,176)**	0	**(7,176)**
Recharges to Other Services	(23,212)	0	0	0	**(23,212)**	0	**(23,212)**
Interest and investment income	(4,882)	0	2,504	0	**(2,378)**	(2,504)	**(4,882)**
Income from council tax	0	0	0	0	**0**	(10,865)	**(10,865)**
Government grants and contributions	(43,318)	0	127	0	**(43,191)**	(8,368)	**(51,559)**
Total Income	**(78,588)**	**0**	**2,631**	**0**	**(75,957)**	**(21,737)**	**(97,694)**
Employee expenses	9,475	0	0	3,259	**12,734**	3,634	**16,368**
Other service expenses	57,363	2,538	4,626	19,731	**84,258**	0	**84,258**
Support Service recharges	22,990	0	0	(22,990)	**0**	0	**0**
Depreciation, amortisation and impairment	1,078	0	0	0	**1,078**	6	**1,084**
Interest Payments	6,242	(3,634)	(361)	0	**2,247**	361	**2,608**
Precepts & Levies	0	0	0	0	**0**	1,332	**1,332**
Payments to Housing Capital Receipts Pool	0	0	(15)	0	**(15)**	15	**0**
Gain or Loss on Disposal of Fixed Assets	0	0	(108)	0	**(108)**	(108)	**(216)**
Total operating expenses	**97,148**	**(1,096)**	**4,142**	**0**	**100,194**	**5,240**	**105,434**
Surplus or deficit on the provision of services	**18,560**	**(1,096)**	**6,773**	**0**	**24,237**	**(16,497)**	**7,740**

41. CONTINGENT ASSETS

The Council does not have any known contingent assets.

42. CONTINGENT LIABILITIES

On 7 April the Council approved a revised Senior Management structure. The proposed structure followed from an Organisational Restructure Report considered by Cabinet on the 15 February 2011 and a period of formal consultation with staff which ended on the 19 March 2011. The proposed changes to the organisational arrangements of the Council are in response to changing financial circumstances.

The implementation of the organisational changes will be completed in line with the Council's Reorganisation Policy which sets out steps for consultation, redundancy and selection in accordance with the redundancy legislation contained in the Employment Rights Act 1996. As at 31 March 2011 the likely cost for redundancies is not known and therefore an accurate provision cannot be made. An estimate of £150,000 for redundancy costs is incorporated in the 2011/12 budget.

Notes to the Core Financial Statements

43. EVENTS AFTER THE BALANCE SHEET DATE

There are no known events after the balance sheet date to disclose.

44. NOTES RELATING TO THE CASH FLOW STATEMENT

Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2009/10 £'000		2010/11 £'000
(2,883)	Interest Received	(1,228)
361	Interest Paid	304
(2,522)	**Net cash flows from operating activities**	**(924)**

The adjustments for non-cash movements are as follows:

2009/10 £'000		2010/11 £'000
(2,162)	Depreciation	(2,086)
(933)	Impairments and downward revaluations	(3,062)
(138)	Amortisation of intangible assets	(231)
0	Movement in provision for bad debt	20
(3,084)	Movement in Creditors	1,199
(1,228)	Movement in Debtors	1,114
6	Movement in Stock	(2)
(2,537)	Pension Liability	13,720
0	Carrying amount of non-current assets sold	100
(158)	Movement in other provisions	15
98	Movement in the value of investment properties	(259)
346	Grants applied to the financing of capital expenditure	788
0	Deferred Credits	(2)
(9,790)	**Net Adjustment for non-cash movements**	**11,314**

Cash Flow Statement - Investing Activities

2009/10 £'000		2010/11 £'000
906	Purchase of property, plant and equipment, investment property and intangible assets	1,962
4,442	Purchase of short-term and long-term investments	173,120
55	Other payments for investing activities	0
(108)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(247)
0	Proceeds from short-term and long-term Investments	(175,666)
(595)	Other receipts from investing activities	(336)
4,700	**Net cash flows from investing activities**	**(1,167)**

Cash Flow Statement - Financing Activities

2009/10 £'000		2010/11 £'000
(3,300)	Cash receipts of short and long-term borrowing	(2,000)
31	Cash payments for the reduction of the outstanding liabilities relating to finance leases	69
4,971	Repayments of short and long-term borrowing	164
1,702	**Net Cash flows from financing activities**	**(1,767)**

Collection Fund Accounts

The Collection Fund is a separate statutory fund under the provisions of the Local Government Act 1988. Its assets and liabilities are included in the General Fund Balance Sheet and its income and expenditure is included within the cash flow statement. The Income and Expenditure Account shown below reflects these changes.

The accounts have been prepared on an accruals basis.

