Annual Governance Statement and Statement of Accounts (Audited) 2012/2013

North Hertfordshire District Council

Annual Governance Statement 2012/2013

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, and 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 2011/12 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 the Accounts and Audit (England) Regulations 2011 regulation 4(3) which requires all relevant bodies to prepare an annual governance statement.

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 its communities. 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 services and value for money.

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 and potential impact of those risks being 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 2013 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 to 2021 and has recently been reviewed to ensure that it incorporates and reflects the latest priorities towards that delivery timescale, and within decreased resources for all members of the partnership.

3.2.3 The Council's "Priorities for the District" Document focuses on what the Council will contribute to achieving its three priorities. In 2012/13 these were:

- **Living within our means to deliver cost effective services**

This included initiatives on new ways of working, delivering value for money, reviewing service subsidies and reducing overall spend to match available income without reliance on reserves.

- **Working with local communities**

To allow the Council to recognise community development work in the widest sense and the existing work on our Town Centres, rural strategy and the Localism agenda.

- **Protecting our environment for our communities**

This priority demonstrates the Council's continuing commitment to care for the environment and do what it can to protect it within limited resources. This includes protection of the green belt, waste reduction, recycling, work on carbon dioxide reduction, energy efficiency and park renovation.

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 underpinned the Priorities for the District in 2012/13.

3.2.5 Achievement of the Priorities for the District has been monitored throughout 2012/13 via the Council's Senior Management Team and a mid-year update and end of year report to Cabinet. The Priorities for the District 13/14 included brief details of key achievements against these priorities when it was approved by Council in April 2013. The monitoring of delivery against the priorities ensures the Council's capacity to deliver agreed projects within the agreed cost, time and resources.

3.2.6 To further ensure that non-core resources are directed and / or redirected towards the achievement of agreed objectives and priorities within the Priorities for the District, 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).

3.2.7 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 year on year continue to be 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.

3.2.8 The Council continues to ensure the accounts are compliant to the Local Authority Accounting Code of Practice for 2011/12. 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.

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

3.2.10 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 and is posted on the Council's website. For the autumn of 2013, 'Outlook' will contain a Council review of the 2012/13 financial year summarising key achievements against the priorities referred to in 3.2.3 with details of expenditure.

3.2.11 The Cabinet takes decisions on service and management matters, except statutory matters reserved to Council; strategy and policy; local issues delegated to Area Committees; and matters delegated to officers. It meets a minimum of 6 times per year. Portfolio Holders are councillors appointed to the Cabinet by the Leader of the Council, with specific executive responsibility for various Council services and functions.

3.2.12 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. The public are encouraged to engage in the work of the Overview & Scrutiny Committee.

3.2.12 The Finance, Audit and Risk Committee and the Overview & Scrutiny Committee provide on-going monitoring and scrutiny of financial management, performance, policy and action plans. Further challenge is provided by Members through meetings with portfolio holders, area committees and Member workshops.

3.2.13 Scrutiny is provided at Officer level through the work of the Council's internal audit function which, since June 2011 has been delivered by a Shared Internal Audit Service (SIAS). 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. SIAS supports the design and effectiveness of the governance framework. Each internal audit is given an assurance level. The definition of each of the assurance levels are provided in Table 1 below:

Table1: Shared Internal Audit Service – definition of assurance levels

Level of assurance	**Definition**
Full	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified
Substantial	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited	There are significant weaknesses in key control areas, which put the system objectives at risk.
No	Control is weak, leaving the system open to material error or abuse.

3.2.14 Quarterly monitoring meetings are held with the Head of Assurance from SIAS, the Council's Section 151 Officer and Head of Finance, Performance & Asset Management to ensure a high standard of internal audit support is maintained. In addition there are monthly meetings with the Audit Manager and Head of Finance, Performance & Asset Manager. The audit plan was 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

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

3.3 **Ensure that Members and Officers 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. Training was given to the Council's Officer Senior Management Group (SMG) in December 2011 regarding the Council's Constitution.

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 (Chief Finance Officer (CFO)) 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 The CFO reports directly to the Chief Executive. The CFO ensures that appropriate advice is given on all financial matters, is responsible for keeping proper financial records and accounts and for maintaining an effective system of internal control.

3.3.7 Officer decision-making at a strategic level is led by the Senior Management Team, comprising the Chief Executive, Strategic Directors, Heads of Service and Corporate Managers. This met throughout 2012/13 and addressed at each meeting: finance, policy, governance, human resource issues and performance including the delivery of the Priorities for the District.

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

3.3.9 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 Parish and Community 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 Following the changes to the Standards Regime, a new Member Code of Conduct was approved by Council in 2012.

3.4.3 The Council has a staff Code of Conduct that is on the Council's intranet in the same way as all Council policies.

3.4.4 Regular records of advice on Code issues are kept by the Monitoring Officer. The Standards Committee oversees the number and types of complaints dealt with through the local referrals process.

3.4.5 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 when necessary (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.

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

3.4.7 There is an internet page explaining how complaints can be made against Councillors. This can be done by either downloading a complaint form or 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.

3.4.8 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 There are some corporate groups that collectively monitor a range of Council processes and procedures. The Contracts and Procurement Group monitors the Contract Procurement Rules and the Procurement Strategy. The Statutory Officers Group reviews internal and Member governance issues. The Risk Management Group monitors the Council's risk register entries and the Risk and Opportunities Strategy.

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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 2012/13 and will be reviewed triennially unless there are significant changes that require the documents to be updated in the interim. In addition to the Risk Management Group, monitoring is provided by the Finance, Audit & Risk Committee and if necessary referrals are made to Cabinet. An annual report is presented to Full Council.

3.5.5 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 Finance and IT Services) as 'Risk Champions'. Both 'Champions' attend the Risk Management Group and oversee the implementation of the Risk Management Strategy.

3.5.6 The Monitoring Officer has processes for review of legislative changes which feed into the annual review of the Constitution. Consultation meetings and other 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 Constitution which includes all terms of reference and scheme of delegation is discussed with the Leader of the Council and opposition group leaders and is formally agreed by Council. The Monitoring Officer retains overall responsibility for monitoring the Constitution.

3.5.7 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.

3.5.8 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.

3.5.9 The Whistleblowing policy is published on the Council's intranet and internet to raise awareness and outlines procedures in place to staff, contractors and the public and features in the induction for new staff. The Anti Fraud and Corruption and Anti-bribery and Corruption policies are on the intranet and are given to all new members of staff as part of our comprehensive staff induction process.

3.5.10 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.

3.5.11 The Finance, Audit & Risk Committee receives regular reports from the Council's External Auditor, the Shared Internal Audit Service, Risk Management Group and the Accountancy Manager. Where appropriate, comment is made on non-compliance with legislation that has been identified as part of a routine audit. The Chief Financial Officer has direct access to this Committee as well as to external auditors.

3.5.12 All members of the Finance, 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 has been given to augment 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 Changes to and development of training programmes are 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 and additionally considers the performance of statutory partners dealing with Crime and Disorder matters. The Overview & Scrutiny Committee has topic specific Task & Finish Groups. The chairmanship of these groups rotates between the political groups. 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 the work of the Senior Mangers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Assurance for SIAS's annual report and also by comments made by the external auditors and, where relevant, other review agencies and inspectorates.

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4.2 The Senior Management Team, chaired by the Chief Executive, 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 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. 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 No cases of maladministration were found against the Council by the Local Government Ombudsman during 2012/13. This demonstrates that the Council delivers appropriate cost effective services.

4.5 The Finance, Audit & Risk Committee has reviewed progress against the AGS 2011/12 action plan that was implemented in 2012/13. Some of the key areas of work that were completed include:

- The completion of revisions to the Officer/Member Protocol. This ensures the common purpose and roles and responsibilities of Officers and Members are agreed and understood.
- The production of an overarching guide on information sharing requirements to inform staff, members, partners and contractors of their responsibility for effective data management.
- Clearance of documents from the Secondary Centre and Letchworth Town Hall to further enhance compliance and future compliance with the Data Protection Act.
- The implementation of changes to the standards framework flowing from the Localism Act 2011 was highlighted to Members by reporting to Full Council on the standards framework and the introduction of a revised Member Code of Conduct. This ensured that the current high standards of conduct and behaviour of Councillors is maintained.
- The roles and responsibilities for procurement were agreed. This ensures the best outcomes are obtained for the local community as Officers will be provided with support and advice to ensure successful procurements of goods and services through the development of the roles of the Contracts Solicitor and Procurement Officer.

4.6 The review of the Contract Procurement Rules, which was not completed in 2102/13, will be completed by September 2013. This will ensure that the Rules are current and compliant with procurement legislation.

4.7 The Shared Internal Audit Service (SIAS) ensures that internal audit duties are performed independently. On the area of risk management & governance there were two specific audits undertaken in 2012/13. These were on Corporate Governance which gave a substantial* level of assurance and on Authorisations and Delegations which provided a moderate* level of assurance. The agreed recommendations that remain outstanding from these audits will be implemented in 2013/14.

* see table 1 in section 3.2.13

4.7.1 In particular the following actions will be undertaken in response to the internal audit recommendations referred to in 4.7:

- consideration of making a single department responsible for the identification, provision and recording of Member training;
- amendment of job descriptions to ensure they reflect Strategic Director's responsibilities under the Contract Procurement Rules;
- register of sub-delegations to be finalised.

4.8 A thorough review of the Constitution to make it clearer and more accessible to all will be concluded in 2013/14. The review process will include a number of Senior Officers and will include a workshop to give final consideration to the proposed new Constitution ahead of Full Council debating the proposal on 5 September 2013 This defines and documents the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements. It will also include the procedures for convening meetings, including extraordinary meetings, of all relevant committees.

4.9 In order to reinforce the message that the Council has a zero tolerance of fraud, an e-learning module on fraud awareness will be essential learning for al staff. This will also be available to Members.

4.10 Universal Credit, which is intended to simplify the benefits system and bring all working-age benefits into a single payment, is to be progressively rolled out by the Department of Work and Pensions starting in October 2013. The Council has not currently been advised when this will be introduced in North Hertfordshire but this will impact upon Housing Benefit claims. As soon as further information is made available, the Council's Benefits Team will work in conjunction with the benefit system software suppliers to ensure a smooth transfer to the Universal Credit payment to ensure minimal impact on benefit recipients.

4.11 An interim pension fund valuation exercise suggests that the Superannuation contribution increase for the Council will require an annual increase of £200k over the next three years in order to meet the liability in the pension fund. The final valuation for 2014/17 will be available later in 2013 and options to meet this liability will be included within our Medium Term Financial Strategy 2014/17 to be referred to Cabinet in July 2013.

4.12 We have been advised on the implications of the result of the review of effectiveness of the governance framework by the Finance Audit and Risk Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

5. Significant Governance Issues

5.1 The supplier of the Council's payroll system has given notice that the system will not be supported from 1 April 2014. The Council has explored various options to ensure that a dual system is in place prior to the year end and a report on the preferred option will be taken to Cabinet in July 2013 . This will ensure the risk of fines from the HMRC for failure to make submissions on time and breach of contract for failing to pay staff is managed. There is also an opportunity to increase the resilience of the service.

5.2 We propose over the coming year to take steps to address the above matters 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.

Signed:	**Signed**
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Leader of the Council on behalf of North Hertfordshire District Council	Chief Executive on behalf of North Hertfordshire District Council

Annual Governance Statement

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Statement of Accounts 2012/2013

North
Hertfordshire
District Council

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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 2013 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 2013. Signed on behalf of North Hertfordshire District Council:

Chairman of meeting approving the accounts:

Councillor M.Weeks, Chairman of the Finance, Audit & Risk Committee
Date: 19 September 2013

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTH HERTFORDSHIRE DISTRICT COUNCIL

Opinion on the Authority financial Statements

We have audited the financial statements of North Hertfordshire District Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Strategic Director of Finance, Policy and Governance and the auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the financial position of North Hertfordshire District Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

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

Independent Auditor's Report

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

Independent Auditor's Report

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, North Hertfordshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

Certificate

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

Phil Westerman
Senior Statutory Auditor, for and on behalf of Grant Thornton UK LLP

Grant Thornton House,

Melton Street,

Euston,

London

NW1 2EP

19 September 2013

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 detailing the year's financial activities and the overall financial position at the 31 March. This foreword is to provide an overview of how the accounts are presented and highlight the most significant financial matters.

1.2 The Statement of Accounts for the year ending 31 March 2013 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 2012/13 Local Authority Accounting Code of Practice and Service Reporting Code of Practice. The Statement of Accounting Policies explains the policies adopted by the Council to compile these accounts.

1.3 The Movement in Reserves 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 'unusable' 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 and reflect the adjustments between the accounting basis and the funding basis under regulations (see 1.4 below). 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.

1.4 The Comprehensive Income and Expenditure Account 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.

1.5 The Balance Sheet shows the value as at the 31 March 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'.

Foreword by the Strategic Director of Finance, Policy & Governance

1.6 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.

1.7 The Notes relating to the statements are detailed after the statements and provide further detail to the numbers contained with the statements.

1.8 The Authority is a billing authority for the collection of Council Tax and National Non-Domestic Rates (NNDR) for the District. The Collection Fund Account 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.

2. REVIEW OF 2012/13

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 2013. Further detail on the year end position of the usable reserves can be found in the Revenue Budget Outturn 2012/13 Report and the Capital Programme Outturn 2012/13 Report. Both of these reports were presented to Cabinet on the 18 June 2013 and are available on the website: **http://www.north-herts.gov.uk/aksnherts/users/public/admin/kab14.pl?operation=SUBMIT&meet=29&cmte=CAB&grpid=public&arc=71**

2.2 The Authority has a cyclical process to determine its priorities and align both resources and finances to achieve those priorities. The high level priorities for 2012/13 were as follows:

- Living within our means to deliver cost-effective services;
- Working with local communities; and
- Protecting our environment for our communities

2.3 The priorities formed the basis for the Priorities for the District document for 2012/13 and the Authority has continued with a number of high level actions against each Priority.

