Public Document Pack

Chairman and Members of the Audit Committee		Your contact:	Lorraine Blackburn
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cc. All other recipients of the Audit Committee agenda		Date:	17 September 2014

Dear Councillor

AUDIT COMMITTEE - 24 SEPTEMBER 2014

Please find attached the following reports which were marked "To Follow" on the agenda for the above meeting:

5. External Audit Report - Audit Findings (Pages 3 - 34)

6. Treasury Management Strategy 2013/14 Outturn (Pages 35 – 46)

7. Treasury Management Strategy 2014/15 Mid Year Review (Deferred – Report for submission to Audit Committee on 26 November 2014).

8. Statement of Accounts 2013/14 (Pages 47 – 132)

Please bring these papers with you to the meeting next Wednesday.

Yours faithfully,

Lorraine Blackburn
Democratic Services Officer
Lorraine.blackburn@eastherts.gov.uk

MEETING	:	AUDIT COMMITTEE
VENUE	:	COUNCIL CHAMBER, WALLFIELDS, HERTFORD
DATE	:	WEDNESDAY 24 SEPTEMBER 2014
TIME	:	7.00 PM

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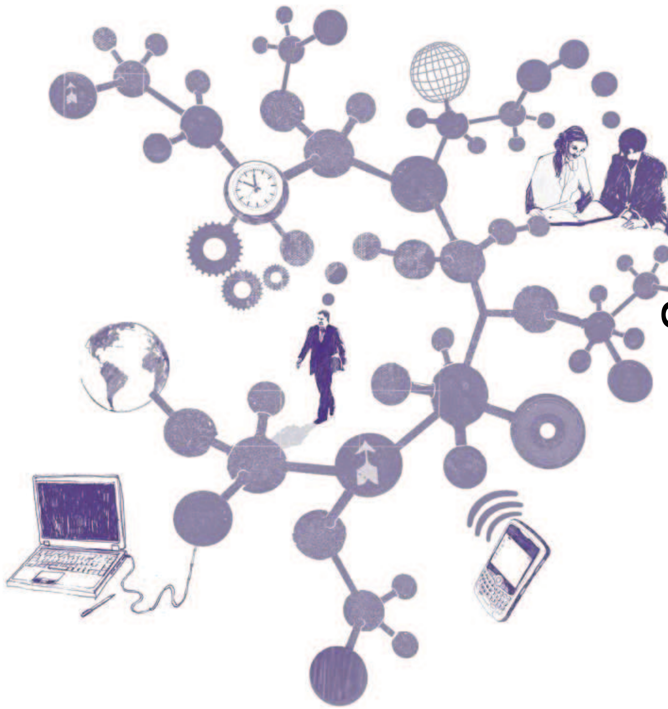
Audit findings report for the East Hertfordshire District Council

Year ended 31 March 2014

September 2014



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Agenda Item 5

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of your financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, your financial statements present a true and fair view of the financial position, your expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources (the Value for Money conclusion).

Introduction

We communicated our planned audit approach in our Audit Plan, which was presented to the Audit Committee on 16 July 2014. We have not altered our planned audit approach.

Our audit is nearing completion. As at the date of writing this report we are finalising our procedures in the following areas:

- review of outstanding evidence to complete testing on:
  - your ledger upgrade data reconciliations
  - creditors
  - employee remuneration
- receipt and review of your final amended version of the financial statements;
- obtaining and reviewing the final letter of management representations;
- work for the NAO on your Whole of Government Accounts return;
- final senior management review and quality control procedures; and
- updating our post balance sheet events review to the date of signing the opinion.

Key findings from our audit

Financial statements opinion

Subject to the satisfactory resolution and completion of the above matters, we anticipate providing an unqualified opinion on your financial statements.

We have not identified any adjustments affecting your reported financial position, and your recorded net expenditure remains unchanged at £19.4 million.

We identified a small number of presentational and typographical errors in the draft financial statements. Officers have agreed to amend the financial statements in respect of these points.

Other key messages arising from our audit of your financial statements are:

- the financial statements and supporting working papers were provided on time;
- you may wish to consider de-cluttering your accounts in future years;
- you may wish to consider updating asset revaluation procedures in light of changes to the CIPFA Code in this area.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of your arrangements to secure economy, efficiency and effectiveness in your use of resources, we propose to give an unqualified VfM conclusion.

Further detail of our work on value for money is set out in section 3 of this report.

Whole of Government Accounts

We are in the process of completing our work on your Whole of Government Accounts. We intend to complete our work in accordance with the national timetable.

Internal Controls

Management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to you. We reported four improvement points on internal controls. Further details are provided within section 2 of this report.

The way forward

Matters arising from our audit have been discussed with the Director of Finance.

We have made eight recommendations from our audit, as set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Finance.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 16 July 2014.

We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We made not altered our planned audit approach.

Audit opinion

Subject to the satisfactory completion of outstanding matters, we anticipate that we will provide you with an unmodified opinion. Our proposed audit opinion is set out in Appendix B.

De-cluttering the accounts

The financial statements includes a significant number of disclosures. We recommend you undertake a de-cluttering exercise to determine whether the disclosures remain appropriate in terms of the accounting framework, CIPFA's code and local circumstances.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• Review and testing of revenue recognition policies • Testing of material revenue streams • Testing of accruals and cut off procedures	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any issues in respect of revenue recognition policies. Our testing confirms compliance with the policies.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• Review of accounting estimates, judgments and decisions made by management during preparation of the financial statements • Review and testing of journal entries • Review of significant unusual transactions	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any evidence of management override of controls. After the upgrade to the general ledger, two journals were processed where one officer both posted and authorised their own journals. Management identified the issue promptly and subsequently manually authorised the journals after the event. Management did not consider the journals to be inappropriate. Management also amended the system to prevent journals being posted and authorised by the same officer and no further instances were identified. Our audit work identified seven journals without a named authoriser. The authoriser had left the Council and been removed from the system in line with the process in previous years. Prior to the upgrade of the general ledger, the journal audit trail was maintained manually. After the upgrade the audit trail is electonic and the name of the authoriser was removed. We have identified this as an internal control issue. We did not identify any significant issues in our testing of the journal entries. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Upgrade to general ledger system**	• Review of management's processes to ensure data integrity following the upgrade • Review and testing of arrangements to assess the completeness and accuracy of transferred data • Testing to confirm the completeness and accuracy of transferred data • Walkthrough test of controls operating within the upgraded system	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any issues in respect of the accuracy or completeness of data transferred with the system upgrade, or the other work completed in respect of this risk.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough tests of the key controls to assess the whether those controls are designed effectively • undertaken substantive testing of operating expenses transactions and year-end creditor balances.	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough tests of the key controls to assess the whether those controls are designed effectively • undertaken substantive testing of a sample of payroll expenditure transactions;	Subject to the satisfactory resolution of outstanding matters summarised on page 5, our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough tests of the key controls to assess the whether those controls are designed effectively • undertaken detailed testing of housing benefit expenditure in accordance with the national methodology set by the Department for Work and Pensions (DWP) • undertaken additional testing of council tax reduction transactions, which are no longer subject to certification work for the DWP.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included within your financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Activity is accounted for in the year that it takes place, as set out in detail in accounting policy ii of your financial statements.	• The accounting policy is adequately disclosed in line with the requirement of the Code. • Subject to the satisfactory resolution of outstanding matters summarised on page 5, our testing of material income and expenditure streams has not identified any instances of inappropriate revenue recognition.	● (Green)
Judgements and estimates	Key estimates and judgements include: • provisions and allowance for bad debt • accruals and prepayments • actuarial valuations of the pension fund under IAS19 • PPE valuations, impairment and depreciation (see separate section below)	• Judgements and estimates have been disclosed appropriately and adequately. These disclosures detail the level of judgement used and the extent of judgement involved. • Subject to the satisfactory resolution of outstanding matters summarised on page 5, no evidence has been identified during our audit to suggest management has not exercised appropriate and reasonable judgement. • We have performed a detailed review of your business rate appeals provision, which was recognised for the first time in 2013/14. We are satisfied that you have taken an appropriate approach to estimating the value of this provision, and that it has been correctly accounted for in the financial statements.	● (Green)

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Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators (Red)
- ● Accounting policy appropriate but scope for improved disclosure (Amber)
- ● Accounting policy appropriate and disclosures sufficient (Green)

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with your financial statements.

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates – Property, Plant and Equipment (PPE)	Your approach to revaluation of PPE assets is a rolling four year cycle, so that assets included on the 31 March 2014 balance sheet were last valued between 2010/11 and 2013/14.	• In our view, this rolling programme does not meet the Code's requirement (in paragraph 4.1.2.35) to value items within a class of property, plant and equipment simultaneously. This paragraph of the Code, which is based on IAS 16 (Property, Plant and Equipment) does permit a class of assets to be re-valued on a rolling basis provided that: ◦ the revaluation within the class of assets is completed within a 'short period'; and ◦ the revaluations are kept up to date. • In the absence of further guidance from CIPFA, we would normally expect this 'short period' to be interpreted as within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year. • We note that the approach you adopt is similar to that adopted by many other local authorities. Furthermore, our comparison of your valuation to expectation of the carrying amount of PPE does not differ materially from the fair value at 31 March 2014. However we recommend that you review your approach to asset valuations for 2014/15.	● (Amber)
Other accounting policies	We have reviewed the your policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	● (Green)

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators (Red)
- ● Accounting policy appropriate but some scope for improvement (Amber)
- ● Accounting policy appropriate and disclosures sufficient (Green)

Adjusted and unadjusted misstatements

Subject to the satisfactory resolution of outstanding matters summarised on page 5, no non-trivial misstatements have been identified in the course of our audit. We have no matters to report to you in this regard.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

	Adjustment type	Impact on the financial statements
1	Management has made a number of minor presentation and typographic changes to the draft accounts, in response to our initial review of the financial statements.	Minor presentation and typographic changes only – no impact on reported figures.
2	The audit fees disclosure note was amended to remove actuary fees, payments to the National Fraud Initiative and to remove 2012/13 grant certification fees.	Restated disclosure note - no impact on reported figures
3	Related party transaction disclosure note omitted transactions with Riversmead Housing Association and with Town Councils.	Restated disclosure note – no impact on reported figures
4	The Comprehensive Income and Expenditure Statement discloses a loss on disposal of investment property. The transaction is a gain on disposal.	Wording change to disclosure note

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Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1	● (Amber)	Our audit identified a small number of areas where you could consider making minor improvements to security access settings within your general ledger system.	Consider the minor improvements to general ledger security access settings.
2	● (Amber)	Seven journals did not display the name of the authoriser as the authoriser had left the Council and had been removed from the system. The removal of the authoriser in this way left gaps in the audit trail.	Review the process for removing leavers from the system to ensure that the audit trail is maintained in full.
3	● (Amber)	The Fixed Assets Register applied depreciation before the revaluation which was as at 1 April 2013. The revalued assets were depreciated on the basis of their previous value. The difference was not significant in 2013/14 however the difference may be significant in another year.	Review the fixed assets register to ensure that depreciation is applied appropriately.
4	● **(Amber)**	The listing to support the Creditors balance includes £391k of suspense accounts. Testing of a sample of these balances identified that the amounts were not suspense items. It is not considered good practice to hold suspense amounts at the year end.	Review all suspense accounts and take action to ensure that appropriate terminology is used.

Assessment

● Significant deficiency – risk of significant misstatement (Red)

● Deficiency – risk of inconsequential misstatement (Amber)

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with both the Director of Finance and the Chair of the Audit Committee.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representations has been requested from you.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge your decision to prepare the financial statements on a going concern basis.
7.	**Internal Audit**	• We have reviewed all reports issued by Internal Audit in the year. This review did not highlight any instance of material control weaknesses which have impacted on our risk assessment. • The Annual Assurance Statement for the year ended 31 March 2014 has concluded that internal controls within financial systems and operational systems operating throughout the year are fundamentally sound.
8.	**Annual Governance Statement**	• We have reviewed the Annual Governance Statement to confirm it complies with the requirements of 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007. The disclosures made are consistent with our knowledge of you and your key strategic risks, and we have no matters to draw to your attention.

Section 3: Value for Money

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes your responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in your use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience . You have robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables you to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. You are prioritising your resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources for the year ending 31 March 2014. We therefore propose to issue an unqualified value for money conclusion at the same time as our opinion on the financial statements.