INCOME AND EXPENDITURE ACCOUNT

	Note	31st March 2010 £'000	31st March 2011 £'000
INCOME			
Income from National Business Ratepayers	1	34,240	32,483
Contributions to 2009/10 losses -			
Contribution from Hertfordshire County Council	3	43	115
Contribution from Hertfordshire Police Authority	3	5	20
Contribution from General Fund		0	0
Council Tax	2	65,628	65,993
Council Tax Benefit		7,733	8,151
Reduction in Provision for Uncollectable Amounts			
		107,649	**106,762**
EXPENDITURE			
Precepts & Demands	4	73,314	73,649
NNDR - Payments to Pool	1	33,520	31,616
Costs of Collection Allowance	1	720	867
Contribution to County Fund		0	0
Contribution to Police Fund		0	0
Contribution to General Fund		0	0
Provision for Uncollectable Amounts		356	445
		107,910	**106,577**
Movement on Fund Balance		**(261)**	**185**
Balance at beginning of year		(6)	(267)
Surplus/(Deficit) for year		(261)	185
Balance at end of year		**(267)**	**(82)**

Collection Fund Accounts

1. INCOME FROM 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 NNDR pool) managed by Central Government, which in turn pays back to Authorities their share of the pool based on a standard amount per head of the local adult population. This amount is paid to the General Fund and not to the Collection Fund. Under these arrangements the amounts included in these accounts can be analysed as follows:

	2009/10		2010/11	
	£'000	**£'000**	**£'000**	**£'000**
Net NNDR		34,240		32,483
Less:				
Allowances	181		187	
Interest on NNDR collected	42		68	
Provision for bad debt	497	720	612	867
NNDR charged to pool		**33,520**		**31,616**
Net Government Contribution (to)/from pool		**33,520**		**31,616**
		0		**0**

The total non-domestic rate charged in 2010/11 was £34.3 million, (£35 million in 2009/10) and the total non-domestic rateable value for North Hertfordshire District Council is £99.6 million, (£68.7 million in 2009/10). The NNDR multiplier is 41.4p in the pound (48.5p in the pound in 2009/10). The small business non domestic rating multiplier is 40.7p in the pound.(48.1p in the pound in 2009/10)

2. COUNCIL TAX

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

	2009/10		2010/11	
	£'000	**£'000**	**£'000**	**£'000**
Original Debt	81,473		82,135	
Additional Debt	10,433		9,856	
		91,906		**91,991**
Less:				
Council Tax Benefits		7,733		8,151
Transitional Relief		(1)		(1)
Council Tax Benefits Limitation		0		0
Discounts		6,606		6,388
Amounts Written-off, Exemptions & Allowances		11,940		11,460
		65,628		**65,993**

Council tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Hertfordshire County Council, Hertfordshire Police Authority and the Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts). This basic amount of council tax for a Band D property, £1,463.24, (£1,455.33, 2009/10) is multiplied by the proportion specified for a particular band to give an individual amount due.

Collection Fund Accounts

Council tax bills were based on the following proportions for Bands A to H:

Proportion of Band D charge

Band	Property Numbers	Proportion	Basic Amount £
A	3,208	0.67	975.50
B	8,507	0.78	1,138.07
C	19,156	0.89	1,300.67
D	9,638	1.00	1,463.24
E	6,827	1.22	1,788.41
F	4,374	1.44	2,113.57
G	3,098	1.67	2,438.74
H	307	2.00	2,926.48
Total	**55,115**		

3. PAYMENT OF SURPLUS/ DEFICITS FROM THE COLLECTION FUND

In the year Hertfordshire County Council repaid an element of the deficit on the Collection Fund at 31 March 2011 totalling £114,899.27.

In the year Hertfordshire Police Authority repaid an element of the deficit on the Collection Fund at 31 March 2011 totalling £20,418.10.

In the year, North Hertfordshire District Council did not make any transfer between the Collection Fund and the General Fund.

Similarly the element of the surplus/deficit on the Collection Fund at 31 March 2011 will be distributed in subsequent financial years to Hertfordshire County Council, Hertfordshire Police Authority and the Council in proportion to the value of the respective precept demand made by the three Authorities on the Collection Fund. The apportioned (deficit) is (£90,664.05) Hertfordshire County Council, (£5,640.80) Hertfordshire Police Authority and £14,257.71 North Hertfordshire District Council.

4. PRECEPTS

	2009/10 £'000	2010/11 £'000
The main precepts are:		
Hertfordshire County Council	55,339	55,661
Hertfordshire Police	7,064	7,354
North Hertfordshire District Council	10,911	10,634
	73,314	**73,649**

Following the introduction of council tax on 1 April 1993, parish precepts are now payable from the Council's General Fund and not the Collection Fund.