2.4 The Authority has continued to follow the medium term financial strategy during 2012/13 and has contained spending within available resources. This strategy was developed in a period of national economic austerity and uncertainty which has played a significant part in generating the financial pressures the Authority has experienced yet again during the year. Funding from Government non-ringfenced grants and NNDR redistribution reduced by £0.6million to £5.6million (£6.2million in 2011/12). After reviewing all the key financial considerations the strategy identified that £0.6million of efficiencies would need to be found to balance the budget for 2012/13.

2.5 The Authority subsequently budgeted and achieved ongoing identified efficiencies of £0.6million in 2012/13. This follows the achievement of ongoing savings of £1.9million in the 2011/12 budget process. Looking forward, Central Government funding is already confirmed to reduce by a further £0.7million in 2013/14 and the Authority anticipates further reductions in future years, although at the time of writing the amount of reduction is uncertain. The Authority has identified a further £0.85million of ongoing efficiencies in

2013/14 in order to set a balanced budget. It is likely the Authority will need to take a flexible approach to using available resources and continue to seek alternative means of working in order to continue to manage spend within the overall available resources.

2.6 The net worth of the Authority is £72.2million. This represents the theoretical net value of all the Authority's assets and liabilities. Of this value £64million is contained within un-usable reserves, for example a significant proportion of the Authority's value is contained within its property portfolio. The Authority does, however, have a total of £8.2million (£6.9million at 31 March 2012) of usable reserves at 31 March 2013, 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 2012/13 the Authority has increased its general fund reserves by just under £0.5million to £3.2million in order to cushion against unknown financial risks and funding uncertainty. The remainder of the increase in usable reserves is primarily due to specific grants which have been received and earmarked to be spent on specific services.

2.7 The Authority continues to be in the position of a negative capital financing requirement (CFR). This means the Authority does not have a debt liability and has not needed to make a minimum revenue provision towards the cost of capital in 2012/13. However, the Authority has, for the second year, reduced this negative CFR by not applying usable capital receipt funding to all of its capital expenditure in 2012/13. The effect of this has been to reduce the amount of cash investments available to earn interest for the general fund.

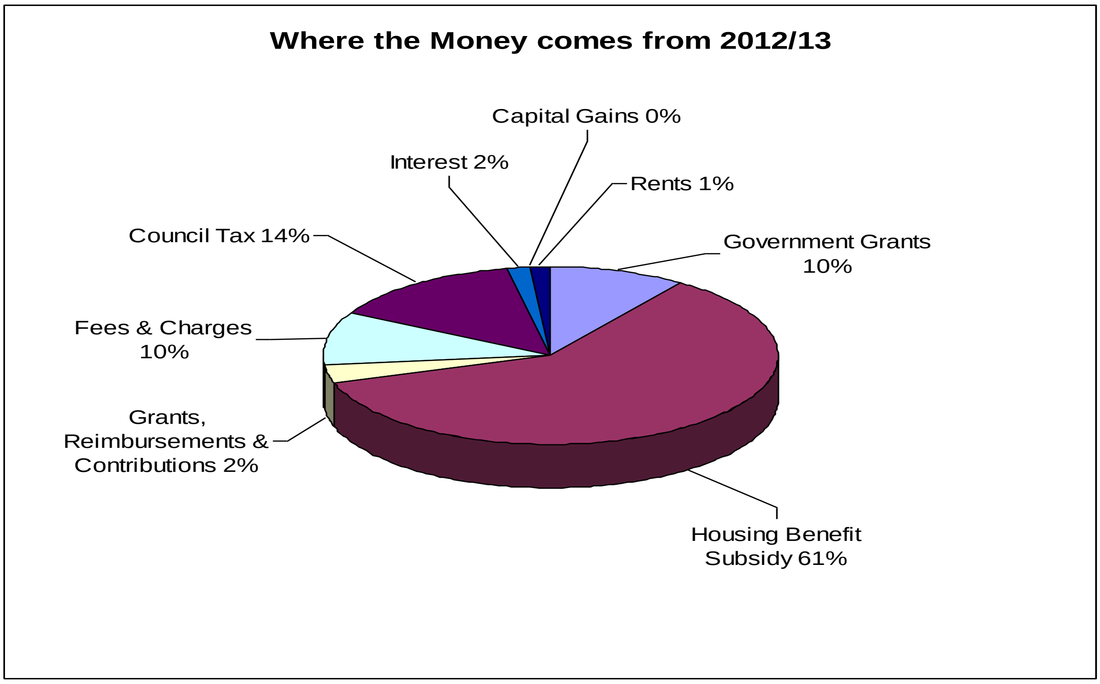
2.8 The Authority participates in the Local Government Pension Scheme. The scheme is administered by Hertfordshire County Council. The net position of the pension fund has a significant impact on the Authority's accounts. The Authority has been notified by the fund actuary that the net liability has increased by over £7million during 2012/13 to over £52million. This increase, seen on the Balance Sheet, is mainly because the financial assumptions at 31 March 2013 are less favourable than they were at 31 March 2012 and in particular a lower discount rate has been assumed. This increase in liability was partly offset by an actual investment return which was higher than expected.

3. INCOME AND EXPENDITURE

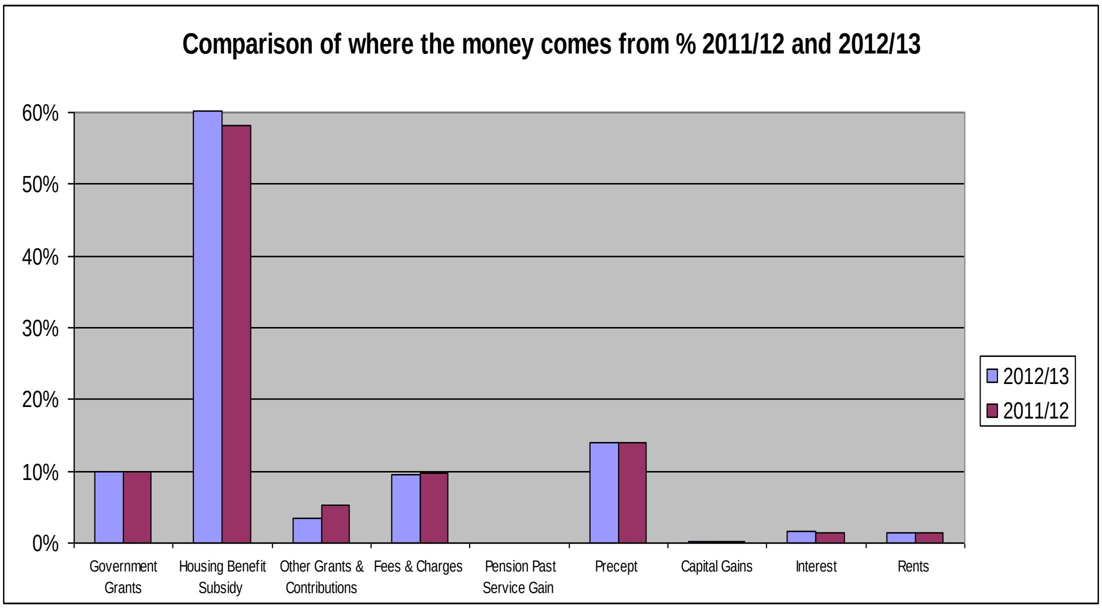
3.1 There was a net deficit on the provision of services of £4.192million in 2012/13 (£2.938million in 2011/12). While this an accounting reflection of the financial performance of the Authority there are £4.6million of "book entries" included, to be compliant with the Code of Practice, that are not costs to be met by the General Fund or funded by Council tax. In particular the capital charges for depreciation and impairment of assets. These adjustments are listed in note 7 to the accounts. The four charts below show in broad terms where the money came from and what it was spent on in 2012/13. There is also a comparison with the previous financial year.

3.2 The 2012/13 gross income was £78million. 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 and not just the gross income shown in the Net Cost of Services. The largest single item of income was housing benefit subsidy, providing 61% of the income total. The precept from taxpayers accounted for 14%, Government Grant income for 10% and then the fourth largest source of income was from fees and charges, which accounted for 10%.

Foreword by the Strategic Director of Finance, Policy & Governance



3.3 The 2012/13 income of £78million is £1million higher than the £77million received in 2011/12. The chart below compares in percentage terms the two years' sources of income.



3.4 The 2012/13 gross expenditure was £82million. This reflects all the Authority's expenditure recognised in the *Surplus or Deficit on Provision of Services* line in the Comprehensive Income and Expenditure Statement. The largest single item of expenditure was housing and council tax benefit payments, which accounted for 56% 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 13% of the total expenditure. Capital financing charges accounted for 7% 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)

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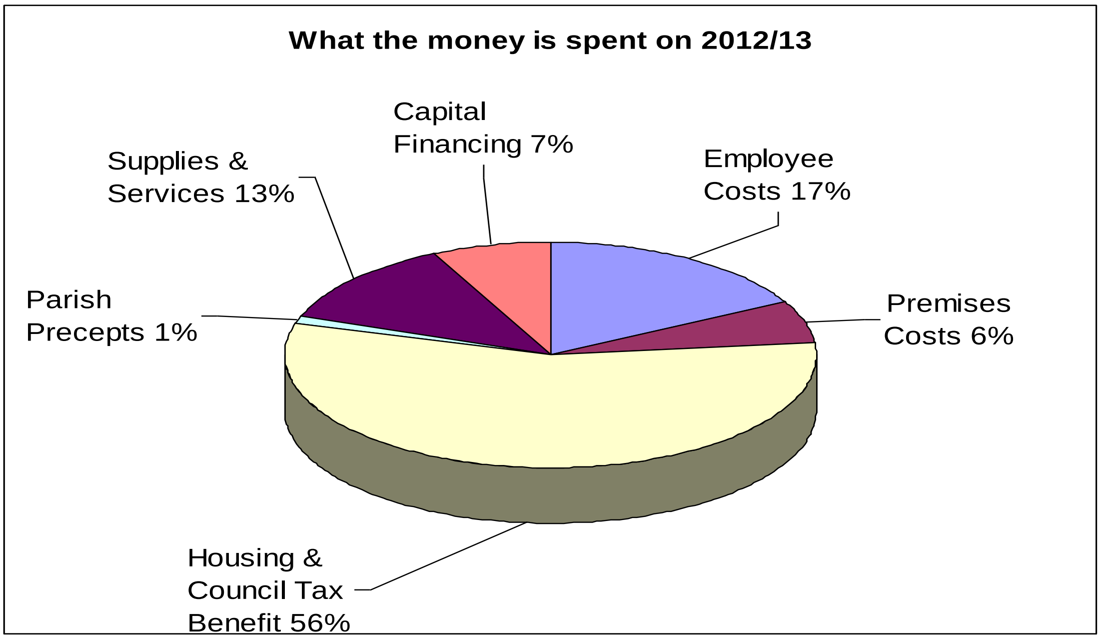
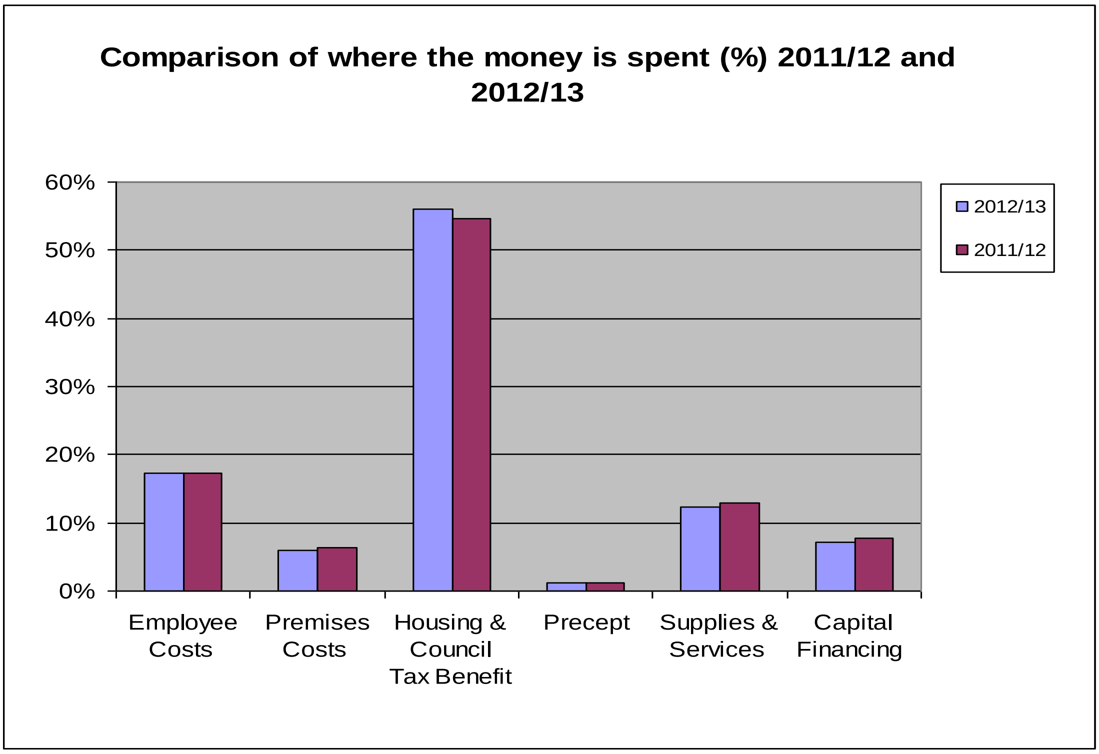
made up 6% of costs and the Parish Precept set by the Parishes and Town Councils in the District accounted for 1%.



3.5 The 2012/13 gross expenditure of £82million is £2million (or 2%) higher than the £80million spent in 2011/12. 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 and is increasing (55%, 2011/12).