We set out below a summary of our findings against six risk areas which have been used to assess your performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

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Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	In 2013/14 you achieved an overall underspend of £1 million against a total revenue budget of £70 million. Key indicators of financial health continue to compare favourably to similar District Councils (see charts in Appendix C to this report).	Green	Green
Strategic financial planning	Your medium-term financial strategy (MTFS) remains robust and supports decision-making by quantifying the potential budget gap from 2016/17. You have identified areas for further development to enhance your MTFS. It is important that you deliver the planned developments to ensure that your MTFS remains robust. There is no certainty on central government spending plans following the 2015 general election. Despite positive momentum in the wider economy, independent fiscal forecasts suggest that significant decreases in government expenditure are likely to continue until at least 2018/19.* Your MTFS identifies budget gaps in future years including from 2016/17. You have a savings plan in place which is monitored throughout the year. A small number of individual savings programmes were assessed as 'red' rated indicating delivery of savings was less than planned. However, overall in 2013/14 the savings target was delivered. As part of your budget challenge process you are reviewing the 2013/14 savings plan. Any lessons learnt from the budget challenge should be used to enhance your MTFS as you continue to develop a robust savings plan to address the budget gaps.	Green	Green
Financial governance	Reports to the Executive demonstrate that Members are engaged with your financial performance and use this to inform decision-making. Budgetary control and reporting is good. You have exceeded the maximum level of reserves, as set out in your Reserves Policy. The 'Amber' rating reflects that you have exceeded your own policy. To preserve good practice within your financial governance, you should either consider the appropriateness of your reserves policy or, if you consider the reserves threshold to remain appropriate, put in place governance arrangements to ensure you remain within said policy. We note that you have identified the issue yourself and commenced a review.	Green	Amber

* Sources: Office for Budget Responsibility, *Economic and Fiscal Outlook – March 2014*, http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/
Institute for Fiscal Studies, *IFS Green Budget 2014*, http://www.ifs.org.uk/publications/7072

Value for Money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	Your control environment remains satisfactory. Budget monitoring processes are good, and variances from budget are well-understood and explained. Your budget challenge programme continues to enhance the robustness of budgets. You are undertaking a review of the structure of your finance function with a view to further strengthening your arrangements and ensuring future resilience. We note that your internal auditors have made several recommendations for improvements of your core financial systems. None of these recommendations indicate that there is a fundamental weakness or lack of control around core financial systems, and we do not consider that these present a material risk to our VFM conclusion. Notwithstanding this, management should, of course, ensure the matters raised by internal audit are addressed.	Green	Green
Prioritising resources	You continue to integrate your financial reporting within your corporate performance reporting. This approach enables resources to be prioritised against your strategic aims. Your work on your District Plan provides a framework to shape your built environment whilst supporting your priorities. Significant work has been undertaken to develop a plan that meets local needs as well as external pressures.	Green	Green
Improving efficiency & productivity	You have made progress in implementing shared services with shared services implemented for ICT, Business Improvement, Print and Design Services. The Business Cases supporting the decisions on shared services show a commitment to improving efficiency.	Green	Green

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there were no fees for the provision of non audit services.

Audit Fees

	Per Audit Plan £	Actual fees £
Council audit	68,875	68,875
Additional fee - NDR	0	900
Grant certification	12,600	tbc
Total audit fees	**137,961**	**tbc**

Grant certification fees

Our grant certification work is ongoing. Since the Audit Plan was issued, changes have been made to the grant certification regime which has reduced the number of grants which we are required to audit. Your scale fee for grant certification is now £11,088. We will report the final fee to the Audit Committee in our annual certification report.

There is additional fee of £900 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for District Councils.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Management response	Implementation date & responsibility
1	Review your approach to revaluing property assets to ensure compliance with the clarified requirements of the CIPFA Code.	Officers will review current processes with the property team to evaluate the resource implications of changing processes.	31 March 2015
2	Consider the minor improvements to security access settings.	Officers will review these recommendations and evaluate whether there are sufficient controls in place to mitigate risks identified.	31 March 2015
3	Review the process for removing leavers from the system to ensure that the audit trail is maintained in full	Officers have reviewed the control with the IT supplier and implemented a way forward.	31 March 2015
4	Review the fixed assets register to ensure that depreciation is applied appropriately.	Officers will make appropriate changes to the fixed assets register.	31 March 2015
5	Review all suspense accounts and take action to ensure that appropriate terminology is used.	Officers will review the term 'suspense accounts' and ensure appropriate terminology is used in future, for example holding accounts.	31 March 2015
6	Consider undertaking a de-cluttering exercise to ensure that the financial statements disclosures remain appropriate.	Officers will review the required disclosures and agree a way forward with the Audit Committee in line with current best practice and meeting the needs of the business.	31 March 2015
7	Enhance your MTFS by delivering your planned developments to ensure that your MTFS remains robust.	Senior Management will continue to develop the Medium Term Financial Plan and Strategy to ensure a robust budget is set for 2015/16 onwards.	31 March 2015
8	Continue to use your budget challenge process to: - Deliver a robust savings plan which address future budget gaps - Ensure that reserves remain within the range set in your policy	Senior Management will continue to: - Consider the impact of prior years' underspends on future budgets and challenge savings plans - Review the reserves policy, current level of reserves for the MTFS.	31 March 2015

Appendix B: Audit opinion

We anticipate we will provide you with an unmodified audit report

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

Opinion on the financial statements

We have audited the financial statements of East Hertfordshire District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the 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 2013/14.

This report is made solely to the members of East 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 Director of Finance and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 East Hertfordshire District Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, 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 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, East 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 2014.

Certificate

We certify that we have completed the audit of the financial statements of East 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.

Paul Grady
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House, Euston Square, London

[Date]

Appendix C: Key Indicators of Financial Health

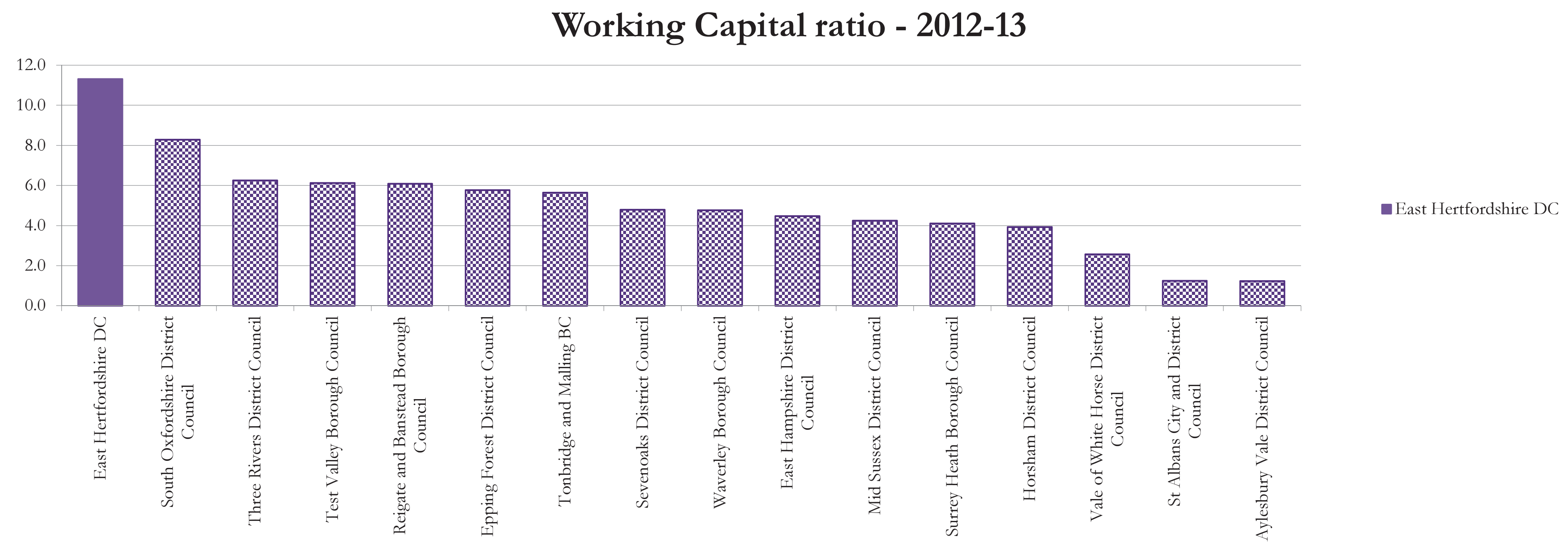
Working Capital - Benchmarked

Definition

The working capital ratio indicates if an authority has enough current assets, or resources, to cover its immediate liabilities - i.e. those liabilities to be met over the next twelve month period. A ratio of assets to liabilities of 2:1 is usually considered to be acceptable , whilst a ratio of less than one - i.e. current liabilities exceed current assets - indicates potential liquidity problems. A high working capital ratio isn't always a good thing; it could indicate that an authority is not effectively investing its excess cash.

Findings

Your working capital ratio compares well to the peer group of other District Councils. This gives assurance that your cash flow position is strong. Combined with your significant reserve balances, you are unlikely to have difficulties meeting commitments as they fall due in the short term.



Key Indicators of Financial Performance

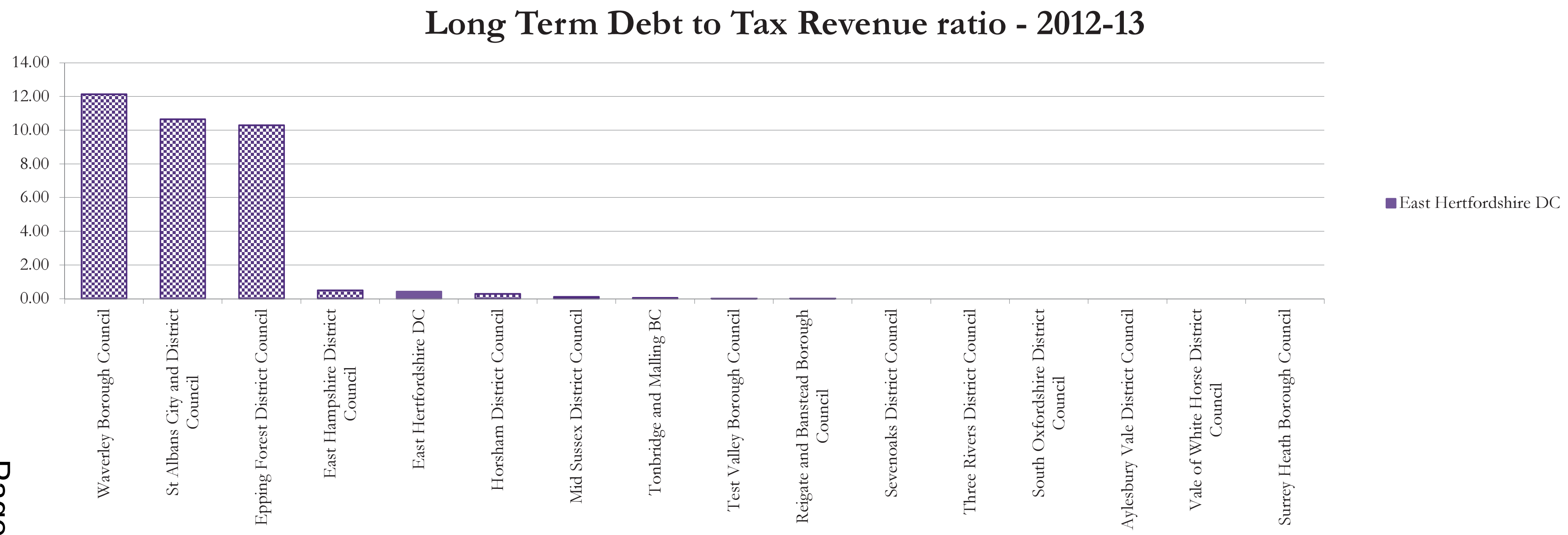
Long Term Borrowing to Tax Revenue - Benchmarked

Definition

This shows long tem borrowing as a share of tax revenue. A ratio of more than one means that long term borrowing exceeds council tax revenue.

Findings

You have a low level of borrowings as a share of tax revenues when compared to other similar District Councils. Where future spending plans are funded by borrowing, the pace at which debt increases should be kept under review for affordability.



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Source: Audit Commission's Technical Directory

Grant Thornton

grant-thornton.co.uk

EAST HERTS COUNCIL

AUDIT COMMITTEE – 24 SEPTEMBER 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

TREASURY MANAGEMENT STRATEGY STATEMENT – 2013/14 OUTTURN

WARD(S) AFFECTED: NONE SPECIFIC

Purpose/Summary of Report

- This report reviews the Council's treasury management activities for 2013/14 and identifies the associated impact on the 2014/15 treasury management strategy.

RECOMMENDATIONS FOR AUDIT COMMITTEE: **That:**	
(A)	**the 2013/14 Treasury management activity and prudential Indicators be approved; and**
(B)	**remedial action detailed at paragraph 5.5 to ensure that the Group limit of £20 million for NatWest is consistently maintained be noted.**

1.0 Background

1.1 Treasury Management is the activity of managing the council's cash flows, bank accounts, deposits, investments and borrowing.

1.2 The key objective is to manage treasury operational risk to ensure that funds are secure, sufficient liquidity is available to meet the Council's financial commitments, income generated is maximised in relation to risk and costs are minimised.

1.3 This report meets the requirements of the Treasury Management Strategy for 2013/14 and CIPFA's Treasury Management Code of Practice by reporting to those charged with governance an annual treasury management report within six months of the end of the financial year.

1.4 The Council is supported in its treasury management activities by independent advisers – Capita Asset Services.

2.0 Report

2.1 This treasury report covers:

- the treasury position as at 31 March 2014;
- the in year borrowing position for 2013/14;
- the in year investment position for 2013/14; and
- Prudential Indicators for 2013/14 compared to those reported in the Council's Treasury Management Strategy for 2013/14.

3.0 Treasury Position for the financial year ending 31 March 2014

3.1 The table below summarises the Council's treasury management portfolio as at 31 March 2014. The prior year position is included for information and trend information.

Balance as at 31st March 2013	**Narrative**	**Balance as at 31st March 2014**
£'000		**£'000**
7,500	Long Term Borrowing	7,500
0	Short Term Borrowing	0
2,324	Other Long Term Liabilities	1,288
9,824	**Total External Debt**	**8,788**
15,007	Long Term Investments	10,000
40,592	Short Term Investments	41,571
12,204	Cash and Funds on Call	17,360
67,803	**Total Investments**	**68,931**

Note: The figures detailed above vary from the Council's Statement of Accounts as accrued interest is required to be included in the Council's balance sheet in line with accounting arrangements.