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4. GENERAL FUND BUDGET

4.1 The 2012/13 Original General Fund Net Budget was £16.5million (including parish precept payments of £0.9million). The balance at year-end on the General Fund was estimated to be a surplus of £1.7million. The actual General Fund balance as at the 31 March 2013 was a surplus of £3.2million. The 2012/13 general fund actual net spend was £16million. The reduction in spend over the original budget is the net result of a number of both adverse and favourable variances identified during the year. In particular the net position of payment of Council Tax and Housing Benefits and receipt of grant subsidy and collection of overpayments has improved by £200k and Audit Fees are £70k lower than expected. Active financial management and prudent planning has ensured the overall net spend has remained within available resources.

4.2 The Authority has a policy of seeking to maintain a prudent level of General Fund balance. At 31 March 2013, with a balance totalling £3.2million, the General Fund balance was above the recommended minimum balance of £1.7million for 2012/13, approved by Members on 9 February 2012.

5. CAPITAL AND BORROWING

5.1 In 2012/13 the Authority had an original capital budget of £5.9million, approved by Members on 9 February 2012. The actual 2012/13 spend on capital items was £2.5million, of which £1.1million was not funded in the accounts but paid for by drawing down cash investments. The remaining £1.4million was funded from capital receipts, government grants, third party contributions and revenue contributions.

5.2 The economic climate has continued to delay the completion of asset disposals and hence reduced the availability of capital receipts for the funding of the capital programme. After consulting with specialists and the Authority's external auditors the Authority has reached the conclusion that it is in the position of being able to use some of the Housing set aside receipts to pay for some of the capital programme. The revenue consequences of such action will be reflected in the Medium Term Financial Strategy and a prudent and sustainable approach will be taken in future years.

5.3 In previous years the Authority has funded part of the capital programme from loans. The value of long term loans owed to external parties for capital spending amount to £1.7million as at 31 March 2013. However, this sum should be viewed in relation to the value of the assets, which are valued by a combination of replacement cost and historic cost, and have a net book value of £82million. Furthermore, the Authority had cash investments of £47million.

5.4 For 2013/14 - 2015/16 the Authority has an approved capital programme of £16.3million. The major schemes are identified in the following table:

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Capital Scheme	2013/14 £'000	2014/15 £'000	2015/16 £'000	Total £'000
Community Services	214	0	0	214
Computer Software and Equipment	187	34	0	221
Leisure Facilities	2,732	150	0	2,882
Museum & Arts Services	1,500	2,645	0	4,145
Advances & Cash Incentives	1,486	605	605	2,696
Asset Management	559	77	0	636
Parking Services	1,149	92	0	1,241
Growth Fund Projects	740	0	0	740
CCTV	4	0	0	4
Waste Disposal	1,000	0	0	1,000
Renovation & Reinstatement Grants	808	780	780	2,368
Town Centre Enhancement	41	100	0	141
Total	**10,420**	**4,483**	**1,385**	**16,288**
To be Financed By:				
Capital Receipts	1,360	630	630	2,620
Government Grants and Other Contributions	1,802	1,595	255	3,652
Sums set aside from Revenue	88	0	0	88
Total Funded	**3,250**	**2,225**	**885**	**6,360**
Not Funded – drawdown of cash investments	**7,170**	**2,258**	**500**	**9,928**
Total	**10,420**	**4,483**	**1,385**	**16,288**

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 Authority has reviewed all such categories and has no material interest that would require the Authority to complete Group Accounts.

6.2 The Authority 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 Authority'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 27 June 2013, this being the date the un-audited statement of accounts are signed by the Strategic Director.

8. FURTHER INFORMATION

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

Statement of Accounting Policies

1. GENERAL

1.1. The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and the position at the year-end of 31 March 2013. The Authority 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 2012/13 and the Service Reporting Code of Practice 2012/13, 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.

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 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.

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. Where revenue grants have been ring-fenced to a specific service and have not been spent at the Balance Sheet date they are reversed out of the General Fund Balance and posted to an ear-marked reserve (revenue grants with less than £1,000 left unspent at the Balance Sheet date are treated as Creditors and not transferred to an ear-marked reserve).

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.

10. HERITAGE ASSETS

Tangible and Intangible Heritage Assets (described in this summary of significant accounting policies as heritage assets)

10.1 Heritage assets have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture. The Authority's Heritage Assets consist of collections of assets or artefacts either exhibited or stored in the Authority's Museums (Letchworth and Hitchin Museums and Art Galleries) or the Museum Resource Centre, and items of public Sculpture and Artwork.

10.2 Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as described below. The Authority's heritage assets are accounted for as follows:

10.3 Art Collection

- The art collection includes paintings (both oil and watercolour) and sketches and consists of approximately 2,600 items. The Museums' Manager undertakes an annual programme of valuations by reviewing the archives of auctions houses to identify similar paintings by the same artist which have sold in the recent past.
- Other than a small number of items of significant interest the majority of the art collection is not considered to have a material monetary value and so the Authority does not recognise the collection on the Balance Sheet. Much of the art collection has been donated from local painting societies and therefore is not by artists who would attract value for their work. The small number that are recognised on the Balance Sheet are deemed to have indeterminate lives and a high residual value; hence the authority does not consider it appropriate to charge depreciation.
- Acquisitions are made by purchase or donation. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the Museum's Manager or external valuer with reference to appropriate commercial markets for the paintings using the most relevant and recent information from sales at auctions.

10.4 Archaeology

- The Authority does not consider that reliable cost or valuation information can be obtained for all but one of the items held in its archaeological collection (approximately 360,000 items). This is because of the diverse nature of the assets held and lack of comparable market values. Consequently, the Authority does not recognise these assets on the Balance Sheet.
- The exception to this rule is a silver coin collection which is valued in the same way as described for the art collection above.

- Acquisitions are principally by donation. The Authority does not (normally) make any purchases of archaeological items.

10.5 Other Museum Collections

- Other collections include ceramics and glass (approximately 600 items), costume and costume accessories (approximately 4,500 items), documents (approximately 20,000 items), military (approximately 1,000 items), natural sciences (approximately 500,000 items), photography (approximately 500,000 items) and social history (approximately 22,000 items).
- The Authority considers that obtaining valuations for the vast majority of these collections would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. This is because of the diverse nature of the assets held and the lack of comparable values. The Authority does not recognise these collections on the Balance Sheet.
- Acquisitions are recognised at cost or, if bequeathed or donated at nil consideration, at valuation.

10.6 Public Sculptures / Artwork

- Where the Authority has commissioned and installed public sculptures and/or artwork in the District the items are recognised on the balance sheet at cost or market valuation, if available.
- Acquisitions are initially recognised at cost with valuations provided by the Museums Manager or external valuer, if appropriate.

10.7 The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment – see section 17 in this summary of significant accounting policies.

10.8 The Authority has a policy for the acquisition and disposal of Museum collections. The policy states there is a strong presumption against the disposal of any items in the museum's collection and decisions to dispose of items will not be made with the principal aim of generating funds. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment.

11. INTANGIBLE ASSETS

11.1. 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.

11.2. 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).

11.3. 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.

11.4. 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.

11.5. 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.

12. INVENTORIES AND LONG TERM CONTRACTS

12.1. 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.

12.2. 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.

13. INVESTMENT PROPERTY

13.1. 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.

13.2. 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 arms-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.

13.3. 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.

14. JOINTLY CONTROLLED OPERATIONS AND JOINTLY CONTROLLED ASSETS

14.1. 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.

14.2. 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.

15. LEASES

15.1. 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.

15.2. 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

15.3. 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.

15.4. 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
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

15.5. Property, plant and equipment recognised under finance leases are 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).

15.6. 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

15.7. 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

15.8. 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.

15.9. 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).

15.10. 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.

15.11. 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

15.12. 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.

16. OVERHEADS AND SUPPORT SERVICES

16.1. 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 Service Reporting Code of Practice 2012/13 (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

17. PROPERTY, PLANT AND EQUIPMENT

17.1. 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

17.2. 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.

Statement of Accounting Policies

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

Measurement

17.4. 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.

17.5. 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.

17.6. 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.

17.7. 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.

17.8. 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).

17.9. 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. 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.

17.10. 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.

17.11. 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.

17.12. 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)

Statement of Accounting Policies

- 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.

17.13. 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

17.14. 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.

17.15. 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.

17.16. 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

17.17. 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).

17.18. 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

17.19. 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.

17.20. 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.

17.21. 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

17.22. 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.

17.23. 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.

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

17.25. 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.

17.26. 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.

17.27. 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.

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

18.1. 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.

18.2. 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.

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

19. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions

19.1. 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.

19.2. 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.

19.3. 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.

19.4. 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

19.5. 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

19.6. 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.

20. RESERVES

20.1. 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.

20.2. 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.

21. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

21.1. 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.

21.2. 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.

21.3. 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.

22. TRUST FUNDS AND THIRD PARTY ASSETS

22.1. 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.

23. VAT

23.1. 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.

2011/12				Note	2012/13		
£'000	£'000	£'000			£'000	£'000	£'000
4,257	(1,071)	3,186	Central Services to the public		3,947	(1,129)	2,818
6,927	(990)	5,937	Cultural & Related Services		7,649	(646)	7,003
8,344	(3,082)	5,262	Environmental & Regulatory Services		8,458	(3,054)	5,404
3,634	(1,630)	2,004	Planning Services		3,003	(1,108)	1,895
48,388	(46,746)	1,642	Housing Services		50,604	(48,736)	1,868
2,481	(2,207)	274	Highways & Transport Services		2,596	(2,044)	552
0	0	0	Adult Social Care		0	0	0
3,468	(556)	2,912	Corporate and Democratic Core		2,825	(1,047)	1,778
220	0	220	Non distributed costs		49	0	49
77,719	**(56,282)**	**21,437**	**Cost of Services**		**79,131**	**(57,764)**	**21,367**
		1,390	Other Operating Expenditure	8			938
		(1,254)	Financing and Investment Income & Expenditure	9			(454)
		0	(Surplus) or Deficit of Discontinued Operations				0
		(18,635)	Taxation and Non-Specific Grant Income	10			(17,659)
		2,938	**(Surplus) or Deficit on Provision of Services**				**4,192**
		(3,057)	(Surplus) or Deficit on Revaluation of non-current assets				(3,960)
		0	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets				0
		12,529	Actuarial (gains) / losses on pension assets / liabilities	15			5,873
		9,472	**Other Comprehensive Income and Expenditure**				**1,913**
		12,410	**Total Comprehensive Income and Expenditure**				**6,105**

Service Reporting Code of Practice:
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 and reflect the adjustments between the accounting basis and the funding basis under regulations.. 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.

	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 2011	**1,923**	**3,024**	**1,093**	**264**	**6,304**	**84,421**	**90,725**
Movement in Reserves during 2011/12:							
Surplus or (deficit) on provision of services	(2,938)	0	0	0	(2,938)	0	(2,938)
Other Comprehensive Expenditure and Income	0	0	0	0	0	(9,470)	(9,470)
Total Comprehensive Expenditure and Income	**(2,938)**	**0**	**0**	**0**	**(2,938)**	**(9,470)**	**(12,408)**
Adjustments between accounting basis & funding basis under regulations **(Note 7)**	3,441	0	104	(54)	3,491	(3,491)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**503**	**0**	**104**	**(54)**	**553**	**(12,961)**	**(12,408)**
Transfers to/from Earmarked Reserves **(Note 38)**	248	(248)	0	0	0	0	0
Increase / (Decrease) in Year	**751**	**(248)**	**104**	**(54)**	**553**	**(12,961)**	**(12,408)**
Balance at 31 March 2012	**2,674**	**2,776**	**1,197**	**210**	**6,857**	**71,460**	**78,317**
Movement in Reserve during 2012/13:							
Surplus or (deficit) on provision of services	(4,192)	0	0	0	(4,192)	0	(4,192)
Other Comprehensive Expenditure and Income	0	0	0	0	0	(1,913)	(1,913)
Total Comprehensive Expenditure and Income	**(4,192)**	**0**	**0**	**0**	**(4,192)**	**(1,913)**	**(6,105)**
Adjustments between accounting basis & funding basis under regulations **(Note 7)**	4,616	0	46	890	5,552	(5,552)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**424**	**0**	**46**	**890**	**1,360**	**(7,465)**	**(6,105)**
Transfers to/from Earmarked Reserves **(Note 38)**	63	(63)	0	0	0	0	0
Increase / (Decrease) in Year	**487**	**(63)**	**46**	**890**	**1,360**	**(7,465)**	**(6,105)**
Balance at 31 March 2013	**3,161**	**2,713**	**1,243**	**1,100**	**8,217**	**63,995**	**72,212**

Balance Sheet as at 31 March 2013

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’.

31 March 2012 £’000		**Note**	**31 March 2013 £’000**
63,288	Property, Plant and Equipment	23	67,326
482	Heritage Assets	28	512
13,755	Investment Property	24	14,469
3,750	Assets Held for Sale	25	0
246	Intangible Assets	29	86
5,258	Long Term Investments (non-property)	34	8,758
185	Mortgages	34	172
11	Loans	34	31
358	Other Long Term Debtors	34	2,073
87,333	**Long Term Assets**		**93,427**
56	Inventories	31	64
6,527	Short Term Debtors	32	4,684
41,294	Short Term Non Property Investments	34	37,746
2,298	Cash & Cash Equivalents	11	1,593
50,175	**Current Assets**		**44,087**
(2,644)	Short Term Borrowing	34	(2,619)
(4,025)	Short Term Creditors	33	(3,904)
(3,171)	Receipts in Advance	33	(2,918)
(9,840)	**Current Liabilities**		**(9,441)**
(2,265)	Long Term Borrowing	34	(1,660)
(230)	Long Term Creditors	30	(1,171)
(722)	Provisions (> 1 year)	36	(163)
(45,228)	Liability related to Pension Scheme	15	(52,458)
50	Deferred Credits		49
(956)	Capital Grants Receipt in Advance	17	(458)
(49,351)	**Long Term Liabilities**		**(55,861)**
78,317	**Net Assets**		**72,212**
6,857	Usable Reserves	38	8,217
71,460	Unusable Reserves	39	63,995
78,317	**Total Reserves**		**72,212**

The un-audited accounts were issued on 27 June 2013. The audited accounts were authorised for issue on the 4 September 2013.