3.2 No new short or long term borrowing was taken out by the Council during the financial year. This is in line with the treasury management strategy recommendation of financing the capital programme from internal funds whilst short term interest rates are low. This method of financing will continue in for the foreseeable future; the sustainability of the approach will be kept under review.

3.3 Other long term liabilities reflect the cost of finance leases which reduced due to the return of 10 refuse vehicles under the revised arrangements for the refuse collection contract.

3.4 Investment balances increased in 2013/14 by 1.7% as a result of revenue budget underspend and slippage in the 2013/14 capital programme.

4.0 Borrowing

4.1 The annual revenue cost to the Council of outstanding long term debt totalling £7.5 million was £702k approximately for 2013/14.

4.2 The Council's borrowing portfolio as at 31 March is detailed below:

Loan Details	**Maturity details**	**Principal Outstanding as at 31 March 2014**
		£'000
PWLB Loan – 8.875%	01.02.2055	1,500
LGS Bond – 8.785%	22.05.2020	6,000
TOTAL		**7,500**

Note; the balances detailed above exclude accrued interest.

4.3 No change to the 2014/15 Strategy is required as a result of borrowing activity for 2013/14.

5.0 Investments

5.1 The Councils Investment portfolio for 2013/14 by type of counterparty is reported at **Essential Reference Paper "B**".

5.2 In placing investments the Council continues to prioritise security and liquidity of funds over yield.

5.3 The Council operates a NatWest Special Interest Bearing Account to sweep up any daily balances on the Council's operational bank accounts (for example the payments and income accounts).

5.4 Due to higher than expected cashflows and minimal notice on payment of material government grants (for example Section 31 Grants for small business relief, flood relief, etc), the account exceeded a balance of £15 million. Resulting in the group investment maximum threshold for NatWest being over the maximum limit of £20 million on 17 daily occasions in 2013/14. For 2014/15 there have been 19 daily occasions where the limit has been exceeded.

5.5 With effect from 12 August 2014 £5 million has been placed with Goldman/Sachs International Bank over a six month period to resolve the higher than expected balances on the Account.

5.6 For 2013/14 interest income was £954,768.89 an improvement on the forecast position reported in the Healthcheck. The average rate of return was 1.24%; lower than that anticipated within the treasury management strategy (1.98%). This compares to the average 7 day LIBID rate of 0.3542% and the 1 year LIBID rate of 0.78% over the year.

5.7 The Council maintains an 'Interest Equalisation Reserve' to assist in managing the financial implications of adverse interest rate fluctuations. The reserve was not utilised in 2013/14, as at 31st March 2014 the balance on the reserve was £2.257 million.

5.8 Creditworthiness and a trend of low stagnant interest rates are likely to be the norm for 2014/15 and the impact of these factors has been taken into account in the following treasury and financial management reports:

- Revision to Treasury Management Arrangements – Minute Ref 154
- Financial Strategy and Medium Term Financial Plan from 2014/15 to 2018/19 – Minute Ref 212
- Monthly Corporate Healthcheck – April to July 2014 – Minute Ref 219

6.0 <u>Prudential Indicators</u>

6.1 Under the Treasury Management Code of Practice the Council is required to calculate and approve a set of statutory prudential indicators, which enable Members to ensure that the Council's treasury management arrangements are prudent, sustainable and affordable.

6.2 The prudential indicators are reported at **Essential Reference**

Paper "C" to this report.

6.3 There are no concerns or issues to highlight for Member's attention.

7.0 Governance

7.1 An internal audit review of treasury management arrangements undertaken in November 2013, reported an overall assurance opinion of 'Full Assurance'.

8.0 Implications/Consultations

8.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Treasury Management Strategy Statement 2013/14 and Annual Investment Strategy 2013/14 – Minute 604.

Contact Member: Councillor Michael Tindale – Executive Member for Finance
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Contact Officer: Simon Chancellor – Head of Financial Services and Performance
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Report Author: Margaret Donaldson – Interim Principal Accountant
margaret.donaldson@eastherts.gov.uk

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	***People* – Fair and accessible services for those that use them and opportunities for everyone to contribute** ***Place* – Safe and Clean** ***Prosperity* – Improving the economic and social opportunities available to our communities** The treasury management Strategy supports the delivery of the council's corporate objectives and ensures that through cash management finance is available for the investment and delivery of services.
Consultation:	Not Applicable
Legal:	*The report fulfils the following legislative requirements:* • *Reporting of prudential Indicators in line with the requirements of the CIPFA Code of Practice.* • *Identifies and asks those charged with governance to agree the Minimum Revenue Provision Policy as required by the Local Government and Public Involvement in Health Act 2007.* • *Sets out for consideration the Treasury Management Strategy and the affordability of the Capital Programme* • *Sets out the Investment Strategy in accordance with DCLG guidance on investment.* • *Sets out the Governance arrangements for treasury Management.*
Financial:	Within the body of the report.
Human Resource:	Not Applicable.
Risk Management:	The Treasury Management Policy sets out how the Council will mitigate and manage the risks inherent in the Council's dealings with financial institutions.
Health and wellbeing – issues and impacts:	Not Applicable.

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Internally and Externally Managed Funds – Investment Activity in 2013-14

Investment Counterparty	Balance as at 31 March 2013 £'000	Net Investments Made in Year £'000	Balance as at 31 March 2014 £'000
Banks and Building Societies	40,096	9,345	49,441
Certificates of Deposits and Commercial paper	19,700	(9,710)	9,990
Other	7	(7)	Nil
Total Internally Managed Funds	59,803	(372)	59,431
Money Market Fund	8,000	1,500	9,500
Externally Managed Funds	8,000	1,500	9,500
TOTAL	**67,803**	**1,128**	**68,931**

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Prudential Indicators 2013/14

Prudential Indicator	2013/14 Estimate	2013/14 Actual	Comment
A. Capital Expenditure	£4,226k	£4,500k	
B. Net Financing Requirement	£2,875k	£1,615k	Additional capital receipts and capital grants/contributions applied in 2013/14 resulting in lower than anticipated internal borrowing.
C. Ratio of Financing Costs to Net Revenue	(2.34)%	(1.31)%	Higher than anticipated investment income.
D. Net Borrowing Requirement Carried Forward as at 31 March 2014.	£(52,867)k	£(43,478)k	
E. Capital Financing Requirement as at 31 March 2014.	£(37,965)k	£(41,895)k	
F. Incremental Impact of Capital expenditure on Council tax (Band D) per annum	£1.15	£0.05	
G. Authorised Limit for External Borrowing: • Borrowing • Other Long Term Liabilities	 £15,600k £2,000k		Not exceeded in 2013/14.

H. Operational Boundary: • Borrowing • Other Long Term Liabilities	£9,500k £2,000k	£7,500k £1,288k	Not exceeded in 2013/14.
I. Upper Limit for Fixed Rate Exposure: • Borrowing • Investments	100% 98%	100% 34%	
J. Upper Limit for Variable Rate Exposure: • Borrowing • Investments	50% 95%	0% 66%	
K. Upper Limit for Principal sums Invested over 364 days	£60,000k	£10,000k	
L. Maturity structure of Loans: • 5 to 10 years • 10 years and over	0% 0%	80% 20%	Maturity structure updated in line with revised 2014/15 MTFS.

EAST HERTS COUNCIL

AUDIT COMMITTEE – 24 SEPTEMBER 2014

REPORT BY EXECUTIVE MEMBER FOR FINANCE

STATEMENT OF ACCOUNTS 2013/14

WARD(S) AFFECTED: None Specific

Purpose/Summary of Report

- The report sets out the background to the requirements for Members to consider and approve the Council's 2013/14 Statement of Accounts. The report also provides details of changes in reporting requirements from 2012/13 together with supporting comments on the key financial statements.

RECOMMENDATIONS FOR AUDIT COMMITTEE: **That:**	
(A)	**the Council's Statement of Accounts for the financial year 2013/14 be approved and signed by the Chairman at the conclusion of the meeting; and**
(B)	**the letter of representation be approved for signing by the Chairman and the Director of Finance and Support Services.**

1.0 Background

1.1 The approval of the Council's Accounts is a statutory requirement. The Accounts and Audit Regulations 2011, which came into force on 31 March 2011, set out the current requirements for the production and publication of the Council's annual Statement of Accounts.

1.2 These Regulations now require the Accounts to be signed by the Council's S151 Officer by 30 June following the relevant accounting year and passed for audit before being approved by the relevant body of the Council (as defined in the Regulations) following audit and then published by 30 September. The S151 Officer in signing the accounts is required to certify that the accounts present a "true and fair view" of the financial position of the Council at year end.

1.3 In line with the Council's constitution this committee, as the relevant body now has the benefit of receiving the External Auditor's report on the accounts prior to Member approval.

1.4 A separate report elsewhere on the agenda deals with requirements for consideration and approval of the Council's annual Governance Statement, which is required to be included within the Council's overall published accounts.

2.0 Report

2.1 The Statement of Accounts is attached at **Essential Reference Paper "B"** to the report.

2.2 The audit of the Accounts has now been substantially completed and the External Auditor's report is included at item 5 to the agenda. No significant issues have arisen through the audit process and officers have agreed and undertaken some presentational and disclosure adjustments that had no overall net effect on the Council's reported assets and liabilities.

2.3 The Statement of Accounts is produced in accordance with appropriate Regulations, Codes of Practice and guidance notes and there is a high level of prescription with regard to their form and content.

2.4 The draft accounts were submitted to the Committee at its meeting on 16 July and Members asked a number of questions as well as seeking clarification on various items. Members will appreciate that the accounts are technical in nature and it would be of assistance if any further questions that Members have of a detailed nature could be referred to the Head of Finance and Performance in advance of the meeting in order that officers have time to research any particular issues.

2.5 The Council's financial performance for 2013/14, which is reflected in the accounts presented, has been reported in depth to the Executive on 5 August 2014. Members should note that the accounts reflect proposals for reserves agreed by the Council in line with the Medium Term Financial Plan.

2.6 The Committee is reminded that 2013/14 represents the fourth year of production of accounts under International Financial Reporting Standards (IFRS).

2.7 The accounts now comprise an explanatory foreword and four core statements together with supporting notes. The first supporting note sets out the Council's accounting policies and Members are invited to confirm that these are appropriate.

2.8 The 2013/14 accounts have been produced in line with the 2013 accounting Code of Practice and accounting regulations as appropriate. There are no significant legislative or accounting changes affecting the production of this year's accounts. Some presentational changes have been made in respect of pension costs shown within the Comprehensive Income and Expenditure Statement (CI&ES) and supporting notes.

2.9 The following summarises the purpose of the main financial Statements as well as highlighting any key issues.

2.10 <u>Movement in Reserves Statement (MIRS)</u>
The MIRS shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (those that can be applied to fund expenditure or reduce taxation) and other reserves. The deficit on the provision of services line shows the economic cost of providing the Council's services with more details being shown in the Comprehensive Income &Expenditure Statement (CI&ES). An adjustment is made to reflect the difference between the deficit shown and the amount to be charged under statutory provision for council tax setting purposes.

2.11 <u>Comprehensive Income & Expenditure Statement (CI&ES)</u>
The statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting principles, rather than the amount to be funded from taxation.

The reported surplus of £4.2m compares to a surplus on a funding (taxation) basis of £2.3m. This difference is principally due to the net accounting entries in respect of capital, pensions and asset revaluations which are required to be shown (under statute) within the Income and expenditure account but which do not impact on the funding position.

2.12 Balance Sheet

The consolidated balance sheet includes the assets and liabilities of all activities of the Authority. It shows the balances and reserves at the Authority's disposal and its long term indebtedness together with the fixed and net current assets which are employed by the Council in delivering its services.

The value of Property Plant & Equipment has reduced by £1.32m reflecting the write down of assets in respect of capital charges and impairment offset by additions during the year.

The reduction in Long Term Investments is broadly offset by an increase in short term investments which, in recognition of their liquid status are categorised as cash and cash equivalents under reporting requirements.

The underlying trend in debtor and creditor movements is fairly flat.

Two new provisions have been created in 2013/14 relating to this Council's apportionment of valuation appeals in respect of Non Domestic Rates (£1.024m) and planning appeals (£287k).

There has been no change to the Council's long term borrowing position in the year.

The reduction in pension Liability and Pension Reserve reflect year end actuarial valuations. An increase in the fair value of pension assets of £7.56m is offset by an increase in the present value of funded liabilities of £2.27m.

The Council's Usable revenue reserves have increased by £2.308m reflecting the "surplus" in year.

2.14 Cash Flow Statement

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

In line with the accounting requirements for Council Tax and NNDR, the statement now only includes cash flows in respect of East Herts apportionments of Council Tax and NDR Income.

2.15 Collection Fund

In line with accounting requirements the Collection Fund, which is presented as a supplementary note to the accounts, now includes business rates (NDR) as well as Council Tax.

Following changes in the funding regime for business rates the Collection Fund now reflects a balance (at 31 March 2014) in respect of NDR of £3.53m (deficit) which is apportioned between East Herts, Government and the County Council. This Council's share is £1.413m (deficit) which, in accordance with prescribed accounting arrangements, will be charged in the 2015/16 accounts.

Members will be aware that cash flow arrangements for various Government grants (in respect of the new funding regime) resulted in the Council receiving £1.37m in 2013/14 which has been transferred to a new "Government Funding Risk Reserve". Together with further grants anticipated in 2014/15 this will be used to offset this Council's share of the 2013/14 NDR Collection Fund deficit.

The Council Tax element of the Collection Fund has a surplus balance of £410k at 31 March 2014. This Council's share which is £45k will be available to support the Council Tax in 2015/16.

2.16 As part of the governance arrangements for the audit of the Council's accounts a "letter of representation" is provided to the Auditor confirming that appropriate arrangements are in place. The Committee is required to approve the letter which will then be signed by the Chairman and Director of Finance and Support Services. A copy is included at **Essential Reference Paper "C".**

2.17 The Annual Governance Statement, which is the subject of a separate report on the agenda, is required to be included as part of the Council's published accounts.

3.0 Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers
Report to Audit Committee on 16 July 2014.

Contact Member: Councillor Michael Tindale, Executive Member for Finance
Michael.tindale@eastherts.gov.uk

Contact Officer: Adele Taylor, Director of Finance and Support Services
Contact Tel No Ext 1401
Adele.taylor@eastherts.gov.uk

Report Author: Simon Chancellor– Head of Finance & Performance
simon.chancellor@eastherts.gov.uk

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives *(delete as appropriate):*	***People* – Fair and accessible services for those that use them and opportunities for everyone to contribute** This priority focuses on delivering strong services and seeking to enhance the quality of life, health and wellbeing, particularly for those who are vulnerable. ***Place* – Safe and Clean** This priority focuses on sustainability, the built environment and ensuring our towns and villages are safe and clean. ***Prosperity* – Improving the economic and social opportunities available to our communities** This priority focuses on safeguarding and enhancing our unique mix of rural and urban communities, promoting sustainable, economic opportunities and delivering cost effective services.
Consultation:	Consultations have taken place with relevant officers and External audit Staff.
Legal:	The Legal requirements relating to the process for approval of the Council's accounts are set out within the report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	There are no human Resource implications.
Risk Management:	Approval processes could be affected should any objections to the accounts be submitted to the External Auditor.
Health and wellbeing – issues and impacts:	There are no direct Health and Wellbeing implications.

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EAST HERTS COUNCIL

STATEMENT OF ACCOUNTS

2013/14

STATEMENT OF ACCOUNTS 2013/14

INDEX

STATEMENT OF ACCOUNTS 2013/14

EXPLANATORY FOREWORD

1. Summary of Contents

The Council's accounts for the year ended 31 March 2014 are set out on pages 6 to 60. They consist of :-

The Movement in Reserves Statement - shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The Comprehensive Income & Expenditure Statement - a summary of the resources generated and consumed by the authority in the year.

The Balance Sheet - which sets out the financial position of the Council on 31 March 2014

The Cash Flow Statement - which summarises the Council's inflows and outflows of cash for the year.

Notes to the accounts - provide support to the core financial statements, which informs and gives sufficient information to present a good understanding of the Council's activities. The Notes include a Statement of Accounting Policies which details the legislation and principles on which the Statement of Accounts has been prepared. The purpose is to explain the basis for recognition, measurement and disclosure of transactions and other events in the accounts.

Supplementary Financial Statements - The Collection Fund shows the level of Non Domestic Rates and Council Tax that has been received by the Council, as billing authority, during the period.

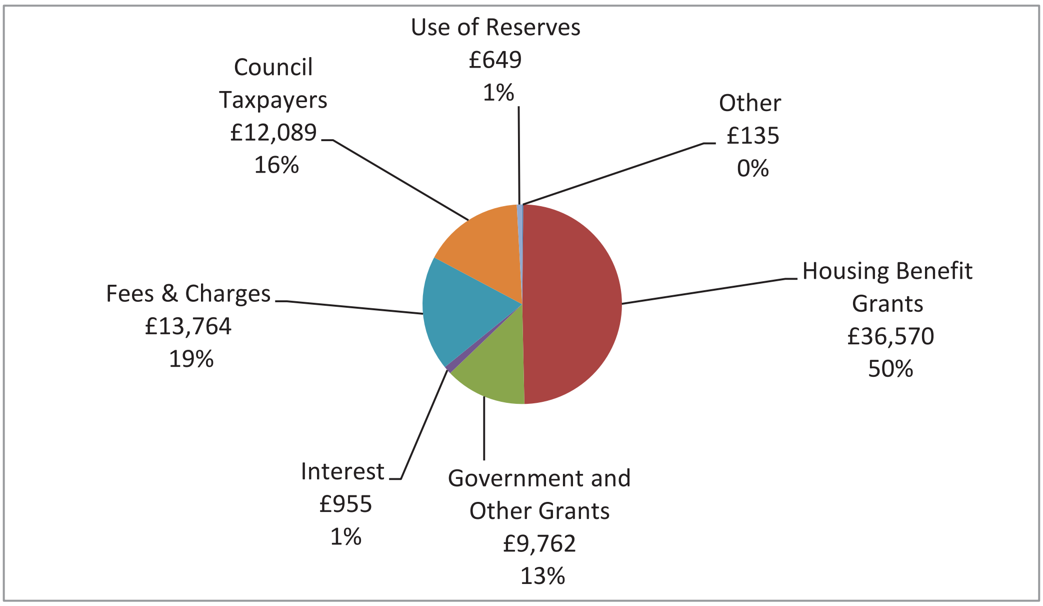
Glossary of Financial Terms - explaining some of the key terms used in the accounts.

Statement of Responsibilities for the Statement of Accounts - identifies the officer who is responsible for the proper administration of the Council's financial affairs. The purpose is for the Chief Finance Officer to sign under a statement that the accounts present a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended.

2. Overview of Council's Activities

This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position. The three charts which follow show in broad terms where the Council's money comes from, what it is spent on and what services it provides.

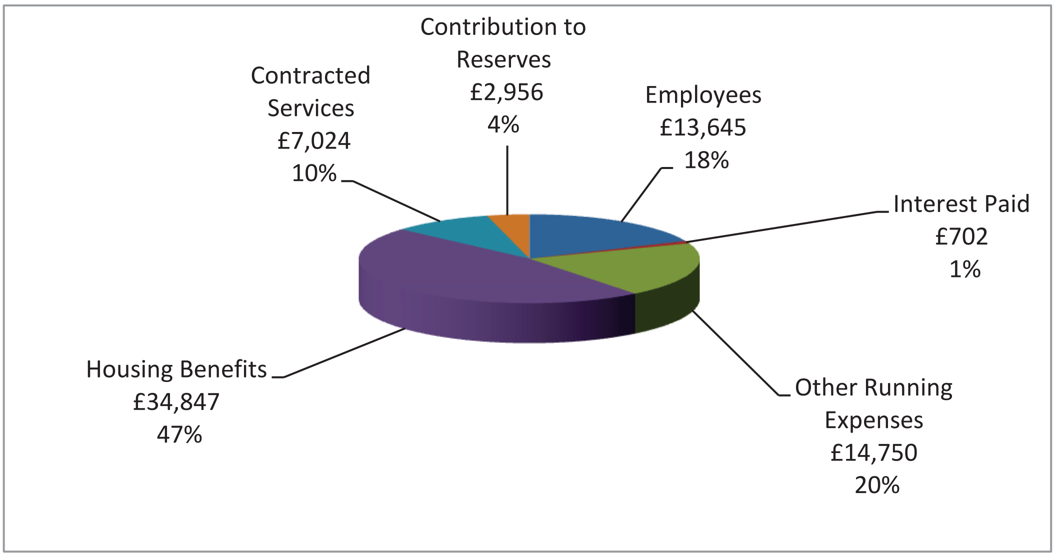
WHERE THE MONEY COMES FROM
Sources of income to the Council
£000



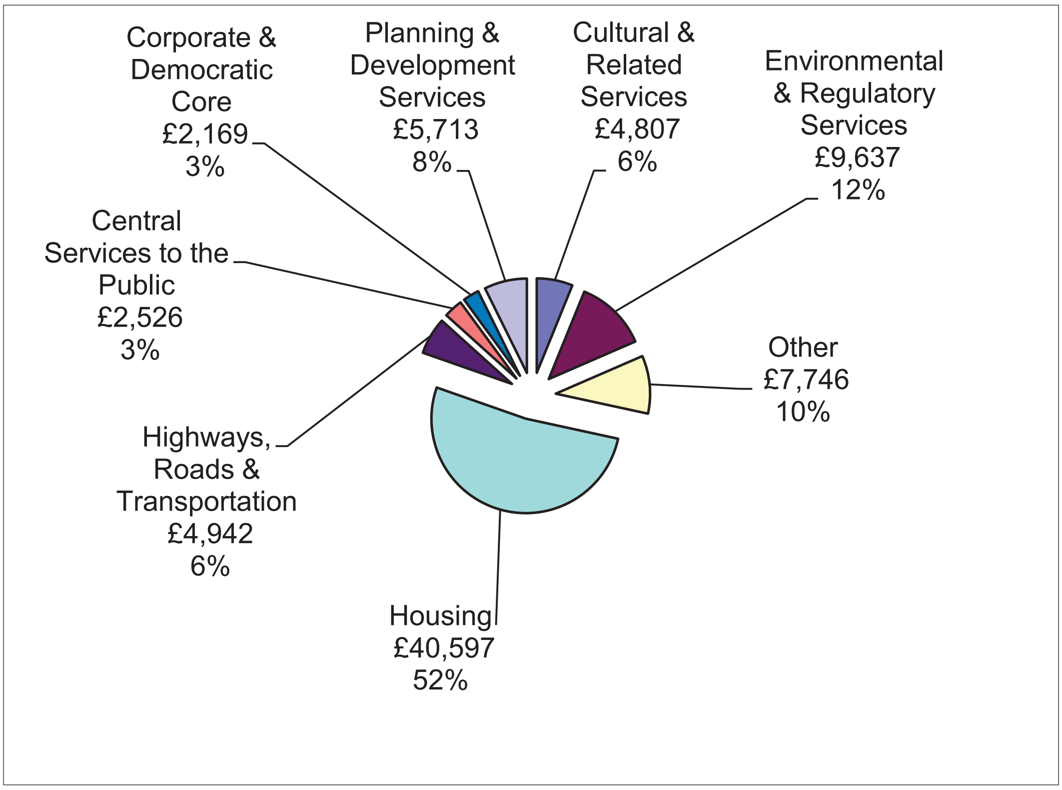
It can be seen that the largest source of the Council's income is from Housing Benefit Grants.

EXPLANATORY FOREWORD (continued)

HOW THE MONEY IS SPENT
£000



THE SERVICES PROVIDED
£000



The cost of "The Services Provided" includes capital charges, impairments, revenue funded from capital under statute and capital government grants totalling £4,213k which have been excluded from the chart "How the money is spent".

EXPLANATORY FOREWORD (continued)

3. General Fund - Comparison of Actual Expenditure and Income with Budget

The Council has set its budget and Medium Term Financial Plan (MTFP) in recent years against a backdrop of continued austerity in public spending. The budget for 2013/14 was set in a significantly changed funding regime for Local Government which included Council Tax benefit being replaced by a locally managed Council Tax Support Scheme and the Localisation of Business Rates. Recent Government spending reviews have signalled a continuation of funding reductions in future years. The Council has continued to plan to achieve ongoing efficiency savings in order to be able to set affordable and sustainable budgets in the medium term. Consideration is also being given to how we make our money work harder to generate additional income.

Through sound financial management the Council was able to reduce its proportion of Council Tax raised by 1% in 2013/14, having previously frozen it each year since 2010/11. A further freeze was agreed for 2014/15 which is planned to continue for 2015/16.

During 2013/14 the Council continued to work hard to drive down costs and was able to deliver over £175k of additional efficiency savings whilst still maintaining quality services in line with its priorities.

A comparison of the budget with actual income and expenditure for 2013/14 is shown below:

	Budget £000	Actual £000	Variance £000
Net Cost of Services	20,880	19,366	(1,514)
Investment Properties (net)	(194)	(194)	0
Planning Contingency	443	0	(443)
Finance Transactions	(2,909)	(3,130)	(221)
Interest Transactions	(319)	(252)	67
Movement on Pension Reserve (Deficit Contribution)	493	672	179
Appropriations - Financing Items	25	25	0
Appropriations - REFCUS (see Policy xix, page 23)	(2,073)	(1,083)	990
Net Expenditure	16,346	15,404	(942)
Collection Fund Contribution	(95)	(157)	(62)
Contribution from NNDR Pool	(2,367)	(3,127)	(760)
Revenue Support Grant	(3,572)	(3,572)	0
Council Tax Freeze Grant	(94)	(93)	1
Council Tax Raised	(8,678)	(8,678)	0
New Homes Bonus	(1,416)	(1,413)	3
General Revenue Grants	(16)	(672)	(656)
Balance to be appropriated to Reserves	(108)	2,308	(2,416)

The above variance is represented by:	£000
The impact of Non Domestic Rates Funding Regime	(760)
Additional Section 31 Grant Funding received for Small Business Relief and Flooding support.	(609)
An underlying underspend against the 2013/14 original estimate.	(1,545)
Planning Contingency underspend	(443)
Brought Forward budgets from 2012/13	(67)
Payment of Pension Lump Sum	1,008
Total variance to 2013/14 Original budget.	(2,416)

Overall, this has resulted in £2,308k being added to the Council's Reserve balances (See Page 6).

3. General Fund - Comparison of Actual Expenditure and Income with Budget - continued

In line with the Council's recommendations the following contributions to key reserves have been made to support medium term financial risks to the Council:
- £1,369k reflecting the additional funding received in 2013/14 under the new NDR regime, transferred into the Government Funding Risk Reserve to assist with NDR income volatility.
- £916k was transferred to the Priority Spend Reserve to support economic development.
- £574k was transferred to the Interest Equalisation Reserve to assist in the management of adverse interest rate fluctuations.