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.

2011/12 £'000		2012/13 £'000
(2,938)	Net surplus or (deficit) on the provision of services	(4,192)
3,766	Adjustments for non-cash movements	6,444
(2,800)	Adjustments for items that are investing and financing activities	(1,217)
(1,972)	**Net cash flows from operating activities**	**1,035**
(2,760)	Investing Activities	(1,311)
2,605	Financing Activities	(429)
(2,127)	**Net Increase or (decrease) in cash and cash equivalents**	**(705)**
4,425	Cash and Cash Equivalents at the beginning of the year	2,298
2,298	**Cash and Cash Equivalents at the end of the year**	**1,593**

Notes to the Core Financial Statements

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

The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The standards that will be adopted by the 2013/14 Code and are likely to apply are:

IAS 19 Employee Benefits (June 2011 Amendments)

The amended version of the standard:

- Eliminates the option to defer the recognition of gains and losses (actuarial gains and losses, expected return on assets and interest on the liability).
- Requires re-measurements to be presented in other comprehensive income, so streamlining the presentation of changes in assets and liabilities arising from defined benefit plans.
- Modifies accounting for termination benefits, including recognition at the point at which an offer of termination of employment cannot be withdrawn (rather than the current practice of recognition at the point at which the Authority is committed to the termination).
- Enhances the disclosure requirements for defined benefit plans, providing information about the characteristics of such plans and the risks that entities are exposed to as a result of them.

These amendments take effect on or after 1 January 2013 and will affect the budgeted pension expense for the next financial year. The key change relates to the expected return on assets. Advance credit for anticipated out performance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to the income and expenditure account, however from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the Expected Return on Assets assumption).

The effect of these changes on the income and expenditure statement to 31 March 213 will be an increase of £592,000. This will be disclosed in the statement of accounts to 31 March 2014.

IFRS 7 Financial Instrument Disclosures – Offsetting Financial Assets and Liabilities (December 2011 Amendments)
New disclosure is required for annual periods beginning on or after 1 January 2013 about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement. It is not expected that this Authority will have any such arrangements to require disclosure.

IAS 12 Deferred Tax: Recovery of Underlying Assets (December 2010 Amendments)
IAS 12 has been updated to include:
• A rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale
And
• A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis.
The amendments are likely to have no impact on the financial statements of the Authority.

Other Changes

Other presentational changes adopted in the 2013/14 Code do not require additional disclosure in the 2012/13 financial statements.

Notes to the Core Financial Statements

2. 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 of the degree to which 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 2013 of £184,800. 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 by the Authority 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 Churchgate 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 launched a Local Authority Mortgage Scheme during 2012/13. The Scheme is a national Scheme which operates in a uniform and consistent manner and is open to all local authorities and all mortgage lenders. Participating local authorities set aside a sum of money to support a financial indemnity for the partner mortgage lender(s). This indemnity enables the applicant to apply for a mortgage with only a 5% deposit as opposed to the deposits of around 10% to 20% required by most mortgage lenders. A total of £2million was provided to cash back the scheme of which £1million was provided by this Authority and £1million provided by Hertfordshire County Council. The cash advance has been judged to be financial assistance as the advance payment is used “towards” the acquisition of a house by the mortgagor, although it does not result in Local Authority expenditure. As such, the advance is judged to comply with the statutory definition of capital expenditure in the regulations. A long term debtor has been recognised in the accounts which will be paid on termination of the scheme.

3. 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 2013 for which there is a 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. This could happen, for example, if the current period of austerity meant the necessary programme of repairs and maintenance was delayed.	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 £200,000 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. 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 2013 the Authority had a balance of short term debtors of £5.7million. A review of the trend in collection rates and the age profile of the outstanding debt suggested an impairment of just over £1million 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 £1million 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 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 2012/13, the Authority's actuaries advised that the net pensions liability had increased by £7million.

Change in assumptions at year ended 31 March 2013	Approximate % Increase to Employer Liability	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	10%	14,433
1 year increase in Member Life Expectancy	3%	4,454
0.5% increase in the Salary Increase Rate	2%	2,984
0.5% increase in the pension increase rate	8%	11,349

4. 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
Housing Services	Housing and Council Tax Benefits	The Authority paid a total of £37.9million of Housing Benefit payments and £8.1million of Council Tax Benefit payments in 2012/13 (£35.5million and £8.2million in 2011/12, respectively). This was funded by a grant subsidy from the Department for Work and Pensions of £45.8million (£43.8million in 2011/12)
Highways and Transport Services	Reversal of Long Term Debtor raised in a previous financial year for an expected contribution towards a planned development in Hitchin.	In January 2012 the Council took the decision not to proceed with the proposed Churchgate development in Hitchin. Expenditure of £524k incurred in previous financial years in progressing the scheme had been treated as Revenue Expenditure funded by Capital under statute. This was funded by a contribution by the developer of £200k which would have been payable had the scheme progressed (the long term debtor) and £324k of capital receipts. The reversal of the £200k Debtor reduces the income shown in the statement for the 2012/13 financial year. The reversal of the expenditure of £524k, previously treated as capital, is shown as an adjusting item between the accounting basis and funding basis under the regulations (see note 7).

5. ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during 2012/13 or 2011/12. These would normally arise following boundary changes or from legislation, neither of which affected North Hertfordshire District Council during 2012/13. All operations are therefore classified as '*continuing operations*'.

6. PRIOR PERIOD ADJUSTMENTS

There are no prior period adjustments necessary.

Notes to the Core Financial Statements

7. 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.

The first table shows the adjustments made in the comparative year 2011/12:

2011/12	**Usable Reserves**			**Movement in Unusable Reserves**
	General Fund Balance **£'000**	Capital Receipts Reserve **£'000**	Capital Grants Unapplied **£'000**	**£'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	(3,090)	0	0	3,090
Movements in the fair value of Investment Properties	176	0	0	(176)
Amortisation of Intangible Assets	(235)	0	0	235
Capital Grants and contributions applied	2,699	0	54	(2,753)
Revenue Expenditure funded from capital under statute	(2,172)	0	0	2,172
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal	(485)	0	0	485
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	44	0	0	(44)
Capital Expenditure charged against the General Fund	36	0	0	(36)
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	100	(100)	0	0
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(7)	7	0	0
Transfer from deferred capital receipts reserve upon receipt of cash	0	(11)	0	11
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(2,499)	0	0	2,499
Employers pensions contributions and direct payments to pensioners payable in year	1,989	0	0	(1,989)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	(11)	0	0	11
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	14	0	0	(14)
Total Adjustments	**(3,441)**	**(104)**	**54**	**3,491**

Notes to the Core Financial Statements

The following table shows the adjustments made in 2012/13:

2012/13	**Usable Reserves**			**Movement in Unusable Reserves**
	General Fund Balance **£'000**	Capital Receipts Reserve **£'000**	Capital Grants Unapplied **£'000**	**£'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	(4,311)	0	0	4,311
Movements in the fair value of Investment Properties	87	0	0	(87)
Amortisation of Intangible Assets	(183)	0	0	183
Capital Grants and contributions applied	1,760	0	(889)	(871)
Revenue Expenditure funded from capital under statute	(1,164)	0	0	1,164
General Fund Grants and contributions previously recognised as Capital Expenditure	(233)			233
Heritage Assets Grants and Contributions applied	30			(30)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory Provision for the financing of capital investment	41	0	0	(41)
General Fund Expenditure previously recognised as Capital Expenditure	524			(524)
Capital Expenditure charged against the General Fund	181	0	0	(181)
Adjustments involving the Capital Receipts Reserve:				
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(41)	0	41
Contribution from the capital receipts reserve to finance the payments to the government capital receipts pool	(11)	11	0	0
Transfer from deferred capital receipts reserve upon receipt of cash	0	(16)	0	16
Adjustments primarily involving the Pension Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,271)	0	0	3,271
Employers pensions contributions and direct payments to pensioners payable in year	1,914	0	0	(1,914)
Adjustments primarily involving the Collection Fund Account:				
Movement in the Authority's share of the Collection Fund surplus / deficit	22	0	0	(22)
Adjustments primarily involving the Accumulated Absences Account:				
Accrued employee absence adjustment	(2)	0	0	2
Total Adjustments	**(4,616)**	**(46)**	**(889)**	**5,551**

Notes to the Core Financial Statements

8. OTHER OPERATING EXPENDITURE

2011/12 £000		2012/13 £000
896	Parish council precepts	927
0	Levies	0
7	Payments to the Government Housing Capital Receipts Pool	11
487	(Gains)/losses on the disposal of non-current assets	0
1,390	**Total**	**938**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2011/12 £000		2012/13 £000
290	Interest payable and similar charges	253
659	Pensions interest cost and expected return on pensions assets	1,571
(1,133)	Interest receivable and similar income	(1,209)
(1,070)	Income and expenditure in relation to investment properties	(1,069)
(1,254)	**Total**	**(454)**

10. TAXATION & NON-SPECIFIC GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2012/13.

2011/12 £000	Credited to Taxation and Non Specific Grant Income	2012/13 £000
(10,770)	Council Tax Income	(10,894)
(1,652)	Revenue Support Grant	(350)
(4,545)	Redistributed National Non-Domestic Rates	(5,258)
0	Area Based Grant	0
(1,668)	Capital Grants and Contributions (see note 17)	(1,157)
(18,635)		**(17,659)**

11. CASH AND CASH EQUIVALENTS

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

31 March 2012 £000		31 March 2013 £000
11	Cash held by the Authority	21
427	Bank current accounts	247
1,860	Short-term Deposits with Banks/Building Societies	1,325
0	Short-term Deposit with Other Local Authority	0
2,298	**Total**	**1,593**

Notes to the Core Financial Statements

12. UNDISCHARGED OBLIGATIONS ARISING FROM LONG TERM CONTRACTS

The Authority is committed to making payments estimated at £8.8million in 2013/14. The estimated liability of the contracts from 1 April 2013 to contract expiry is £34.6million. 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 13/14 £'000	Contract expiry date
Recressco	Plastic Bottle Recycling Bank Collection	85	30 September 2017
Veolia	Waste Collection, Recycling, Street Cleansing	5,495	31 July 2017
Stevenage Leisure Ltd	Royston Leisure Centre, Hitchin Swim Centre (including outdoor pool & Archers)	83	31 March 2017
John O'Connor Ltd	Grounds Maintenance, pest control, play grounds, paddling pools, cemeteries	1,783	31 March 2017
Steve Dear Tree Services Ltd	Tree Maintenance	200	17 March 2017
Parkeon Limited	Car Park pay and display equipment	35	15 March 2017
Travelers Lot 1 / Zurich Lot 2 / Risk Mgt Partners Lot 3 / Acre Lot 5	Provision of Insurance Services	161	31 March 2016
Northgate Information Solutions UK Ltd	Post scanning and Indexing	48	30 November 2015
Neopost	Envelope Inserter	30	31 October 2015
* Contractor to be awarded *	Car Park Coin Collection	26	01 July 2015
Cirrus Communications	Careline Equipment	100	31 March 2015
The Paper Company	The supply of Printing and Copier Papers	27	25 January 2015
DTZ	Hitchin Churchgate Estates Professional Services	55	12 September 2014
Vodafone	Mobile Phones	35	30 June 2014
Liberty Property Services	Public Convenience Cleaning	98	31 May 2014
Total		**8,571**	
Other Contract Payments		539	
Total Contract Payments		**8,800**	

The Authority maintains a register of all contracts on the Authority's website and it can be located on the following page:
http://www.north-herts.gov.uk/index/business/procurement/north_herts_district_council_contracts_register.htm

13. TRADING OPERATIONS

The Council has no trading operations.

14. 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 2012/13. The payment of £11,233 is shown in the Comprehensive Income and Expenditure Account under Other Operating Expenditure (See Note 8). The payment is offset by an appropriation from Usable Capital Receipts and is shown in the Statement of Movement on the General Fund Balance.

Notes to the Core Financial Statements

15. 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 (LAPS), 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.

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	**2011/12**	**2012/13**
Comprehensive Income and Expenditure Account: **	**£'000**	**£'000**
Cost of Services:		
Current Service Cost *	1,649	1,688
Past Service Costs (including curtailments)	191	12
Financing and Investment Income and Expenditure:		
Interest Costs	6,451	6,222
Expected Return on Assets in the Scheme	(5,792)	(4,651)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	**2,499**	**3,271**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:		
Actuarial (gains) and losses ***	12,529	5,873
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**15,028**	**9,144**

Movement in Reserves Statement:	**2011/12 £'000**	**2012/13 £'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	(2,499)	(3,271)
Actual Amount charged against the General Fund balance for pensions in the year:		
• Employers' contributions payable to the scheme ***	1,990	2,041
Net chargeable amount against the General Fund balance	**1,990**	**2,041**

* The service cost figures include an allowance for administration expenses of 0.4% of payroll.
** The above figures are based on the current version of IAS19. Changes to IAS19 come into effect for the financial year to 31 March 2014. The changes will be adopted retrospectively for the prior year, in accordance with IAS8. This will be disclosed in the report covering the year to 31 March 2014.
*** The payment of pension strain costs for early retirements in 2011/12 was made in 2012/13 and appropriately accrued back into 2011/12. As a result the actual employers contributions recognised in the general fund were £1.914million in 2012/13 (£127,000 lower than shown) and £2.117million in 2011/12 (£127,000 higher than shown). There is a corresponding adjustment in the actuarial loss recognised in the charge to the Provision of Services.