The reported revenue variance comprises:

Non Domestic Rates Regime:

The new Non Domestic Rate regime came into effect in April 2013. Numerous regulations updating the arrangements for the regime have been issued during the 2013/14 financial year. On closing the accounts, the Council has made use of the 'Safety Net' implications in place for the regime; resulting in £760k additional government funding than initially budgeted for. It is likely that this will be required in future years due to the fluctuations in income received from businesses. There are also a significant number of outstanding appeals yet to be heard by the Valuation Office Agency (VOA) that present a financial risk to East Herts. The Government Funding Risk Reserve will mitigate the impact of these risks once those decisions are made.

Section 31 Grant Funding:

The government issued additional grant funding in the 2013 Autumn Statement to support Small Businesses through Non Domestic Rate Relief. The Council received full reimbursement for £484k of additional reliefs granted through the Non Domestic Rates collection process. The government also responded to the impact of the floods in the area by providing £125k of additional funding to businesses which will be spent in full in 2014/15.

Service Outturn:

In closing the accounts, an underlying underspend of £1,545k has been identified and comprises the following:

- Investment Interest - adverse variance of £38k, although the Council benefitted from the impact of interest on improved internal cashflow - £21k favourable variance . A review of investment assumptions resulted in an adverse variance of £59k.
- Welfare Reform Staffing budget - £81k of underspend has been carried forward to 2014/15 to support the review of Council Tax cases which are at or close to recovery action. This will improve the Council's outstanding debt position and provide individuals with support to break the debt cycle. £16k has been carried forward to fund an additional post in Housing.
- Changes to the Council's recycling service resulted in a net saving of £76k.
- Overall the Council's staff costs increased by £38k (Net) in total as a result of various changes to the council's establishment and the temporary use of agency staff.
- Development Management - the upturn in house building has resulted in planning income over achieving by £458k. However this is offset by the Council's liabilities on Planning Appeals (£368k) and the cost of preparing the Local Development Plan (£60k). Net impact £30k favourable variance.
- An underspend of £174k in the Priority Spend budget funded from new homes bonus income has been carried forward to 2014/15.
- The downturn in the economy has had an adverse impact on car park income of £172k net. However enforcement income over achieved by £151k.
- Housing Benefit Subsidy income was £457k higher than anticipated. This is 1.3% higher than the original grant income budget and reflects a reduction in overpayment penalties which improves the level of subsidy recovered.
- Council income and grants over achieved by £333k.
- Additional Collection Fund income was realised of £62k.
- Overall supplies and services and transport costs underspent by £170k.
- The council's liability for Non Domestic Rates on Council premises reduced by £46k (net of costs)
- Other variances totalled a net underspend of £260k.

EXPLANATORY FOREWORD (continued)

3. General Fund - Comparison of Actual Expenditure and Income with Budget - continued

During 2013/14 a line-by-line review of prior years expenditure and in-year spending plans was undertaken. The identification of savings across all budgets informed the MTFP for 2014/15 to 2017/18 and in setting the 2014/15 budget. These savings show as underspends in 2013/14, but reduce the level of efficiencies that need to be found in future years.

Pension Lump sum

As part of the triennial review of the Council's pension arrangements undertaken in November 2013, a decision was made to make a lump sum payment of £1,008k in March 2014 on independent actuarial advice. This means the impact of year on year increases in the annual pension deficit payments is spread more evenly over the four year period.

Financial Position for 2014/15 Onwards

The on-going impact of the above revenue variances will inform the Council's MTFP, which will be revised from August 2014. Financial efficiencies will be used to support key services with on-going service pressures and provide financial flexibility to implement a structured response to changes in government funding and regulatory changes to services. The new funding regime for Local Government also presents new opportunities and risks which will also be carefully reviewed when refreshing the MTFP.

4. Capital Expenditure & Financing

During 2013/14 the Council incurred expenditure of £4.500m (see page 30, note 6) on capital projects compared with an original budget of £4.442m. (Excluding budgeted slippage of £270k from 2012/13).

The policy of giving capital grants towards community projects continued with almost £53k awarded in the year. Over £443k was given in grants to private sector owners for renovation and provision of disabled facilities. A significant investment of £2.286m was made in new refuse vehicles in line with the Council's decision to improve its recycling service with the introduction of Separate Paper and Recycling Collections (SPARC). Over £110k was spent on car parks including resurfacing and lining and the replacement of a at the Library Car Park Ware.

Details of the Council's financing arrangements for the year are set out on page 47.

No external borrowing was undertaken in 2013/14 and the Council's overall long term borrowing is £7.5m as at 31st March 2014. The balance sheet shows a liability of £7.71m , however, this includes accrued interest of £210k (see note 35 on page 58).

5. Pensions Liabilities

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. Under current accounting standards the impact of any pension liability must be shown in the balance sheet. The Council's liability at 31st March 2014 is £30.844m which is a reduction of £5.289m compared to the position at 31st March 2013. This change is largely due to an increase in the present value of fund assets offset by an increase in the fair value of scheme liabilities. The favourable position was also achieved by the council making a one off contribution to the Fund of £1.008m. Further information is given on pages 50 - 55.

6. Financial Reporting and the Euro

It is a Council requirement that all new financial software packages be capable of accommodating conversion to the Euro and as such there are no readily identifiable costs to report.

7. Further Information

Interested parties have a statutory right to inspect the accounts before the audit is completed.
The availability of the accounts for inspection is advertised in the local press.
Further information about the accounts can be obtained by contacting the Head of Finance and Performance, Wallfields, Pegs Lane, Hertford. SG13 8EQ. If you would like to receive this document in large print, Braille, audio, electronic format, or translation into another language, please contact Communications at East Herts Council on 01992 531688 or email pr@eastherts.gov.uk

MOVEMENT IN RESERVES STATEMENT

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

		General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	General Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2012		**3,854**	**3,360**	**0**	**582**	**4,158**	**11,954**	**69,320**	**81,274**
Movement in reserves during 2012/13									
Deficit on provision of services		(328)	-	-	-	-	(328)	-	**(328)**
Other Comprehensive Income and Expenditure		-	-	-	-	-	-	(3,868)	**(3,868)**
Total Comprehensive Income and Expenditure		**(328)**	**-**	**-**	**-**	**-**	**(328)**	**(3,868)**	**(4,196)**
Adjustments between accounting basis and funding basis under regulations	*Note 4*	3,117	-	-	(69)	-	3,048	(3,048)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**2,789**	**-**	**0**	**(69)**	**-**	**2,720**	**(6,916)**	**(4,196)**
Transfers to/(from) Earmarked Reserves	*Note 5*	(2,789)	2,692	-	-	97	0	-	**0**
Increase/Decrease in Year		0	2,692	0	(69)	97	2,720	(6,916)	**(4,196)**
Balance as at 31 March 2013 carried forward		**3,854**	**6,052**	**0**	**513**	**4,255**	**14,674**	**62,404**	**77,078**

		General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	General Reserve £000	Total Usable Reserves £000	Total Unusable Reserves £000	**Total Reserves £000**
Balance at 31 March 2013		**3,854**	**6,052**	**0**	**513**	**4,255**	**14,674**	**62,404**	**77,078**
Movement in reserves during 2013/14									
Deficit on provision of services		(1,552)	-	-	-	-	(1,552)	-	**(1,552)**
Other Comprehensive Income and Expenditure		-	-	-	(90)	-	(90)	5,800	**5,710**
Total Comprehensive Income and Expenditure		**(1,552)**	**-**	**-**	**(90)**	**-**	**(1,642)**	**5,800**	**4,158**
Adjustments between accounting basis and funding basis under regulations	*Note 4*	3,860	-	-	(3)	-	3,857	(3,857)	**0**
Net Increase/Decrease before Transfers to Earmarked Reserves		**2,308**	**-**	**0**	**(93)**	**-**	**2,215**	**1,943**	**4,158**
Transfers to/(from) Earmarked Reserves	*Note 5*	(2,308)	2,322	-	-	(14)	0	-	**0**
Increase/Decrease in Year		0	2,322	0	(93)	(14)	2,215	1,943	**4,158**
Balance as at 31 March 2014 carried forward		**3,854**	**8,374**	**0**	**420**	**4,241**	**16,889**	**64,347**	**81,236**

STATEMENT OF ACCOUNTS 2013/14

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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; generally this will be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2013/14	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Central Services to the Public	2,526	(1,139)	1,387
Cultural & Related Services	4,807	(1,235)	3,572
Environmental & Regulatory Services	9,637	(3,311)	6,326
Planning & Development Services	5,393	(2,603)	2,790
Highways and Transport Services	4,942	(4,472)	470
Other Housing Services	40,597	(37,929)	2,668
Corporate & Democratic Core	2,169	(16)	2,153
NET COST OF SERVICES			**19,366**
Payments of precepts to parishes			3,411
Payments of housing capital receipts to government			2
Gain on disposal of non current (fixed) assets			(1,422)
OTHER OPERATING EXPENDITURE			**1,991**
Interest payable and similar charges			702
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			1,610
Interest receivable and similar income			(955)
Income from investment properties (Note 9)			(514)
Direct expenditure incurred on investment properties (Note 9)			320
Changes in Fair Value of Investment Properties			(629)
Gain on disposal of investment properties			(123)
FINANCING AND INVESTMENT EXPENDITURE			**411**
Recognised capital grants and contributions			(611)
Council tax income			(12,140)
Non domestic rates			(1,714)
Non service related government grants			(5,751)
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 28)			**(20,216)**
DEFICIT ON PROVISION OF SERVICES			**1,552**
Revaluation Gains			(1,707)
Impairment losses (chargeable to Revaluation Reserve)			2,060
Reclassification of Grant			90
Remeasurements of the net defined benefit liability (Note 32)			(6,227)
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			**(5,784)**
Surplus on revaluation of available for sale financial assets (Note 11)			74
ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			**74**
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			**(5,710)**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**(4,158)**

All operations arise from continuing activities.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT (cont)

2012/13	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Central Services to the Public	10,399	(8,429)	1,970
Cultural & Related Services	4,758	(1,334)	3,424
Environmental & Regulatory Services	8,586	(3,448)	5,138
Planning & Development Services	4,928	(2,264)	2,664
Highways and Transport Services	4,164	(4,366)	(202)
Other Housing Services	37,561	(35,830)	1,731
Corporate & Democratic Core	1,968	(19)	1,949
Non Distributed Costs	51	0	51
NET COST OF SERVICES			**16,725**
Payments of precepts to parishes			3,541
Payments of housing capital receipts to government			2
Gain on disposal of non current (fixed) assets			(749)
OTHER OPERATING EXPENDITURE			**2,794**
Interest payable and similar charges			739
Net Interest on the net defined benefit liability & remeasurements of the defined benefit liability for long term employee benefits			1,464 *
Interest receivable and similar income			(1,206)
Income from investment properties (Note 9)			(550)
Direct expenditure incurred on investment properties (Note 9)			384
Changes in Fair Value of Investment Properties			(30)
Loss on disposal of investment properties			0
FINANCING AND INVESTMENT EXPENDITURE			**801**
Recognised capital grants and contributions			(25)
Council tax income			(12,926)
Non domestic rates			(5,432)
Non service related government grants			(1,174)
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 28)			**(19,557)**
DEFICIT ON PROVISION OF SERVICES			**763**
Revaluation Gains			(780)
Impairment losses (chargeable to Revaluation Reserve)			6
Remeasurements of the net defined benefit liability (Note 32)			4,216 *
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			**3,442**
Surplus on revaluation of available for sale financial assets (Note 11)			(9)
ITEMS THAT MAY BE RECLASSIFIED TO THE (SURPLUS) OR DEFICIT ON PROVISION OF SERVICES			**(9)**
OTHER COMPREHENSIVE INCOME AND EXPENDITURE			**3,433**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE			**4,196**

* figures restated in line with changes to IAS19 applied retrospectively
All operations arise from continuing activities.

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council.

		31 March '14		31 March '13
		£000	£000	£000
Property, Plant & Equipment	*Note 6*			
- Other land and buildings		31,449		33,239
- Vehicles, plant, furniture and equipment		7,373		6,669
- Infrastructure assets		3,240		3,466
- Community assets		1,196	43,258	1,204
Investment Properties	*Note 9*	9,545		9,435
Intangible Assets	*Note 10*	448	9,993	553
			53,251	**54,566**
Long Term Investments	*Note 34*	10,080		15,145
Long Term Debtors	*Note 14*	1,161	11,241	1,166
TOTAL LONG TERM ASSETS			**64,492**	**70,877**
Assets Held for Sale	*Note 16*	520		252
Short Term Investments	*Note 34*	41,750		40,923
Short Term Debtors	*Note 14*	6,432		6,150
Cash and Cash Equivalents	*Note 15*	17,363		12,211
CURRENT ASSETS			**66,065**	**59,536**
Provisions	*Note 18*	(1,311)		-
Bank Overdraft		(23)		-
Short Term Creditors	*Note 17*	(5,673)		(5,266)
CURRENT LIABILITIES			**(7,007)**	**(5,266)**
Provisions	*Note 18*	(61)		(80)
Long Term Borrowing	*Note 35*	(7,710)		(7,710)
Long Term Creditors	*Note 17*	(1,288)		(2,324)
Deferred credits	*Note 36*	(6)		(10)
Net Pension Liability	*Note 20*	(30,844)		(36,133)
Grant Receipts in Advance - Capital	*Note 28*	(1,753)		(1,326)
- Revenue		(652)		(486)
LONG TERM LIABILITIES			**(42,314)**	**(48,069)**
NET ASSETS			**81,236**	**77,078**
USABLE RESERVES				
- General Fund	*Note 19*	3,854		3,854
- General reserve	*Note 19*	4,241		4,255
- Earmarked reserves	*Note 5*	8,374		6,052
- Capital grants Unapplied	*Note 19*	420		513
			16,889	**14,674**
UNUSABLE RESERVES				
- Revaluation Reserve	*Note 20*	3,448		3,874
- Available-for-Sale Reserve	*Note 20*	(74)		0
- Pensions Reserve	*Note 20*	(30,844)		(36,133)
- Capital Adjustment Account	*Note 20*	93,125		94,454
- Deferred Capital Receipts	*Note 20*	156		157
- Collection Fund Adjustment Account	*Note 20*	(1,368)		151
- Short-term Accumulating Compensated Absences Account	*Note 20*	(96)		(99)
			64,347	**62,404**
TOTAL RESERVES			**81,236**	**77,078**

THE CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period.

	2013/14		2012/13
	£000	£000	£000
OPERATING ACTIVITIES			
Cash Inflows			
Council Tax receipts	(9,125)		(11,916)
NNDR Receipts	(17,312)		-
NNDR receipts from national pool (Grant)	-		(5,432)
Revenue Support Grant	(3,572)		(105)
DWP grants for benefits	(35,756)		(41,875)
Other Government grants	(2,828)		(1,834)
Cash received for goods and services	(14,499)		(13,253)
Interest received	(1,149)		(808)
Cash inflows generated from operating activities	(84,241)		(75,223)
Cash Out Flows			
Cash paid to and on behalf of employees	13,645		12,889
Housing Benefit paid out	34,082		32,672
Other operating cash payments	18,777		16,508
Precepts paid to other authorities	3,411		3,541
Interest paid	661		660
Cash outflows generated from operating activities	70,576		66,270
Net Cash Inflow from operating activities		**(13,665)**	**(8,953)**
INVESTING ACTIVITIES			
- Purchase of property plant and equipment, investment property and intangible assets	3,468		3,307
- Other payments for investing activities	2		3
- Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,740)		(1,233)
- Capital grants	(1,274)		(1,539)
- Proceeds from short-term and long-term investments	(4,238)		(6,236)
Net cash inflow from investing activities		**(3,782)**	**(5,698)**
FINANCING ACTIVITIES			
- Cash Payments for the reduction of the outstanding liabilities relating to finance leases (Principal)	272		424
- Other payments for financing activities	12,046		6,344
Net cash outflow from financing activities		**12,318**	**6,768**
Net (increase) or decrease in cash and cash equivalents		(5,129)	(7,883)
Cash and cash equivalents at the beginning of the reporting period		(12,211)	(4,328)
Cash and cash equivalents at the end of the reporting period		**(17,340)**	**(12,211)**

NOTES TO THE FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

i. The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Council Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice (SeRCOP) 2013/14, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income & Expenditure

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

Income from the provision of services in the form of sales, fees, charges and rents is recognised and accounted for in the period to which they relate.

Expenses in relation to services received (including services provided by employees, transport related, premises related and supplies and services related expenditure) are recorded as expenditure when the services are received rather than when payments are made, with the exception of quarterly utility payments where no actual apportionment is made for bills spanning two financial years.

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

Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Provision is made for doubtful debts and known uncollectable debts are written off.

iii. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition that are readily convertible to known amounts of cash with insignificant risk of change in value, and are used to meet short term liquidity requirements.

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 Council's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors - continued

Prior period adjustments have been made to the Council's 2012/13 published financial statements in relation to accounting for Retirement Benefits under IAS19 with effect from 1st January 2014 as detailed below:

For the return on Pension assets such as those held by the Local government Pension Fund, where the advanced credit income for anticipated outperformance of return seeking assets (for (example Equities) is no longer permitted by IAS19. This has been replaced with an equivalent figure calculated using a discount rate. The impact of the accounting change has resulted in reduced interest income of £435k for the Pension Fund and a reduction in the Fund's reported gains / losses as detailed below:

2012/13 Restated	**2012/13 Published Accounts**	**IAS 19 Adjustment**	**Restated 2012/13 Accounts**
	£000	**£000**	**£000**
NET COST OF SERVICES	16,725	**-**	**16,725**
OTHER OPERATING EXPENDITURE	2,794	**-**	**2,794**
FINANCING AND INVESTMENT EXPENDITURE	366	435	**801**
TAXATION AND NON-SPECIFIC GRANT INCOME (see Note 27)	(19,557)	**-**	**(19,557)**
DEFICIT ON PROVISION OF SERVICES	**328**	**435**	**763**
Revaluation Gains	**(774)**	**-**	**(774)**
Surplus on revaluation of available for sale financial assets (Note 11)	**(9)**	**-**	**(9)**
Remeasurements of the net defined benefit liability (Note 32)	**4,651**	**(435)**	**4,216**
OTHER COMPREHENSIVE INCOME AND EXPENDITURE	**3,868**	**(435)**	**3,433**
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE	**4,196**	**0**	**4,196**

Pension Asset Disclosures

IAS 19 requires additional disclosures in relation to the Fund's assets. The values of the assets are required to be broken down into different classes that distinguish between the nature and risk. A further break down is also needed showing those assets which have a quoted market price and those which do not. The Comprehensive Income and Expenditure Statement and Note 32 to the Accounts have been amended accordingly.

v. Charges to Revenue for Non - Current Assets

(Property, Plant and Equipment and Intangible Assets)

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

depreciation attributable to the assets used by the relevant service

revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Depreciation, revaluation, impairment losses and amortisations are therefore transferred to the Capital Adjustment Account in the Movement in Reserves Statement.

vi. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements and flexi time 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 salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the 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.

Post Employment Benefits (Pensions)

The Council participates in one scheme, the Local Government Pension Scheme, which is a defined benefit final salary scheme administered by Hertfordshire County Council.

The liabilities of the Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit credit 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 future earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 4.5%.
The discount rate has been determined as the long term government bond yield plus an allowance for the average difference between the yield on corporate bonds and government bonds. This difference in yields is a result of the difference in the risk of default. This approach has been adopted as government bonds have a long enough term to match the term of the liabilities whereas corporate bonds have shorter terms.

The assets of Hertfordshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- Unit trust and managed fund investments (including property) – current bid price.

and disclosed in line with the requirements of IAS19.

vi. Employee Benefits - continued

The change in the net pensions liability is analysed into seven components:

– current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

– past service cost / gain – the increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited / credited 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 or 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 pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council 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 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.

In line with the requirements of the Code the past service contribution is no longer a current revenue item but is included as part of the payments to the pension fund (in accordance with pension scheme regulations) and is treated as a cash flow item which reduces the pensions liability. This is also in line with the requirements of the Code.

The Hertfordshire Pension Fund revised the policy on the funding of early retirements from April 2013. Up to 31 March 2013 employers were permitted to spread the cost of early retirement strain costs over a period of up to 5 years. The Council had previously chosen to fund these costs over 3 years. From April 2013 employers pay the full amount of strain costs in one lump sum in the year of retirement. Following a recommendation to move to the new position early in order to save interest and improve the funding position the Council paid off all outstanding sums in 2012/13 funded from its earmarked reserve (see note 5, page 28).

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

vii. Events after the Balance Sheet Date

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

those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted where material to reflect such events

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

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

viii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. 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 most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest), and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Guarantees

Commencing on 1 January 2009 the Council awarded a new 10 year contract for the Management of its Leisure Facilities and Swimming Pools. Under this contract the Council has given two guarantees in respect of pension liabilities and utility costs. The guarantee relating to pension costs relates to increases in employer contributions above 23.4%. Any increase will be in line with future actuarial valuations. Each 1% increase in contribution rate would result in a liability of approximately £3k per year.

The guarantee relating to utility costs relates to above inflationary increases in the tariffs payable. Each 1% increase would represent around £2.4k per year.

The Code includes a requirement for financial guarantees to be recognised at fair value and charged to the Comprehensive Income and Expenditure Statement (amortised over the life of the guarantee). The levels of liability assessed at March 2014 are regarded as non material and therefore the accounting requirement has not been followed in respect of these guarantees. The Council has determined to set aside a reserve against potential liabilities under these guarantees as set out in Note 5 to the Notes to the Core Statements.

No other financial guarantees were identified in 2013/14.

Soft Loans

The Code requires that a discounted interest rate be recognised as a reduction in the fair value of the asset. Potential Council loans falling within this category relate to an assisted car purchase scheme and a cycle scheme. The Council currently has no loans under its assisted car purchase scheme and the amount advanced under the cycle scheme is considered immaterial.

viii. Financial Instruments - continued

Financial Assets

Financial assets are classified into two types:

loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council 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.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-For-Sale Assets

Available-For-Sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, 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 amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council. Assets are maintained in the Balance Sheet at fair value. Values are based on quoted market prices.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

ix. Government grants and contributions - revenue and capital

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised in the accounts when there is reasonable assurance that:

the Council will comply with any conditions attached to the payments, and

the grants or contributions will be received.

The grant or contribution is recognised immediately within the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition relating to the initial recognition that the Council has not satisfied.

Monies received as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as a liability within the Grants Receipts in Advance Account. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

Revenue grants specific to service provision are shown against the relevant service in the Comprehensive Income and Expenditure Statement. General grants allocated by central government directly to local authorities as additional revenue funding which are non-ringfenced are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

x. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council 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 Council. In addition, the Council has agreed that all software will be treated as intangible assets.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation is not permitted to have an impact on the General Fund Balance. This is therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

xi. Investments

The majority of the Council's internally managed investments are money market deposits but investments placed with our External Fund Manager in money market instruments include certificates of Deposit and Treasury Stock which are valued at fair value. (See Note 33)

xii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation.

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

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.

xiii. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases 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 Council at the end of the lease period). Depreciation is applied in the year of acquisition.

The Council is not required to raise council tax to cover depreciation, impairment and gains and losses on revaluation arising on leased assets. Any such costs that have been charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

xiii. Leases - continued

Operating Leases

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.

The Council as a Lessor

Finance Leases
Where the Council 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 Investment Properties) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

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

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

Operating Leases
Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the 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.

xiv. Minimum revenue provision

In accordance with current legislation the minimum revenue provision (MRP) for the redemption of debt is required to be calculated on a prudent basis having regard to guidelines set out for application of the prudential code. Following the disposal of the Council's Housing stock the calculated MRP is now nil.

xv. Overheads and support services

The costs of management and administration are allocated over all services as appropriate. This is in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The basis of allocation used for the main areas is outlined below:

Cost	Basis of allocation
Support Services	Actual time spent by staff
Administrative Buildings	Area occupied
Information Technology	Time spent/actual use

xvi. Property, Plant & Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

- Operational non specialised property – fair value based on existing use value.
  The multi-storey car parks, surface car parks (see Note 6) and Hertford Theatre have been valued using the Existing Use Valuation method on the basis of income & expenditure, profit information.
- Operational specialised property – depreciated replacement cost (DRC).
- Community assets and Infrastructure – nominal value or historical cost.
- All other assets – depreciated historical cost.

In the event of a future disposal the market value at that time may realise more or less than the carrying value. Since April 2010 the Council has revalued its assets on a four year rolling basis (formerly five year rolling basis). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

xvi. Property, Plant and Equipment - continued

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

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

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

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

The current asset values used in the accounts are based upon a certificate issued by the Council's Asset & Estates Manager, Anna Osborne MRICS as at 31 March 2014. Property, plant and equipment are classified in the Balance Sheet in line with current Accounting Codes of Practice.

Impairment

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

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

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

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

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

Depreciation

All Property, Plant and Equipment, other than freehold land and Community Assets (with two exceptions being recreational facilities with a building element) are depreciated on a straight line basis over the period of the assets useful economic life. The following periods are used:

Freehold Land	No depreciation
Hostels	60 years
Other Council Buildings	20 to 60 years
Infrastructure	20 years
Equipment, Furniture and Fittings	5 to 10 years
Community Assets	No depreciation (30 years for exceptions)
Non operational assets	60 years
Enhancement to leased properties	10 to 25 years
Plant	10 years

NOTES TO THE FINANCIAL STATEMENTS

xvi. Property, Plant and Equipment - continued

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

Componentisation

In line with accounting requirements the Council considers the identification of individual asset components on a prospective basis following either the enhancement of an asset or its revaluation. The Council has determined that it will adopt a de-minimis value of £1m for individual assets with a de-minimis component percentage of 20% of the individual asset value.

Disposals

When an asset is disposed of the carrying amount of the asset in the Balance Sheet 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 Comprehensiv 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.

The gain or loss on disposal 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 transferred from the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account (the carrying amount of the asset) and the usable Capital Receipts Reserve (the disposal proceeds).

xvii. Provision for bad debt

The value of receivables (debtors) shown on the balance sheet is adjusted for doubtful debts. The level of bad debt provision is reviewed annually. Uncollectable debts are written off against the provision.
The following methods are used:-

Trade Accounts Receivable	-	Age and collectability
Housing Benefit Overpayments	-	Age and collectability
National Non Domestic Rates	-	0.6% against the net debit due reviewed against sums written off and opening yearly balances and collectability.
Council Tax	-	0.3% against the net debit due reviewed against sums written off and opening yearly balances
N Domestic Rates costs	-	25% against arrears
Council Tax costs	-	20% against arrears

xviii. Reserves

Amounts appropriated to / from reserves are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

xix. Revenue expenditure funded from Capital under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council 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 is made which reverses out the amounts charged so that there is no impact on the level of council tax.

xx. Capital receipts

Capital Receipts arise from the sale of non-current assets (Property, Plant and Equipment and Investment Properties). Further to the introduction of the Prudential Capital Finance System on 1 April 2004, capital receipts are all deemed to be "usable" and are held within the Capital Receipts Reserve. Prior to this date, in accordance with Government legislation, a proportion of certain receipts had to be "set aside" and are retained within the Capital Adjustment Account as provision for the repayment of debt.

xxi. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenues & Customs and in most circumstances all VAT paid is recoverable from them. VAT has been included in the income and expenditure accounts only to the extent that it is irrecoverable.

xxii. Heritage Assets

In line with the 2012 Code and FRS 30, the Council has identified a number of assets that meet the definition of a heritage asset and are being preserved in trust for future generations because of their cultural, environmental or historical associations. The Council's policy in holding these assets is in pursuit of its overall objectives in relation to the maintenance of heritage.