Notes to the Core Financial Statements

The significant net loss of £9.144 million charged to the Comprehensive Income and Expenditure Statement during the year is mainly because the financial assumptions at the 31 March 2013 are less favourable than they were at 31 March 2012. The following are the key changes in the assumptions:

- The real discount rate has reduced from 2.3% p.a. at 31 March 2012 (4.8% discount rate less 2.5% CPI) to 1.7% p.a. at 31 March 2013 (4.5% discount rate less 2.8% CPI). A lower real discount rate leads to a higher value being placed on the liabilities;
- The actual investment return on the LAPS funds during 2011/12 was typically in the region of 11% to 16%. This is higher than the typical expected asset return at the start of the year which, for most funds, was around 5% to 6%;

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £51.1million. The cumulative actuarial loss to the 31 March 2012 was £45.1million.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of present value of the scheme liabilities:

Local Government Pension Scheme	**2011/12**	**2012/13**
	£'000	**£'000**
Opening Balance 1 April	118,639	130,858
Current Service Cost	1,649	1,688
Interest Cost	6,451	6,222
Contributions by scheme participants	583	542
Actuarial (gains) and losses	8,498	13,873
Benefits paid	(5,153)	(4,719)
Past Service Gains	86	0
Losses on Curtailments	105	12
Closing Balance 31 March	**130,858**	**148,476**

Reconciliation of fair value of the scheme assets:

Local Government Pension Scheme	**2011/12**	**2012/13**
	£'000	**£'000**
Opening Balance 1 April	86,450	85,630
Expected Rate of Return	5,792	4,651
Employers Contributions	1,990	2,041
Contributions by scheme participants	583	542
Actuarial gains and (losses)	(4,032)	7,873
Benefits paid	(5,153)	(4,719)
Closing Balance 31 March	**85,630**	**96,018**

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 2012 for the year to 31 March 2013).

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 £12.533million (2011/12: £1.769 million).

The scheme history is as follows:

	31 March 2009	**31 March 2010**	**31 March 2011**	**31 March 2012**	**31 March 2013**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Present Value of Liabilities	(86,286)	(137,185)	(118,639)	(130,858)	(148,476)
Fair Value of Assets	60,090	76,699	86,450	85,630	96,018
Deficit in the scheme	**(26,196)**	**(60,486)**	**(32,189)**	**(45,228)**	**(52,458)**

Notes to the Core Financial Statements

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The total liability of £148.476million has a substantial impact on the net worth of the Authority, as recorded in the Balance Sheet, resulting in a negative overall balance of £52.458million. 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 Authority in the year to 31 March 2014 is £1,956,000.

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 2013. The main assumptions used in their calculations are:

	31 March 2012 %	**31 March 2013 %**
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.2	4.5
Bonds	4.0	4.5
Property	4.4	4.5
Cash	3.5	4.5
Mortality Assumptions:		
Longevity at 65 for current pensioners:		
Men	21.0	21.0
Women	23.8	23.8
Longevity at 65 for future pensioners		
Men	22.9	22.9
Women	25.7	25.7
Rate of inflation	2.5	2.8
Rate of increase in salaries *	4.8	5.1
Rate of increase in pensions	2.5	2.8
Discount rate	4.8	4.5
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

* Salary increases are assumed to be 1% p.a. until 31 March 2015 reverting to the long term assumption shown thereafter.

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

	Proportion of Total Assets 2011/12 %	**Proportion of Total Assets 2012/13 %**
Equities	69	71
Bonds	18	18
Property	6	5
Cash	7	6
	100	**100**

Notes to the Core Financial Statements

History of Experience Gains and Losses

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

	31 March 2009 %	31 March 2010 %	31 March 2011 %	31 March 2012 %	31 March 2013 %
Differences between the Expected and Actual Return on Assets	22.2	(29.6)	(13.9)	(8.8)	(9.7)
Experience gains and (losses) on liabilities	0	0	0	0	0

16. 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:

	2011/12 £'000	2012/13 £'000
Expenditure incurred in providing highway verge and grounds maintenance services at Letchworth Library to Hertfordshire County Council	285	310
Management fee payable by the County Council	(282)	(293)
Net deficit arising on the agency agreement	**3**	**17**
Expenditure incurred in providing a grounds and building maintenance service to Royston Town Council	39	41
Management fee payable by the Town Council	(15)	(21)
Net deficit arising on the agency agreement	**24**	**20**

17. GRANT INCOME

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

	2011/12 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
S106 Developer Contributions	20	268
Heritage Lottery Fund	1,392	0
Growth Area Fund	0	889
Playbuilder Grant	50	0
Technogym Equipment	206	0
Total	**1,668**	**1,157**
Credited to Services		
Disabled Facilities Grant	259	427
Growth Area Fund	647	67
Hertfordshire County Council Contributions	19	11
Developer Contribution	39	95
Other	5	0
Environment Agency for Lumen Road Project	62	0
Total	**1,031**	**600**

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

	2011/12 £'000	2012/13 £'000
Benefits Administration and Fraud Initiative Grants	968	888
Housing and Council Tax Benefit Subsidy	43,826	45,848
Waste minimisation – Herts County Council contribution	414	395
Waste Service Transport Subsidy	44	33
National Non-Domestic Rates Administration Grant	183	181
Portas Grant	0	10
Homelessness Prevention Grant	148	88
New Homes Bonus	552	1,042
Community Safety Grants	58	28
Climate Change Grant	29	0
Council Tax Reduction Scheme – New Burdens Grant	0	89
New Burden NNDR Deferrals - DWP	0	3
Play Project – HCC	3	2
Community Right to Bid	0	13
Gt Ashby Gardens	0	13
Ivel Springs - Biffa	36	-2
DCLG – Land Charges	34	0
Food Standards Agency Grant	4	0
Pix Brook Project	20	-2
Renaissance East of England	1	0
Total	**46,320**	**48,629**

CAPITAL GRANTS RECEIVED IN ADVANCE

The Authority has received a grant in 2012/13 from the DCLG for the Weekly Collection Support Scheme. This grant has yet to be recognised as income in the Comprehensive Income and Expenditure Statement as it has conditions attached that may require the monies to be returned if the criteria of the grant is not met. The balances at the 31 March 2013 is £457,849.

The conditions of the Growth Area Fund Grants, held as 'received in advance' at 31 March 2012, have been reviewed during the year and the conditions that were previously attached to the grant are deemed no longer applicable. Therefore the monies have been transferred to the capital grant unapplied account.

18. 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.

Remuneration Band	2011/12 Employees	2012/13 Employees
£50,000-54,999	10	11
£55,000-£59,999	2	1
£60,000-£64,999	5	5
£65,000-£69,999	0	2
£70,000-£84,999	0	0
£85,000-£89,999	3	2
£90,000-£114,999	1	0
£115,000-£119,999	0	1
Total	**21**	**22**

Notes to the Core Financial Statements

Senior Employee Remuneration in 2012/13

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 2012/13. The second table details the equivalent information for the comparative year, 2011/12. 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.

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 2012/13) £
David Scholes * Chief Executive	108,485	0	0	**108,485**	16,187	**124,672**
Norma Atlay Strategic Director of Finance Policy and Governance	83,370	0	4,000	**87,370**	12,922	**100,292**
John Robinson Strategic Director of Customer Services	87,337	0	0	**87,337**	12,922	**100,259**
Head of Revenues and Benefits	58,215	448	3,500	**62,163**	9,023	**71,186**
Head of Policy, Partnerships and Community Development	61,715	482	0	**62,197**	9,023	**71,220**
Head of Housing and Public Protection Service	63,586	0	3,000	**66,586**	9,833	**76,419**
Head of Leisure and Environmental Services	61,754	0	0	**61,754**	9,023	**70,777**
Corporate Human Resources Manager	61,765	207	0	**61,972**	9,023	**70,995**
Head of Development and Building Control	68,260	55	0	**68,315**	10,038	**78,353**
Head of Finance Performance and Asset Management	60,149	0	0	**60,149**	8,753	**68,902**
Acting Corporate Legal Manager and Monitoring Officer	51,601	0	0	**51,601**	7,487	**59,088**

* The Chief Executive also held the position of Returning Officer for the Council and received £6,572 of expense allowances for this role in 2012/13.

Notes to the Core Financial Statements

Senior Employee Remuneration in 2011/12

A restructure of the Senior Management Team was implemented during 2011/12. The 2010/11 posts of Head of Community and Cultural Development, Head of Customer Services and IT, Corporate Strategic Planning and Enterprise Manager were not incorporated in the new structure.

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 2011/12) £
John Campbell* Chief Executive	106,427	0	0	106,427	15,933	122,360
Norma Atlay Strategic Director of Finance Policy and Governance	83,520	0	4,000	87,520	12,922	100,442
John Robinson Strategic Director of Customer Services	87,337	0	0	87,337	12,922	100,259
David Scholes** Strategic Director of Planning Housing and Enterprise	86,864	0	0	86,864	12,844	99,708
Head of Revenues and Benefits and IT	58,215	566	3,500	62,281	9,023	71,304
Head of Policy and Community Services	61,715	314	0	62,029	9,023	71,052
Head of Housing and Public Protection Service	58,428	0	3,000	61,428	9,023	70,451
Head of Leisure and Environmental Services	61,715	0	0	61,715	9,023	70,738
Corporate Human Resources Manager	61,715	236	0	61,951	9,023	70,974
Head of Development and Building Control	54,605	0	1,872	56,477	8,211	64,688
Head of Finance Performance and Asset Management	58,403	0	0	58,403	8,482	66,885

* The Chief Executive also held the position of Returning Officer for the Council and received £7,263 of expense allowances for this role in 2011/12.
** John Campbell left the Authority in February 2012 and was replaced by David Scholes as Interim Chief Executive.

Notes to the Core Financial Statements

19. TERMINATION BENEFITS AND EXIT PACKAGES

The Authority terminated the contracts of ten employees in 2012/13, incurring liabilities of £197,902 (£411,864 in 2011/12).

The number and cost of exit packages agreed and included within the termination benefit liability is shown below. The other liabilities included within the total of £197,902, but not shown in the table below, is for pay in lieu.

	2011/12		2012/13	
Exit Package Band	**Number of Employees**	**Total Cost £**	**Number of Employees**	**Total Cost £**
£0 - £24,999	4	47,419	8	104,248
£25,000 - £49,999	9	348,058	2	69,038
£50,000 - £74,999	0	-	0	-
Total	**13**	**395,477**	**10**	**173,286**

20. 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 2012/13 compared to the previous financial year:

	2011/12 £'000	2012/13 £'000
Allowances	321	325
Expenses	16	18
Total	**337**	**343**

21. 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 2012/13 audit fees have been estimated for the element of grant based audit work in conjunction with the Council's external auditors. The estimate provided in the 2011/12 accounts has been updated to the amount actually paid.

	Restated 2011/12 £'000	2012/13 £'000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	114	68
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	25	11
Total	**130**	**79**

22. RELATED PARTY TRANSACTIONS

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

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

Members have direct control over the Authority's financial and operating policies. During 2012/13, works and services to the value of £69,453 were commissioned from companies in which 5 Members had an interest. In addition, grants totalling £7,500 were paid to voluntary organisations in which 3 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 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 Authority and North Hertfordshire Homes (NHH) totalled £361,522. £178,419 was paid to NHH under reciprocal SLA's.

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

23. PROPERTY, PLANT AND EQUIPMENT

The movement on property, plant and equipment balances during the year and in the 2011/12 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 Authority has a 5 year rolling revaluation programme for its properties. Revaluations completed during the year are reflected as at 1 April of the financial year when the valuation takes place.

Valuations of the Authority's properties are normally carried out by the Senior Estates Surveyor, Mr David Charlton, who is a professional member of the Royal Institution of Chartered Surveyors. Specialist external valuers are used for assets which require particular knowledge on the type of asset e.g. Leisure Centres.

Revaluations have been undertaken in 2012/13, in line with the 5 year rolling programme, which have resulted in a net increase to the carrying value of property, plant and equipment of just over £1.7million. This is mainly reflective of an increase in assumed building costs used to calculate the Depreciated Replacement Cost for a number of properties. The source used for the assumed building costs is the Royal Institute of Chartered Surveyors Building Cost Information Service.

The overall increase in valuations would have been higher had it not been for an offsetting reduction of around £3million in the portfolio of Community Centre land. Valuations as at 1 April 2012 have been based on amenity land values, whereas valuations completed in previous years were based on residential values. An amenity land value is considered appropriate at the current time because it would require multiple decisions before the land on which community centres sit could be proposed for residential development.

An impairment review was completed as at 31 March 2013 to ascertain if the carrying value of the assets had decreased materially since the last revaluation.

DISPOSALS

The Authority bought out a finance lease for compost bins during the year. The corresponding asset recognised on the Balance Sheet had a carrying value of £18,616.