The Council does not consider that a commercial value can be placed upon the assets held given their nature and that it would be inappropriate to use an insurance value for the balance sheet purposes. Consequently these assets have not been recognised separately on the balance sheet but continue to be included within community assets at a nominal value.

Accounting note 8 sets out details of the heritage assets held by the Council.

xxiii. Jointly Controlled Operations

The Council operates two services under a 'Jointly Controlled Operation' arrangement:

- Revenues and Benefits Service, with Stevenage Borough Council which commenced on 1st August 2011 and
- Business and Technology Services, with Stevenage Borough Council, which commenced on 1 August 2013

The Council is lead authority for the Revenues and Benefits shared service and Stevenage is lead for the Business and Technology service. Both arrangements are governed by separate Joint Partnership Boards comprising of Council officers. Each authority as equal representation on both Boards. These Boards report to each Authority's Executive Committee. The Revenues and Benefits Shared Service also operates a joint Committee with equal numbers of Councillors from both Authorities to scrutinise the operational management of the service.

In line with the Accounting Code of Practice this arrangement is accounted for as a jointly controlled operation. A jointly controlled operation uses the assets and resources of the two partner councils without the establishment of a separate legal entity. Under these arrangements each council accounts separately for its own transactions including use of assets, liabilities, income, expenditure and cash flows.

Note 22 (page 43) to the accounts sets out details of the income & expenditure of the joint arrangements and the apportionments between the two councils in accordance with the agreement entered into. For information purposes only and where relevant, other notes to the accounts show amounts relating to these arrangements.

xxiv. Tax Income (Council Tax, Non-Domestic Rates(NDR)

Non Domestic Rates(NDR)

The Council collects, administers and distributes Non Domestic Rates (NDR) for its area based on local rateable values based on the Valuation Office Agency (VOA). The tax liability is then calculated applying a business rate which is set and uniformally applied on a national basis.
In 2013/14, the administration of NDR changed following the introduction of a Business Rates Retention Scheme which aims to give Councils greater incentive to grow businesses in their locality. The new regime also increased the financial risk and opportunities for local authorities, with income becoming more volatile and difficult to predict.

The new regime provides for local authorities to retain a proportion of the total collectable rates due in proportion of their relevant statutory share. For East Herts the proportion is 40%, the remainder being distributed to Hertfordshire County Council (10%) and Central Government (50%).

As part of the new regime the Government set up a system of 'Top ups', 'Tariffs' and 'Safety Nets' that were introduced to ensure that Councils were guaranteed a minimum level of retained NDR income, thus providing some financial certainty under the new scheme. In 2013/14 the Council qualified for a 'Safety Net' figure of £760,329. In addition to the local management of business rates, authorities are expected to finance appeals made in respect of rateable values as defined by VOA and the financial impact of uncollected business rate income as at 31 March 2014. Authorities are required to make a provision for these assets and liabilities in their accounts.

The accounting arrangements for the new regime are summarised as follows:

- the Council's element of Retained Business Rate income, Tariffs, Top Up and Safety net is included in the CI&E Statement based on the relevant regulations.

- the NDR Collection Fund is prepared on an agency arrangement basis. Relevant proportions of the accounts Surplus/Deficit/taxpayer's Arrears and Provisions are allocated to the relevant Preceptors and Government and accounted for as Debtors/Creditors in the Billing Authority's Accounts
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

Council Tax

The Council as billing authority acts as agent with regards to the collection and distribution of Council Tax on behalf of itself, Hertfordshire County Council, Hertfordshire Police and various Town and Parish Councils. In line with these agency arrangements, and in order to reflect the risks and rewards within the Council's the following transactions are included:

- the Council's Comprehensive Income & Expenditure Statement includes only the statutory precept under regulation.
- a debtor/creditor to reflect the difference between the various preceptors share of cash collected in the year and cash paid to the preceptors on account in line with the appropriate regulations will be included in the Council's balance sheet.
- the council's cashflow statement only includes the council's share of council tax, net cash collected and precepts paid.

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2. Accounting Standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Cod requires the Council to identify any accounting standards that have been issued but have not yet been adopted that could have a material impact on the accounts.

IAS 1 Presentation of Financial Statements - The changes clarify the disclosure requirements in respect of comparative information for the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have a material impact on the accounts.

IFRS 10 Consolidated Financial Statements - This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts. The Council does not currently produce group accounts, this is unlikely to impact.

IFRS 11 Joint Arrangements - This standard addresses the accounting for a 'joint arrangeme which is defined as a contractual arrangement over which two or more parties have joint control. The Council has 'Jointly Controlled Operations' with Stevenage Borough Council for its Revenues and Benefits Service and Business and Technology Service. This will have minimal impact on the accounts.

IFRS 12 Disclosures of Involvement with Other Entities - This is a consolidated disclosure standard requiring a range of disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'. This will have minimal impact on the accounts.

IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures - These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12. Given that there would be no changes in the financial statements, except for disclosure, due to the changes to IFRS 10,11 and 12, there is therefore also no impact as a result of changes in IAS 27 and IAS 28.

IAS 32 - Financial Instruments Presentation - The Code refers to amended application guidance when offsetting a financial asset and liability. Gains and losses are currently separately identified and therefore no further disclosure is required.

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 Council about the future or that are otherwise uncertain. Estimates are made taking into account professional advice (e.g. actuarial advice), historical experience, current trends and other relevant information.

Items included within the Council's Balance Sheet at 31 March 2014 for which there is a risk of material adjustment in the forthcoming year are:

- Pension Liability - actuarial assumptions, fund returns
- Property, Plant and Equipment - valuations, useful lives
- Arrears - bad debt provision
- NDR - Provision for Appeals

Assumptions regarding these items are set out within the relevant accounting note(s) for the item.

The accounts have been prepared on a "going concern basis"

4. Adjustments between Accounting Basis and Funding Basis under Regulations

2013/14	Usable Reserves			
	General Fund balance	Capital Receipts Reser	Capital Grants Unapplie	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non current assets	2,240	-	-	(2,240)
Revaluation / Impairment on Property Plant and Equipment	1,108	-	-	(1,108)
Movements in the market value of Investment Properties	(629)	-	-	629
Amortisation of intangible assets	293	-	-	(293)
Capital grants and contributions applied	(611)	-	-	611
Revenue expenditure funded from capital under statute	1,083	-	-	(1,083)
Revenue grants written down to the Capital Adjustment Account	(237)	-	-	237
Disposal of non current assets	53	-	-	(53)
Disposal of investment Properties	140	-	-	(140)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory adjustment relating to capital element of principal repayment for finance lease	(272)	-	-	272
Capital expenditure charged against the General Fund	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(3)	3
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,739)	1,739	-	-
Use of Capital Receipts Reserve to finance new capital expenditure	-	(1,737)	-	1,737
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	2	(2)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	3,726	-	-	(3,726)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,788)	-	-	2,788
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,518	-	-	(1,518)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(3)	-		3
Total Adjustments	**3,860**	**0**	**(3)**	**(3,857)**

4. 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.

2012/13 comparative figures	Usable Reserves			
	General Fund balance	Capital Receipts Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation of non current assets	2,664	-	-	(2,664)
Revaluation / Impairment on Property Plant and Equipment	23	-	-	(23)
Movements in the market value of Investment Properties	(30)	-	-	30
Amortisation of intangible assets	307	-	-	(307)
Capital grants and contributions applied	(25)	-	-	25
Revenue expenditure funded from capital under statute	743	-	-	(743)
Revenue grants written down to the Capital Adjustment Account	(288)	-	-	288
Disposal of non current assets	484	-	-	(484)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory adjustment relating to capital element of principal repayment for finance lease	(424)	-	-	424
Capital expenditure charged against the General Fund	(25)	-	-	25
Adjustments involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	-	-	-	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	(69)	69
Adjustments involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,232)	1,232	-	-
Use of Capital Receipts Reserve to finance new capital expenditure		(1,230)	-	1,230
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	2	(2)	-	-
Adjustments involving the Deferred Capital Receipts Reserve:				
Statutory adjustment relating to capital element of principal payment for finance lease	1	-	-	(1)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 32)	2,866	-	-	(2,866)
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,955)	-	-	1,955
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	6	-	-	(6)
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	-	-	0
Total Adjustments	**3,117**	**0**	**(69)**	**(3,048)**

5. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide funding for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2013/14.

	Balance 1 April 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance 31 March 2014 £000
Interest Equalisation Reserve	(434)	-	(1,249)	(1,683)	-	(574)	**(2,257)**
Insurance Fund	(10)	-	-	(10)	-	-	**(10)**
Emergency Planning Reserve	(37)	-	-	(37)	-	-	**(37)**
VAT Partial Exemption Reserve	(145)	-	-	(145)	-	-	**(145)**
Service Improvement Fund	(610)	-	-	(610)	-	-	**(610)**
LDF/Green Belt Reserve	(663)	-	(150)	(813)	80	-	**(733)**
Housing Condition Survey Reserve	(51)	-	(14)	(65)	-	(14)	**(79)**
Council Elections Reserve	0	-	(25)	(25)	-	(25)	**(50)**
LABGI Reserve	(110)	11	-	(99)	5	-	**(94)**
Sinking fund - Leisure	(180)	-	(60)	(240)	18	(60)	**(282)**
Utilities / Pension Reserve Restructure Fund	(33)	-	-	(33)	-	-	**(33)**
Performance Reward Grant Reserve	(67)	5	-	(62)	32	-	**(30)**
Pension Strain Costs Reserve	(153)	153	-	0	-	-	**0**
Waste Recycling Income Volatility Reserve	(275)	-	-	(275)	-	-	**(275)**
Footbridge Reserve	(100)	-	(50)	(150)	-	-	**(150)**
Cost of Change Reserve	(400)	-	(727)	(1,127)	-	-	**(1,127)**
DCLG Preventing Repossessions	(30)	-	-	(30)	-	-	**(30)**
Environmental Pollution	(62)	8	-	(54)	40	-	**(14)**
Waste & Recycling Reserve	-	-	(461)	(461)	461	-	**0**
New Homes Bonus Priority Spend	-	-	(133)	(133)	-	(916)	**(1,049)**
Government Funding Risk Reserve	-	-	-	-	-	(1,369)	**(1,369)**
Total	**(3,360)**	**177**	**(2,869)**	**(6,052)**	**636**	**(2,958)**	**(8,374)**

Interest Equalisation Reserve	This reserve was established at 31 March 2006 to assist the Council in managing the financial implications of adverse interest rate fluctuations.
Insurance Fund	To support the Council's insurance and risk management process and funding of small claims arising due to uninsured losses.
Emergency Planning Reserve	This reserve has been set up to support the work of an Emergency Planning Officer Group that has been established within the Council.
VAT Partial Exemption Reserve	To enable the Council to meet the additional cost of any unrecoverable VAT which cannot be budgeted for precisely, a VAT (Partial Exemption) Revenue Reserve was established at 31 March 1999 in the sum of just over £145,000.
Service Improvement Fund	This reserve has been established as a means of financing "one-off" initiatives that will deliver efficiencies and service improvements in the medium term.

5. Transfers to/from Earmarked Reserves - continued

Local Development Framework / Green Belt Reserve	This reserve was established in 2008/09 to smooth expenditure over the Council's Medium Term Financial Plan (MTFP). Appropriations of £80k have been made in 2013/14 to match expenditure.
Housing Condition Survey Reserve	A contribution was made to the reserve to fund a future Housing Condition Survey.
Council Elections Reserve	Established to smooth expenditure over the MTFP. A contribution was made to the reserve in 2013/14.
Local Authority Business Growth Incentives (LABGI) Reserve	In line with the Council's MTFP appropriations have been made in 2013/14 to support the economic development service.
Sinking Fund - Leisure Utilities and Pension	Further to the Council awarding a new leisure contract to Sports and Leisure Management from January 2009 the Council has provided guarantees in respect of utilities and employers pension costs. Appropriations were made from the reserve in 2013/14 relating to increases in utility expenditure in line with the contract.
Restructure Fund	A small reserve of £33k has been created in order to assist the Council in meeting any future requirements in support of organisational structural change.
Performance Reward Grant Reserve	The Council received revenue grant funding in respect of the Local Area Agreement (Performance Reward Grant) totalling £217k in 2009/10. Appropriations have been made in line with expenditure.
Pension Strain Costs Reserve	In line with Council decisions relating to flexible and early retirements an earmarked reserve was set up at 31 March 2010. Following a change in the Hertfordshire Pension Fund's policy on funding early retirements the Council has paid the balance of sums outstanding relating to all decisions taken prior to 31.3.13. The reserve balance was fully applied in 2012/13.
Waste Recycling Income Volatility Reserve	The reserve has been established to manage income volatility in recycling income.
Footbridge Reserve	The Council's MTFP included setting aside £50k a year from 2010/11 to 2012/13 in order to meet any potential maintenance costs or liabilities that may arise relating to the footbridge over the river Stort. There was no call on the reserve in 2013/14.
Cost of Change Reserve	This reserve will be used to fund transitional staffing costs, including those arising from implementing planned budget savings through staffing restructurings. There was no call on this reserve in 2013/14.
Preventing Repossessions	Established from money received from DCLG. There was no expenditure in 2013/14.
Environmental Pollution	Established from money received from DEFRA, appropriations have been made in line with expenditure.
Waste & Recycling Reserve	Due to a change in the Council's Kerbside Recycling Scheme and the likely costs associated with the change, the Council agreed that any underspend on Refuse and Recycling as at 31.3.13 should be transferred to an earmarked reserve to meet these future costs. This reserve has been fully utilised in 2013/14 meeting these costs.
New Homes Bonus Priority Spend	The Council received funding from the DCLG in the form of New Homes Bonus. As part of it's financial planning strategy it agreed that any underspend on the Priority Spend element as at 31 March should be appropriated into the reserve for future spend on economic development initiatives. In addition, in line with a Council decision, the increased GF underspend compared to that anticipated in February 2014 was transferred to the reserve at 31.3.14.
Government Funding Risk Reserve	As a result of a Council decision in January 2014, a Government Funding Risk Reserve was established to smooth the effect on the Council of income volatility following the new NDR funding regime. Additional funding received in 2013/14 has been transferred to the reserve.