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2011/12

	Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Restated Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost of Valuation							
At 1 April 2011	**60,650**	**6,480**	**93**	**2,158**	**1,638**	**1,372**	**72,391**
Additions	2	492	0	1,669	0	427	**2,590**
Disposals	(488)	(42)	0	0	0	0	**(530)**
Reclassifications	(903)	0	0	1,933	0	(1,030)	**0**
Upward Revaluations	1,901	0	0	0	0	0	**1,901**
Impairments	(1,103)	0	0	0	0	0	**(1,103)**
At 31 March 2012	**60,059**	**6,930**	**93**	**5,760**	**1,638**	**769**	**75,249**
Depreciation & Impairments							
At 1 April 2011	(6,123)	(4,620)	(21)	(359)	(8)	0	**(11,131)**
Charges for 2011/12	(1,312)	(551)	(2)	(117)	(4)	0	**(1,986)**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	**0**
Revaluations	1,156	0	0	0	0	0	**1,156**
At 31 March 2012	**(6,279)**	**(5,171)**	**(23)**	**(476)**	**(12)**	**0**	**(11,961)**
Balance Sheet amount at 31 March 2012	**53,780**	**1,759**	**70**	**5,284**	**1,626**	**769**	**63,288**
Balance Sheet amount at 1 April 2011	**54,527**	**1,860**	**72**	**1,799**	**1,630**	**1,372**	**61,260**

Notes to the Core Financial Statements

MOVEMENT ON BALANCES OF PROPERTY, PLANT AND EQUIPMENT IN 2012/13

	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 1 April 2012	**60,059**	**6,930**	**93**	**5,760**	**1,638**	**769**	**75,249**
Additions	576	342	0	59	0	308	**1,285**
Disposals	0	(19)	0	0	0	0	**(19)**
Reclassifications	(151)	26	0	0	3,750	(501)	**3,124**
Upward Revaluations	1,691	0	0	31	334	0	**2,056**
Impairments	(2,183)	0	0	0	(121)	0	**(2,304)**
At 31 March 2013	**59,992**	**7,279**	**93**	**5,850**	**5,601**	**576**	**79,391**
At 1 April 2012	(6,279)	(5,171)	(23)	(476)	(12)	0	**(11,961)**
Charges for 2012/13	(1,417)	(466)	(2)	(117)	(5)	0	**(2,007)**
Disposals	0	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	**0**
Revaluations	1,891	0	0	0	12	0	**1,903**
At 31 March 2013	**(5,805)**	**(5,637)**	**(25)**	**(593)**	**(5)**	**0**	**(12,065)**
Balance Sheet amount at 31 March 2013	**54,187**	**1,642**	**68**	**5,257**	**5,596**	**576**	**67,326**
Balance Sheet amount at 1 April 2012	**53,780**	**1,759**	**70**	**5,284**	**1,626**	**769**	**63,288**

Notes to the Core Financial Statements

24. 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:

	2011/12 £'000	2012/13 £'000
Rental Income from Investment Property	(846)	(1,000)
Receipt from sale of investment property	(100)	0
Direct Operating Expenses arising from Investment Property	16	18
Net Gain / (Loss)	**(930)**	**(982)**

There are no restrictions on the Authority's ability to realise the value inherent in 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:

	2011/12 £'000	2012/13 £'000
Not later than one year	(832)	(826)
Later than one year and not later than five years	(3,331)	(3,303)
Later than five years	(50,377)	(63,398)

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

	2011/12 £'000	2012/13 £'000
Balance at Start of the Year	**13,615**	**13,755**
Net Gains / (Losses) from Fair Value adjustments	140	87
Transfers to/from Property, Plant and Equipment*	0	627
Balance at End of Year	**13,755**	**14,469**

* On the 3rd September 2012 Letchworth Town Hall was leased to North Hertfordshire College. The transfer of this property from the Property, Plant and Equipment classification to Investment recognises the decisions taken by the Authority with regard to the Property during the year and the reasons those decisions were taken.

25. ASSETS HELD FOR SALE (Non-Current)

	2011/12 £'000	2012/13 £'000
Balance at Start of the Year	**3,750**	**3,750**
Revaluation Losses	0	0
Other Movements	0	(3,750)
Balance Outstanding at End of Year	**3,750**	**0**

Three assets were reclassified as Operational Surplus Assets in 2012/13.

26. 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. Of the total expenditure of £2.47million, only £0.96million has been financed immediately, resulting in an increase of

Notes to the Core Financial Statements

£1.51million in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR remains negative (£32million at 31 March 2012) because the Authority has set aside capital receipts which exceed the amount of outstanding loans and borrowings.

	2011/12 £'000	2012/13 £'000
Capital Investment:		
Operational Assets		
Land & Buildings	2	576
Vehicles, Plant & Equipment	492	342
Community Assets	1,707	59
Investment Properties	0	0
Assets Surplus to Requirements	0	0
Non-Operational Assets		
Assets Under Construction	427	308
Intangible Assets - Software	38	24
Revenue Expenditure Funded from Capital under Statute	2,172	1,163
Total Capital Investment	**4,838**	**2,472**
Sources of Finance:		
Capital Receipts	0	283
Government Grants and Other Contributions	2,699	494
Sums set aside from Revenue	90	181
Total Finance Sources	**2,789**	**958**

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

27. CONSTRUCTION CONTRACTS

As at the 31 March 2013 the Council had committed to £1.852million of capital expenditure for a number of capital schemes within the capital programme (see the Foreword, page 11). These are as follows:

Capital Scheme	Commitment £'000
Health and Safety Compliance works	27
Sub-total Asset Management	**27**
Transport Plans	115
Sub-total Growth Fund Projects	**115**
Disabled Facilities Grants	147
Sub-total Housing Development	**147**
Howard Park Renovation	63
North Herts Leisure Centre Roof Replacement	104
Sub-total Leisure Facilities	**167**
District Museum & Community Facility	144
Sub-total Museum & Arts	**144**
Letchworth Multi-Storey Car Park improvements	68
Sub-total Parking	**68**
Co-Mingled Recycling Bins	1,184
Sub-total Waste Disposal	**1,184**
Total Commitments	**1,852**

Notes to the Core Financial Statements

28. HERITAGE ASSETS

Reconciliation of the Carrying Value of Heritage Assets Held by the Authority

	Museum Collections £'000	Public Sculpture / Artwork £'000	Total Heritage Assets £'000
1 April 2011	435	9	444
In year Movements	0	38	38
31 March 2012	**435**	**47**	**482**
1 April 2012	435	47	482
Additions	30	0	30
31 March 2013	**465**	**47**	**512**

Museum Collections

A small number of items in the Authority's art collection and one item of the Authority's archaeology collection are reported in the Balance Sheet at insurance valuations which are based on market values. These valuations are updated annually.

Many of the paintings owned by the Authority have been donated by local painting societies and are, therefore, not by artists who would attract value for their work. Of the grand total of 2,600 items in the art collection many of them are simple sketches which have no value.

The items of the art collection recognised on the Balance Sheet include seven paintings of note by William Ratcliffe. The Authority has been donated a number of Ratcliffe paintings, prints and drawings and has added to the collection by the occasional purchase. The Authority purchased a painting called Reflections by Ratcliffe during 2012/13 with funding from donations and grants. The collection is documented in a book on William Ratcliffe published by the Authority in 2011.

Other individual items of the Museum's collections, recognised on the Balance Sheet, include a Henry Moore Sculpture, an oil painting by Spencer Gore called The Road and "The Wymondley Hoard", which consists of 600 silver Tudor coins. There are a number of other paintings in the collection, of the local area. These are of local interest but do not have a significant monetary value to a national audience.

The Authority's Museums Manager carried out a full valuation of the collections as at 31 March 2012 and reviewed these valuations as at 31 March 2013. The valuations were based on commercial markets, including transaction information from auctions where similar paintings are regularly being purchased.

The principal museum collections are not considered to have a significant monetary value and 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

Notes to the Core Financial Statements

The majority of the collections are not recognised in the Authority's Balance Sheet since there is no readily available information on the cost or market value of such items and to obtain such information would involve a disproportionate cost in comparison to the benefits to the users of the Authority's financial statements. The unvalued collections are insured for £2million as at 31 March 2013.

Public Sculpture / Artwork

The Authority has two items of public sculpture in Letchworth. These are the Bronze Statue of Sappho installed in Howard Gardens during 2011 and the centenary artwork 'Paradise Is' located next to the Town Hall on Gernon Road.

The Authority's civic regalia is not recognised in the financial statements. There are four ceremonial chains, which are insured in total for £9,750.

There are other Authority assets which could be considered to have attributes consistent with the definition of Heritage Assets. However, because it is deemed that they are maintained for purposes other than for their contribution to knowledge and culture they have been classified in the financial statements as Community Assets. These include the Hitchin War Memorial and open spaces and parks such as Priory Memorial Gardens in Royston and Broadway Gardens in Letchworth.

Heritage Asset Transactions

A summary of the transactions relating to Heritage Assets over the period 1 April 2012 to 31 March 2013 is as follows:

The Authority received 35 separate donations or groups of donations in the year which have very low or negligible value and consisted of a Hitchin workhouse token, local agricultural tools, excavated material from Caldecote deserted medieval village, and an 8th century silver strap end found at Lilley Bottom Farm, Offley.

The Authority purchased a painting by William Ratcliffe called Reflections at a cost of £30,000. This was funded by grants and donations.

There have been no significant disposals and no impairments have been recognised.

29. INTANGIBLE ASSETS

	Purchased Software Licences £'000
Original Cost	1,335
Amortisations to 1 April 2012	(1,089)
Balance at 1 April 2012	**246**
Expenditure in Year	23
Written off to Revenue in Year	(183)
Balance at 1 April 2013	**86**

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

Notes to the Core Financial Statements

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	255	3 years
Telephony	53	5 years
Integra	41	5 years
Generic Import Module	20	5 years
Total	**1,359**	

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 2012/13 was £102,920 (2011/12 at £158,148).

Property
The Authority paid £279,789 in rent / leasing charges for properties in 2012/13. The most significant amount of £219,000 was paid for the District Council Offices. This agreement is due to expire in December 2016.

Commitments under operating leases

The Authority was committed at 31 March 2013 to making payments of £0.809million under operating leases over the following periods:

	31 March 2012 £'000	31 March 2013 £'000
Not later than one year	293	279
Later than one year and not later then five years	602	389
Later than five years	164	141
	1,059	**809**

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 2012/13

was £1,003,038 (2011/12 £973,608). The gross value of assets held for these leases is £14.469 million and is detailed in Note 24, Investment Properties.

Finance leases
The Authority leases the Letchworth multi-storey car park from the Letchworth Garden City Heritage Foundation. The lease term is 60 years from 19 April 1977.

The Authority also has two remaining other finance leases at 31 March 2012. A lease for wheeled compost bins which had an initial value of £26,390 and a lease for an envelope inserter machine which had an initial value of £32,325.

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

	31 March 2012 £'000	31 March 2013 £'000
Other Land and Buildings	544	185
Vehicles, Plant & Equipment	67	13
	611	198

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 2012 £'000	31 March 2013 £'000
Finance Lease-Liabilities	230	171
Finance costs in future years	233	211
Minimum Lease Payments	**463**	**382**

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Not later than one year	70	30	48	11
Later than one year and not later than five years	105	78	45	26
Later than five years	288	274	136	134
	463	**382**	**229**	**171**

31. INVENTORIES

	31 March 2012 £'000	31 March 2013 £'000
Inventory:		
Print room purchases	10	11
Central Purchasing	46	53
Total	**56**	**64**

Notes to the Core Financial Statements

32. DEBTORS

	31 March 2012 £'000	31 March 2013 £'000
Central Government Bodies	1,097	508
Impairment	0	0
Net Total Central Government Bodies	**1,097**	**508**
Other Local Authorities	1,307	1,139
Impairment	0	0
Net Total Other Local Authorities	**1,307**	**1,139**
Ratepayers/Council Tax payers	1,474	1,213
Impairment	(395)	(412)
Net Total Ratepayers / Council Tax payers	**1,079**	**801**
Housing Benefit Overpayments	1,058	1,228
Impairment	(367)	(388)
Net Total Housing Benefit Overpayments	**691**	**840**
Other Entities and Individuals	2,557	1,602
Impairment	(204)	(206)
Net Total Other Entities and Individuals	**2,353**	**1,396**
Total Net Debtors	**6,527**	**4,684**

An error has been identified in the presentation of the Council's share of the Collection Fund balances for Debtors and Receipts in Advance. This has been corrected in the Balance Sheet as at 31 March 2013. The net impact of this correction is zero on the Balance Sheet. The Debtors figure as at 31 March 2012 should be £428,000 lower than shown and the Receipts in Advance figure as at 31 March 2012 should be £428,000 lower than shown.

33. SHORT TERM CREDITORS AND RECEIPTS IN ADVANCE

Short Term Creditors	31 March 2012 £000	31 March 2013 £000
Central government bodies	321	1,559
Other local authorities	171	416
NHS bodies	1	1
Other entities and individuals*	3,532	1,928
Total	**4,025**	**3,904**

*includes an accrual for employee holiday pay (£82k at 31 March 2012). As at 31 March 2013 there were £78k of prepayments received in the last couple of days of the year (£505k as at 31 March 2012)

Receipts in Advance	31 March 2012 £000	31 March 2013 £000
Central government bodies	98	29
Other local authorities	555	129
Other entities and individuals	2,518	2,760
Total	**3,171**	**2,918**

Notes to the Core Financial Statements

34. FINANCIAL INSTRUMENTS

Authorities are required to define all the financial instruments disclosed in the Balance Sheet into further categories.

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

	Long-term		Current	
	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000
Financial Liabilities at amortised cost:				
Creditors payable in one year	0	0	4,025	3,904
Borrowing	2,265	1,660	2,644	2,619
Total Financial Liabilities:	**2,265**	**1,660**	**6,669**	**6,523**
Financial Assets (loans and receivables):				
Debtors	554	2,276	6,184	4,684
Investments / Cash & Cash Equivalents	5,258	8,758	43,592	39,339
Total Financial Assets:	**5,812**	**11,034**	**49,776**	**44,023**

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	
	2012	2013	2012	2013	2012	2013
Interest Expense	(290)	(253)	0	0	(290)	(253)
Interest Payable & Similar Charges	**(290)**	**(253)**	**0**	**0**	**(290)**	**(253)**
Interest Income	0	0	1,133	1,208	1,133	1,208
Interest & investment income	**0**	**0**	**1,113**	**1,208**	**1,133**	**1,208**
Net gain/(loss) for year	**(290)**	**(253)**	**1,133**	**1,208**	**843**	**955**

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 2013 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.

Notes to the Core Financial Statements

The fair values are calculated as follows:

	31 March 2012		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Financial Liabilities	8,935	9,942	8,183	9,100

The fair value is more than the carrying amount because the Authority'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 Authority would have to pay if the lender requested or agreed to early repayment of the loans.

	31 March 2012		31 March 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans & Receivables	55,230	55,230	55,057	55,057

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

The Authority'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 in the annual Treasury Management Strategy. The Authority 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.

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 Authority. 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. There were no defaults on investments in 2012/13 or 2011/12. The table below details the investment limits for 2012/13.

Notes to the Core Financial Statements

	Maximum Amount of Investment Allowable £ million	Amount Invested as at 31 March 2013* £ million
UK Clearing Banks	9.00	8.835
UK Clearing Banks (Wholly owned Subsidiaries)	9.00	3.24
Building Societies (Assets £4.5bn)	9.00	3.00
Building Societies (Assets £2.5bn - £4.5bn)	9.00	0
Building Societies (Assets £1bn to £2.5bn)	6.00	9.75
Building Societies (Assets £0.3bn to £1bn)	4.00	22.50
Public Corporations	9.00	0
Other Local Authorities	9.00	0
Total Invested		**47.325**

* This column shows the total invested in all counterparties in the group (for example, there was £22.5million invested in eight separate building societies, assets £0.3bn to £1bn, as at 31 March 2013). The Council has not invested above the maximum allowable per counterparty at any time during the year.

The analysis of these £47.325million of investments by credit rating at year end is as follows:

	AAA or equivalent	AA / AA-or equivalent	A / A- or equivalent	BBB+/BBB or equivalent	Not rated*
Investments	0	0	£13.075million	£2.0million	£32.25million

* Many Building Societies do not pay to be credit rated. The Authority has chosen not to exclude Building Societies from its counterparty list for this reason alone and has continued to make cash deposits with Building Societies during the year. The Authority has chosen not to invest in any foreign financial institutions.

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

	£'000
Less than three months	1,463
Three months to one year	99
More than one year	505
	2,067

Liquidity Risk

As the Authority 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 Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority 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 2012/13 was to utilize capital receipts set aside reserves and no new long term borrowing was taken out.

Notes to the Core Financial Statements

The total financial liability is made up as follows:

	31 March 2012 £'000	31 March 2013 £'000
Public Works Loan Board	1,892	1,265
Banks and Other Monetary Sectors	3,000	3,000
Other Sources	0	0
Total Borrowing	**4,892**	**4,265**
Less: Debt Maturing in 12 Months	2,627	2,605
Total Long Term Borrowing	**2,265**	**1,660**

At 31 March 2013 the average rates of interest on the different varieties of loans were as follows:

	%
Other Loans	9.17
Public Works Loan Board	8.49

The consolidated rate of interest, the rate used for internal transactions, was 8.97%.

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

	P.W.L.B. £'000	Banks etc. £'000	Other £'000	Total £'000
Maturing in more than 1 and less than 2 years	88	0	0	88
Maturing in more than 2 and less than 5 years	116	1,000	0	1,116
Maturing in more than 5 and less than 10 years	88	0	0	88
Maturing in more than 10 years	368	0	0	368
Total	**660**	**1,000**	**0**	**1,660**

Market Risk

Interest rate risk

The Authority 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 Authority. 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

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 pound for pound. Movements in the fair value of fixed rate investments will be reflected in the Other Comprehensive Income and Expenditure.

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 30% of 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 mitigated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the Authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The Authority 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 2013 if interest rates had been 1% higher with all other variables held constant, the effects seen in the Income and Expenditure Statement would have been an increase of £57k in interest receivable from cash investments. The fair value of the loans outstanding would have been £27k higher (cost of repayment would have increased). This is shown below:

	£'000
Increase in interest receivable on variable rate investments	(57)
Impact on Income and Expenditure Account	**(57)**
Decrease in fair value of fixed rate loans	27

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 2013 had a balance of £17,104, a decrease of £73,302.48 from the balance at 31 March 2012. The reserve is in place to cover the self-insurance of a number of items for which there is no external insurance cover.

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 insurance reserve has reduced as funds have been transferred from the reserve to the insurance provision. This is because of the increased likelihood of claw-back under the MMI Scheme of Arrangement, following the Supreme Court ruling on the trigger period for liability policies in relation to asbestos related diseases. The Council is liable for 15% of the levy under the MMI scheme. The amount on which the levy is based is yet to be confirmed. Based on the position of claims paid and outstanding liabilities as at the end of Sep 2012, the amount of the levy is likely to be £70,141.

The Council has decided to self-insure some assets such as Town Centre CCTV equipment (£232,200), damage to car park machines (£186,610 total value at risk) and reprographics equipment (£303,768).

Notes to the Core Financial Statements

36. PROVISIONS

Provisions (> 1year)

	Insurance £'000	Other Provisions £'000	Total £'000
Balance at 1 April 2012	37	685	722
Additional provisions made in 2012/13	113	20	133
Amounts used in 2012/13	(9)	(2)	(11)
Unused amounts reversed in 2012/13	0	(681)	(681)
Unwinding of discounting in 2012/13	0	0	0
Balance at 31 March 2013	**141**	**22**	**163**

The Insurance Provision is money held to cover outstanding claims from previous years. As described in note 35 above funds have been transferred from the reserve into the provision for the MMI Scheme of Arrangement for potential claims relating to asbestos related illnesses.

The unused amounts of "other provisions", reversed in 2012/13, relate to the Leisure Contract Provision, Homeless Deposit guarantees and Land Charges Provision.

Homeless deposit guarantees are covered by the sales ledger bad debt provision, so an additional provision is not needed. The amount of £9.5k has been reversed back to the general fund.

The Leisure Contract provision was reviewed and the risk for the Authority of incurring employment costs with regards to contractor managed services has diminished with time. The amount of £600k has been reversed back to the general fund and an appropriate financial risk will be maintained in the general fund reserve balance.

It is not considered appropriate to maintain a provision with regard to Land Charges at the current time. A legal case in ongoing and as such a contingent liability has been disclosed (see note 42) and the balance that was in the provision has been transferred into an earmarked reserve.

The other provisions are:

- 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 Authority acts as the sole managing trustee for the Hitchin Town Hall Gymnasium and Workman's Hall Trust and for the King George V Playing Fields Trust . Without the annual contribution from the Council, the Trusts would not have had adequate resources to manage the facilities during the year. The Trust's accounts reflect the fixed assets and the in year expenditure and income incurred in running the facilities. The net balance of these transactions, as at the 31 March 2013, is included in the Authority's accounts.

Notes to the Core Financial Statements

THIRD PARTY FUNDS

The Authority 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. Until then the funds 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 2013, available to fund capital and revenue activities is £2,315,562. (2011/12, £1,917,860).

38. USABLE RESERVES

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

	Balance at 1 April 2012 £'000	Net Movement in Year £'000	Balance at 31 March 2013 £'000
Usable Capital Receipts	1,197	46	1,243
Earmarked Reserves	2,776	(63)	2,713
Capital Grants Unapplied	210	890	1,100
General Fund Reserve	2,674	487	3,161
Total Usable Reserves	**6,857**	**1,360**	**8,217**

USABLE CAPITAL RECEIPTS	**2011/12 £'000**	**2012/13 £'000**
Amounts receivable	111	17
Amounts applied to finance new capital investment	0	40
Payments to Capital Receipts Pool	(7)	(11)
Total increase in realised capital resources	**104**	**46**
Balance brought forward at 1 April	1,093	1,197
Balance carried forward at 31 March	1,197	1,243

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

	Balance as at 1 April 2011	Transfers out 2011/12	Transfers In 2011/12	Balance at 31 March 2012	Transfers out 2012/13	Transfers in 2012/13	Balance at 31 March 2013
				£'000	**£'000**	**£'000**	**£'000**
Special Reserve	967	0	0	967	0	0	967
Housing & Planning Delivery	951	(304)	0	647	(302)	0	345
Information Technology Reserve	451	(69)	0	382	(66)	0	316
Environmental Warranty Reserve	209	0	0	209	0	0	209
Insurance Reserve	83	0	7	90	(80)	7	17
Cemetery Mausoleum Reserve	81	0	15	96	0	0	96
S106 Monitoring Reserve	53	(16)	35	72	(18)	17	71
Building Control Reserve	21	(6)	27	42	(9)	13	46
Museum Exhibits Reserve	12	0	0	12	0	1	13
Property Maintenance Reserve	7	0	8	15	(7)	10	18
Hitchin Museum Donations	2	0	0	2	0	0	2
Leisure Management Maintenance	0	0	12	12	0	20	32
Performance Reward Grant	187	(116)	0	71	(10)	3	64
DWP Additional Grants Reserve	0	(1)	42	41	(29)	21	33
Homelessness Reserve	0	0	72	72	(37)	8	43
Climate Change Grant Reserve	0	0	28	28	(3)	0	25
Children's Services Reserve	0	0	6	6	0	2	8
Paintings Conservation Reserve	0	0	11	11	(1)	0	10
Community Right to Challenge	0	0	0	0	0	14	14
Traffic Regulation Orders	0	0	0	0	(7)	185	178
Town Centre Maintenance	0	0	0	0	(19)	43	24
Street Furniture	0	0	0	0	0	2	2
Office Move IT Works	0	0	0	0	0	7	7
LAMS Interest Reserve	0	0	0	0	(3)	9	6
DLCG Grants Reserve	0	0	0	0	0	10	10
Growth Area Fund Reserve	0	0	0	0	0	53	53
Community Development Reserve	0	0	0	0	0	7	7
Land Charges Reserve	0	0	0	0	0	97	97
Total Earmarked Reserves	**3,024**	**(512)**	**263**	**2,775**	**(591)**	**529**	**2,713**

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 Authority following stock transfer. As part of the Authority'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.

Notes to the Core Financial Statements

The **Environmental Warranty Reserve** is required because an environmental warranty was provided to North Herts Homes on the transfer of the Housing stock. The Authority 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 not covered by external policies together with higher excesses currently being borne by the Authority.
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.
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 Authority'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 **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.
DWP Grants are awarded to the Authority for different initiatives or changes relating to Housing & Council Tax benefit scheme. These grants will be used when the initiatives or changes are carried out.
The **Homelessness Grant** is awarded to help prevent homelessness in the district. All of the grant is earmarked for different homelessness projects or resources.
The **Climate Change Grant** was awarded to help combat the effects of climate change. The grant is used to help modify the Authority's buildings in order for them to be more energy efficient and other green projects.
The **Children's Services Reserve** is being used to help fund children's play projects in the district and is funded from grant income.
The **Paintings Conservation Reserve** is being used to help restore paintings. This is funded through donations and publication income.
Town Wide Review / Town Centre Maintenance are reserves for the implementation of the Town Wide Reviews and ad hoc town centre maintenance.
Community Right to BID represents the one-off grant funding received to recognize the additional burden of the new legislation.
Street Furniture is a reserve to fund new street furniture as and when required.
Office Move IT Works is a new reserve to cover the cost of moving cabling between Town Lodge and the other Authority buildings when required.
LAMS Interest Reserve, interest received from the Local Authority Mortgage scheme. Interest will remain in reserve for 5 years and if customers default on there mortgage the interest will be used to offset the cost. If nobody defaults the interest will go back into the general fund.
DCLG Grants Reserve, new reserve where ad hoc grants from DCLG will be transferred if not spent within the financial year, ready to be drawn down when grant is spent.
Growth Area Fund Reserve, new reserve where revenue Growth Area Grant has been transferred.
Community Development Reserve – various grants for Community Development.
Land Charges Reserve – new reserve established to help meet the potential cost should the financial risk of the repayment of personal search fees occur.

Notes to the Core Financial Statements

39. UNUSABLE RESERVES

	Balance at 1 April 2012 £'000	Net Movement in Year £'000	Balance at 31 March 2013 £'000
Revaluation Reserve (note 39A)	**23,332**	3,357	**26,689**
Capital Adjustment Account (note 39B)	**93,402**	(3,597)	**89,805**
Deferred Capital Receipts (note 39C)	**32**	(16)	**16**
Pensions Reserve (note 39D)	**(45,228)**	(7,230)	**(52,458)**
Short Term Accumulating Compensated Absences Account	**(80)**	(2)	**(82)**
Collection Fund Adjustment Account (note 39E)	**2**	23	**25**
Total Unusable Reserves	**71,460**	**(7,465)**	**63,995**

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.

	2011/12 £'000	2012/13 £'000
Balance at 1 April	**21,145**	**23,332**
Upward revaluation of assets	4,131	7,725
Downward revaluation of assets and Impairment losses not charged to the surplus/deficit on the Provision of Services.	(1,074)	(3,765)
Difference between fair value depreciation and historical cost depreciation.	(481)	(603)
Accumulated gains on assets sold or scrapped.	(389)	0
Balance at 31 March	**23,332**	**26,689**

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.

Notes to the Core Financial Statements

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

	2011/12 £'000	2012/13 £'000
Balance at 1 April	**95,505**	**93,402**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Depreciation and impairment of non-current assets	(3,081)	(4,312)
Amortisation of Intangible assets	(235)	(183)
Revenue expenditure funded from capital under statute	(2,172)	(1,164)
General Fund expenditure previously recognised as capital expenditure	0	524
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.	(96)	0
Sub-Total	**(5,584)**	**(5,135)**
Adjusting amounts written out of the Revaluation Reserve.	474	603
Capital Financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	0	(41)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	2,699	669
Application of grants to capital financing from the Capital Grants Unapplied Account	54	0
Statutory provision for the financing of capital investment charged against the General Fund	42	39
Capital expenditure charged against the General Fund	36	181
Sub-Total	**2,831**	**848**
Movements in the market value of investment properties	176	87
Balance carried forward at 31 March	**93,402**	**89,805**

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 form 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.

	2011/12 £'000	2012/13 £'000
Balance at 1st April	**41**	**32**
Transfer to the Capital Receipts Reserve upon receipt of cash	(9)	(16)
Balance at 31st March	**32**	**16**

Notes to the Core Financial Statements

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 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.

	2011/12	2012/13
	£'000	**£'000**
Balance at 1st April	**(32,189)**	**(45,228)**
Actuarial gains or losses on pension assets and liabilities	(12,529)	(5,873)
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	(2,499)	(3,271)
Employer's pensions contributions and direct payments to pensioners payable in the year.	1,989	1,914
Balance at 31st March	**(45,228)**	**(52,458)**

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.

	2011/12	2012/13
	£'000	**£'000**
Balance at 1 April	**14**	**2**
Movement in the Authority's share of the Collection Fund surplus / deficit	(12)	23
Balance at 31 March	**2**	**25**

Notes to the Core Financial Statements

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 Service Reporting 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.

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

	Chief Executive	Planning, Housing & Enterprise	Customer Services	Finance, Policy & Governance	Total
For the year ended 31 March 2013	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fees, charges & other service income	(14)	(1,243)	(4,299)	(3,470)	**(9,026)**
Recharges to other services	(617)	(5,072)	(5,942)	(8,257)	**(19,888)**
Investment property rentals	0	0	(14)	(982)	**(996)**
Interest income	(5,845)	0	0	(15)	**(5,860)**
Government grants	(2,333)	(800)	(829)	(47,314)	**(51,276)**
Total Income	**(8,809)**	**(7,115)**	**(11,084)**	**(60,038)**	**(87,046)**
Employee expenses	(840)	2,918	2,726	5,482	**10,286**
Other operating expenses	910	1,348	9,353	49,809	**61,420**
Interest payments	6,464	0	0	12	**6,476**
Support service recharges	2,386	7,081	5,629	6,521	**21,617**
Depreciation, amortisation and impairment	(3,257)	1,047	2,420	2,103	**2,313**
Total Operating Expenses	**5,663**	**12,394**	**20,128**	**63,927**	**102,112**
Net Cost of Services	**(3,146)**	**5,279**	**9,044**	**3,889**	**15,066**

Notes to the Core Financial Statements

The income and expenditure of the Authority's Directorates for the comparative year 2011/12 is as follows:

For the year ended 31 March 2012	Chief Executive	Planning, Housing & Enterprise	Customer Services	Finance, Policy & Governance	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fees, charges & other service income	(9)	(1,302)	(4,200)	(1,264)	**(6,775)**
Recharges to Other Services	(634)	(5,242)	(5,984)	(11,123)	**(22,983)**
Investment Income	0	0	0	(974)	**(974)**
Interest Income	(6,910)	0	0	(15)	**(6,925)**
Government grants	(2,339)	(1,605)	(960)	(45,177)	**(50,081)**
Total Income	**(9,892)**	**(8,149)**	**(11,144)**	**(58,553)**	**(87,738)**
Employee expenses	456	3,228	2,895	5,345	**11,924**
Other operating expenses	1,002	1,170	9,747	47,402	**59,321**
Interest Payments	6,729	0	0	12	**6,741**
Support Service Recharges	2,717	7,365	5,361	6,874	**22,317**
Depreciation, amortisation and impairment	(2,478)	1,721	1,603	1,921	**2,767**
Total operating expenses	**8,426**	**13,484**	**19,606**	**61,554**	**103,070**
Net Cost of Services	**(1,466)**	**5,335**	**8,462**	**3,001**	**15,332**

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.

	2011/12 £'000	2012/13 £'000
Cost of Services in Service Analysis	15,332	15,066
Add services not included in main analysis	0	0
Add amounts not reported by Directorate Analysis	(163)	(212)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	6,268	6,513
Net Cost of Services in Comprehensive Income and Expenditure Statement	**21,437**	**21,367**

Notes to the Core Financial Statements

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 2012/13 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	(9,026)	0	0	0	**(9,026)**	0	**(9,026)**
Recharges to Other Services	(19,888)	0	0	0	**(19,888)**	0	**(19,888)**
Interest and investment income	(6,856)	0	2,209	0	**(4,647)**	(2,209)	**(6,856)**
Income from council tax	0	0	0	0	**0**	(10,894)	**(10,894)**
Government grants and contributions	(51,276)	0	0	0	**(51,276)**	(6,766)	**(58,042)**
Total Income	**(87,046)**	**0**	**2,209**	**0**	**(84,837)**	**(19,869)**	**(104,706)**
Employee expenses	10,286	0	0	3,026	**13,312**	1,571	**14,883**
Other service expenses	61,420	1,359	4,569	18,591	**85,939**	0	**85,939**
Support Service recharges	21,617	0	0	(21,617)	**0**	0	**0**
Depreciation, amortisation and impairment	2,313	0	0	0	**2,313**	(69)	**2,244**
Interest Payments	6,476	(1,571)	(254)	0	**4,651**	254	**4,905**
Precepts & Levies	0	0	0	0	**0**	927	**927**
Payments to Housing Capital Receipts Pool	0	0	(11)	0	**(11)**	11	**0**
Gain or Loss on Disposal of Fixed Assets	0	0	0	0	**0**	0	**0**
Total operating expenses	**102,112**	**(212)**	**4,304**	**0**	**106,204**	**2,694**	**108,898**
(Surplus) or deficit on the provision of services	**15,066**	**(212)**	**6,513**	**0**	**21,367**	**(17,175)**	**4,192**

Notes to the Core Financial Statements

The reconciliation for comparative year 2011/12 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	(6,775)	0	0	0	**(6,775)**	0	**(6,775)**
Recharges to Other Services	(22,983)	0	0	0	**(22,983)**	0	**(22,983)**
Interest and investment income	(7,899)	0	1,979	0	**(5,920)**	(1,979)	**(7,899)**
Income from council tax	0	0	0	0	**0**	(10,770)	**(10,770)**
Government grants and contributions	(50,081)	0	0	0	**(50,081)**	(7,866)	**(57,947)**
Total Income	**(87,738)**	**0**	**1,979**	**0**	**(85,759)**	**(20,615)**	**(106,374)**
Employee expenses	11,923	0	0	3,794	**15,717**	659	**16,376**
Other service expenses	59,321	496	4,507	18,524	**82,848**	0	**82,848**
Support Service recharges	22,318	0	0	(22,318)	**(0)**	0	**(0)**
Depreciation, amortisation and impairment	2,767	0	0	0	**2,767**	(223)	**2,544**
Interest Payments	6,741	(659)	(290)	0	**5,792**	290	**6,082**
Precepts & Levies	0	0	0	0	**0**	897	**897**
Payments to Housing Capital Receipts Pool	0	0	(7)	0	**(7)**	7	**0**
Gain or Loss on Disposal of Fixed Assets	0	0	79	0	**79**	486	**565**
Total operating expenses	**103,070**	**(163)**	**4,289**	**0**	**107,196**	**2,116**	**109,312**
(Surplus) or deficit on the provision of services	**15,332**	**(163)**	**6,268**	**0**	**21,437**	**(18,499)**	**2,938**

41. CONTINGENT ASSETS

The Council does not have any known contingent assets.

42. CONTINGENT LIABILITIES

Property Search Claims

A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £192,685 plus interest and costs. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present. The Council has put aside funds of £97,000 as at 31 March 2013 in an earmarked reserve and has also made allowance in the general fund balance by identifying this issue as a financial risk.

Notes to the Core Financial Statements

Contractor Pension Fund Contributions
The Council has transferred the management of its waste collection service, leisure centres and grounds maintenance services to Veolia, Stevenage Leisure Ltd and John O'Connor Ltd, respectively. All of these bodies are members of the Hertfordshire Local Government Pension Fund. In order for these bodies to be admitted to the Pension Fund the Council has given a commitment to be ultimately liable for payments to the fund. In the event that the Contractor fails to make payment and there is no bond in place to cover the default, the Council would seek to offset the amount due from the contract price in the first instance. With regards to the contract with John O'Connor Ltd there is a bond in place with a value of £43,000 and that value is due for reassessment after 31st March 2017. The Council is liable only for the existing staff at the time of transfer of services to these bodies and as at the 31 March 2013 the Council has not been called upon to make any such payments.

43. EVENTS AFTER THE REPORTING PERIOD

The Audited Statement of Accounts was authorised for issue on 4 September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event which took place after 31 March 2013 as it provides information that is relevant to an understanding of the Authority's financial position but does not relate to conditions at that date:

When the new arrangements for the retention of business rates came into effect on 1 April 2013, local authorities assumed the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

This will include amounts that were paid over (to Central Government) in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the Authority, but would have been transferred to DCLG.

From the 1 April 2013 the Authority will need to recognise a provision for these liabilities. At the time the Authority completed the NNDR 1 submission to Central Government the estimate of successful appeals was £740,333. Any liability will be shared between Hertfordshire County Council. The District Authority share of this liability is £592,266.

44. NOTES RELATING TO THE CASH FLOW STATEMENT

Notes to the Core Financial Statements

Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

2011/12 £'000		2012/13 £'000
927	Interest Received	1,305
(292)	Interest Paid	(260)
635	**Net cash flows from operating activities**	**1,045**

The adjustments for non-cash movements are as follows:

2011/12 £'000		2012/13 £'000
1,985	Depreciation	2,008
1,103	Impairments and downward revaluations	2,304
235	Amortisation of intangible assets	183
531	Movement in Creditors	373
(921)	Movement in Debtors	706
(5)	Movement in Stock	(8)
510	Pension Liability	1,350
487	Carrying amount of non-current assets sold	0
17	Movement in other provisions	(559)
(176)	Movement in the value of investment properties	87
3,766	**Net Adjustment for non-cash movements**	**6,444**

The adjustments for items that are investing or financing activities are as follows:

2011/12 £'000		2012/13 £'000
(2,699)	Grants applied to the financing of capital expenditure	(1,761)
(101)	Proceeds from the sale of non-current assets	544
(2,800)	**Net Adjustment for investing or financing activities**	**(1,217)**

Cash Flow Statement - Investing Activities

2011/12 £'000		2012/13 £'000
(2,739)	Purchase of property, plant and equipment, investment property and intangible assets	(1,556)
(167,538)	Purchase of short-term and long-term investments	(160,177)
(206)	Other payments for investing activities	(2,000)
111	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	14
165,288	Proceeds from short-term and long-term Investments	160,177
2,324	Other receipts from investing activities	2,231
(2,760)	**Net cash flows from investing activities**	**(1,311)**

Cash Flow Statement - Financing Activities

2011/12 £'000		2012/13 £'000
0	Cash receipts of short and long-term borrowing	2,000
2,881	Council Tax and NNDR adjustments	275
(124)	Cash payments for the reduction of finance leases liabilities	(60)
(152)	Repayments of short and long-term borrowing	(2,644)
2,605	**Net Cash flows from financing activities**	**(429)**

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	31 March 2012 £'000	31 March 2013 £'000
INCOME			
Income from National Business Ratepayers	1	35,845	37,962
Contributions to 2010/2011losses -			
Contribution from Hertfordshire County Council	3	84	64
Contribution from Hertfordshire Police Authority	3	11	3
Contribution from General Fund		0	0
Council Tax	2	66,559	67,257
Council Tax Benefit		8,176	8,070
Reduction in Provision for Uncollectable Amounts		0	0
		110,675	**113,356**
EXPENDITURE			
Precepts & Demands	4	74,471	74,947
NNDR - Payments to Pool	1	35,366	37,193
Costs of Collection Allowance	1	479	769
Contribution to County Fund		0	0
Contribution to Police Fund		0	0
Contribution to General Fund		0	0
Provision for Uncollectable Amounts		342	225
		110,658	**113,134**
Movement on Fund Balance		**17**	**222**
Balance at beginning of year		(82)	(65)
Surplus/(Deficit) for year		17	222
Balance at end of year		**(65)**	**157**

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:

	2011/12		2012/13	
	£'000	**£'000**	**£'000**	**£'000**
Net NNDR		35,845		37,962
Less:				
Allowances	179		181	
Interest on NNDR collected	23		4	
Provision for bad debt	277	479	584	769
NNDR charged to pool		**35,366**		**37,193**
Net Government Contribution (to)/from pool		**35,366**		**37,193**
		0		**0**

The total non-domestic rate charged in 2012/13 was £38.3 million, (£36.3 million in 2011/12) and the total non-domestic rateable value for North Hertfordshire District Council is £82.2 million, (£99.1 million in 2011/12). The NNDR multiplier is 45.8p in the pound (43.3p in the pound in 2011/12). The small business non domestic rating multiplier is 45.0p in the pound.(42.6p in the pound in 2011/12)

2. COUNCIL TAX

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

	2011/12		2012/13	
	£'000	**£'000**	**£'000**	**£'000**
Original Debt	82,772		83,320	
Additional Debt	9,553		9,567	
		92,325		**92,887**
Less:				
Council Tax Benefits		8,176		8,070
Transitional Relief		(1)		(1)
Council Tax Benefits Limitation		0		0
Discounts		6,355		6,323
Amounts Written-off, Exemptions & Allowances		11,236		11,238
		66,559		**67,257**

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, (£1,463.24, 2011/12) 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	3,262	0.67	975.45
B	8,643	0.78	1,138.08
C	19,395	0.89	1,300.66
D	9,776	1.00	1,463.24
E	6,908	1.22	1,788.40
F	4,383	1.44	2,113.57
G	3,140	1.67	2,438.73
H	320	2.00	2,926.48
Total	**55,827**		

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 2013 totalling £64,297.02

In the year Hertfordshire Police Authority repaid an element of the deficit on the Collection Fund at 31 March 2013 totalling £2,787.93

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 2013 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 (surplus) is £115,858.25 Hertfordshire County Council, £15,307.55 Hertfordshire Police Authority and £25,422.40 North Hertfordshire District Council.

4. PRECEPTS

	2011/12 £'000	2012/13 £'000
The main precepts are:		
Hertfordshire County Council	56,257	56,597
Hertfordshire Police	7,433	7,478
North Hertfordshire District Council	10,781	10,872
	74,471	**74,947**

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.