6. Property, Plant & Equipment

Movements in fixed assets during the year are as follows:-

2013/14

Cost or Valuation	**As at 01/04/2013**	**Additions**	**Disposals**	**Reclassification**	**Revaluations**	**Total as at 31/03/2014**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Other Land & Buildings	49,438	333	-	-	(353)	49,418
Vehicles, Plant, Furniture & Equip.	16,730	2,796	(848)	-	-	18,678
Infrastructure	8,020	88	-	-	-	8,108
Community Assets	1,273	14	-	-	-	1,287
	75,461	3,231	(848)	0	(353)	77,491

Depreciation & Impairment	**As at 01/04/2013**	**Charge for Year**	**Acc depreciation w/o on revaluation**	**Disposals**	**Impairment (reversal) recognised in the service**	**Revaluations**	**Total as at 31/03/2014**	**Balance Sheet as at 31/03/14**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Other Land & Buildings	16,199	661	-	-	1,109	-	17,969	31,449
Vehicles, Plant, Furniture & Equip.	10,061	1,244	-	-	-	-	11,305	7,373
Infrastructure	4,555	313	-	-	-	-	4,868	3,240
Community Assets	69	22	-	-	-	-	91	1,196
	30,884	2,240	0	0	1,109	0	34,233	43,258

In line with the rolling programme the remaining miscellaneous range of other Land and Buildings were revalued in 2013/14.This included pay and display Car Parks, industrial lands and shops including the Jackson Square Shopping Centre at Bishop's Stortford.

Reconciliation of Additions in the year to Capital Spend

	2013/14	**2012/13**
	£000	**£000**
Additions in the year (as above)	3,230	1,614
Intangible assets	187	222
	3,417	1,836
plus REFCUS (not included in note 6)	1,083	743
Local Authority Mortgage Scheme	-	1,000
Total Capital Spend	**4,500**	**3,579**

6. Property, Plant & Equipment

Movements in fixed assets during the year are as follows:-

2012/13

Cost or Valuation	As at 01/04/2012	Additions	Disposals	Reclassifications	Revaluations	Total as at 31/03/2013
	£000	£000	£000	£000	£000	£000
Other Land & Buildings	48,128	940	(275)	(129)	774	49,438
Vehicles, Plant, Furniture & Equip.	16,293	474	(37)	-	-	16,730
Infrastructure	7,826	194	-	-	-	8,020
Community Assets	1,268	5	-	-	-	1,273
	73,515	1,613	(312)	(129)	774	75,461

Depreciation & Impairment	As at 01/04/2012	Charge for Year	Acc depreciation w/o on revaluation	Disposals	Impairment (reversal) recognised in the service	Revaluations	Total as at 31/03/2013	Balance Sheet as at 31/03/13
	£000	£000	£000	£000	£000	£000	£000	£000
Other Land & Buildings	15,305	899	(319)	(11)	(83)	408	16,199	33,239
Vehicles, Plant, Furniture & Equip.	8,658	1,440	-	(37)	-	-	10,061	6,669
Infrastructure	4,252	303	-	-	-	-	4,555	3,465
Community Assets	47	22	-	-	-	-	69	1,204
	28,262	2,664	(319)	(48)	(83)	408	30,884	44,577

7. Analysis of Fixed Assets

	31 March '14 (Nos.)	31 March '13 (Nos.)
Council Dwellings - Hostels	1	1
- Houses	2	2
Council Offices - Freehold	1	1
- Leasehold	1	1
Service Centre - Leasehold	1	1
Cash Offices	2	2
Off-Street Car Parks (incl. Leasehold)	29	29
Swimming Pools (including 3 joint-use pools)	5	5
Parks and Recreation Grounds/Open spaces	187 HA	187 HA
Public Halls/Community Centres (incl leasehold)	9	9
Commercial Property Rented Out	47 Units	48 Units
Land Awaiting Development	3 Acres	3 Acres
Public Convenience	5	5

8. Heritage Assets

The Council has identified a number of Heritage assets in line with new accounting requirements. The Council's policy is to maintain these assets in order to preserve them for future generations because of their cultural and historical associations. The Council does not consider that a commercial value can be placed upon these assets and its policy is, therefore, not to disclose on the balance sheet. They continue to be included within community assets with a nominal value.
The assets are insured in order to protect the Council's interest in the event of damage or destruction.

The Heritage assets held within Community assets at a nominal sum are as follows:

	Insurance Value	
	2013/14	**2012/13**
	£000	**£000**
The Castle Wall (ancient flint), Hertford	1,147	1,114
Scott's Grotto, Ware	1,168	1,134
Monument, remains of Church of St Mary's, Old Cross	55	53

See also Accounting Policy xxii (page 23).

9. Investment Properties

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

	2013/14	**2012/13**
	£000	**£000**
Rental income from investment property	(514)	(550)
Direct operating expenses arising from investment property	320	384
Net gain	**(194)**	**(166)**

There are no restrictions on the Council’s ability to realise the value inherent in its investment property or on the Council’s right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct, enhance or develop investment property. In some cases the Council has repairing obligations which are met through revenue expenditure.

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

	2013/14	**2012/13**
	£000	**£000**
Balance at start of the year	9,435	9,545
Additions:		
Transferred through re-classification	-	-
Disposals		
Transferred through re-classification	(519)	(140)
Net gains / (losses) from fair value adjustments	629	30
Balance at end of the year	**9,545**	**9,435**

10. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful life assigned to the major software applications used by the Authority is 5 years. The movement on Intangible Asset balances during the year is as follows:

	2013/14			2012/13		
	Software £000	Other Intangible Assets £000	Total £000	Software £000	Other Intangible Assets £000	Total £000
Balance at start of year:						
Gross carrying amounts	3,055	21	3,076	2,833	21	2,854
Accumulated amortisation	(2,507)	(16)	(2,523)	(2,205)	(11)	(2,216)
Net carrying amount at start of year	548	5	553	628	10	638
Additions:						
Purchases	188	0	188	222	-	222
Amortisation for the period	(288)	(5)	(293)	(302)	(5)	(307)
Net carrying amount at end of year	448	0	448	548	5	553
Comprising:						
Gross carrying amounts	3,243	21	3,264	3,055	21	3,076
Accumulated amortisation	(2,795)	(21)	(2,816)	(2,507)	(16)	(2,523)
	448	0	448	548	5	553

11. Financial Instruments Balances

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown in the Balance Sheet to be further analysed into various defined categories. The investments, lending & borrowing disclosed in the Balance Sheet are made up of the following categories of ' financial instruments'.

	Long Term		Current		
	31 March '14 £000	31 March '13 £000	31 March '14 £000	31 March '13 £000	
Borrowing					
Financial Liabilities at amortised cost	8,998	10,034	5,405	4,732	
Total Borrowing	**8,998**	**10,034**	**5,405**	**4,732**	
Investments					
Loans and Receivables	11,241	16,311	52,237	38,330	*
Available for Sale Financial Assets	-	-	9,990	19,700	*
Total Investments	**11,241**	**16,311**	**62,227**	**58,030**	

* Prior year figure amended in the interest of consistency

See also Notes 34 and 35 to the Core Statements. (Investments and Borrowings)

11. Financial Instruments Balances - continued

Available for Sale Reserve

For financial instruments, there is a reserve to help manage the accounting requirements, the Available-for-Sale Financial Instruments Reserve. This records unrealised revaluation gains/losses arising from holding available-for-sale investments and any unrealised losses that have not arisen from impairment of the assets.
The table below sets out the transactions for the year:

	2013/14 £000	2012/13 £000
Balance at 1 April	0	(9)
Upward revaluation of investments	-	-
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(74)	-
Accumulated Gains on assets sold and maturing assets written out to CI&E as part of Other Investment Income	-	9
	(74)	**0**

See also Note 20, page 38.

12. Financial Instruments Gains / Losses

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

	Financial Liabilities	Financial Assets		
2013/14	**Liabilities measured at amortised cost**	**Loans and Receivables**	**Available for Sale Assets**	**Total**
	£000	**£000**	**£000**	**£000**
Interest Expense	702	-	-	702
Interest Payable and Similar Charges	**702**	**0**	**0**	**702**
Interest Income	-	(955)	-	(955)
Realised Gains	-	-	-	0
Interest and Investment Income	**0**	**(955)**	**0**	**(955)**
Losses on revaluation	-	-	-	0
Loss arising on revaluation of financial assets	**0**	**0**	**0**	**0**
Net Gain / (Loss) for year	**702**	**(955)**	**0**	**(253)**

12. Financial Instruments Gains / Losses - continued

2012/13	Financial Liabilities	Financial Assets		
	Liabilities measured at amortised cost £000	Loans and Receivables £000	Available for Sale Assets £000	Total £000
Interest Expense	(739)	-	-	(739)
Interest Payable and Similar Charges	**(739)**	**0**	**0**	**(739)**
Interest Income	-	923	197	1,120
Realised Gains	-	-	86	86
Interest and Investment Income	**0**	**923**	**283**	**1,206**
Losses on revaluation	-	-	-	0
Loss arising on revaluation of financial assets	**0**	**0**	**0**	**0**
Net Gain / (Loss) for year	**(739)**	**923**	**283**	**467**

13. Fair Value of Assets and Liabilities carried at Amortised Cost

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Capita Asset Services has provided the Fair Value Calculation for the loans.
- No early repayment or impairment is recognised.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount
- where the instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

The fair values are calculated as follows:

	31st March 2014		31st March 2013	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	14,409	18,181	14,766	18,930

13. Fair Value of Assets and Liabilities carried at Amortised Cost - continued

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

	31st March 2014		31st March 2013	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans and Receivables *	42,038	42,421	33,411	34,030

* Excludes Fund Managers cash included within Note 10.

The fair value is greater than the carrying amount because the Council's long term debtors includes a lease debtor where the discount factor increases the value of the payment to that at balance sheet date.

Also see notes 34 and 35 to the Core Statements. (Investments and Borrowings)

14. Debtors

Short Term Debtors	31 March '14 £000	31 March '13 £000
Central government bodies	2,229	1,260
Other local authorities	709	345 *
Bodies external to general government (ie all other bodies)	3,494	4,545
	6,432	**6,150**

* includes £157k (2012/13) relating to the Shared Revenues and Benefits Service (see Note 22).

Long Term Debtors	31 March '14 £000	31 March '13 £000
Bodies external to general government (ie all other bodies)	1,161	1,166
	1,161	**1,166**

15. Cash and Cash Equivalents

	31 March '14 £000	31 March '13 £000
Short-term deposits with banks	17,363	12,211
Total Cash and Cash Equivalents	**17,363**	**12,211**

16. Assets Held for Sale

	Current		Non-Current	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Balance outstanding at start of year	252	220	-	-
Assets newly classified as held for sale:				
Investment Properties	520	140	-	-
Property, Plant and Equipment	-	112	-	-
Intangible Assets	-	-	-	-
Assets sold in year	(252)	(220)	-	-
Balance outstanding at year-end	**520**	**252**	**0**	**0**

17. Creditors

Short Term Creditors	**31 March '14**	**31 March '13**
	£000	**£000**
Central government bodies	1,016	700
Other local authorities	261	227
Bodies external to general government (ie all other bodies)	4,396	4,339
	5,673	**5,266**

Long Term Creditors	**31 March '14**	**31 March '13**
	£000	**£000**
Bodies external to general government (ie all other bodies)	1,288	2,324
	1,288	**2,324**

18. Provisions

Proper provision has been made for various liabilities which will be incurred but for which it is uncertain as to the amounts or the dates on which they arise. The provisions required cover a range of activities the most significant being amounts in respect of assisted car purchase.

Two additional short term provisions have been made in 2013/14, the most significant being in respect of Non Domestic Rates - Valuation Appeals of approximately £1 million. The other provision relates to Planning Appeals.

	Short Term		Long Term	
	2013/14	2012/13	2013/14	2012/13
	£000	£000	£000	£000
Balance at 1 April	**0**	**0**	80	63
Additional provisions made in 2013/14	1,311	-	-	19
Amounts used	-	-	(19)	(2)
Balance at 31 March	**1,311**	**0**	**61**	**80**

19. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement, Note 4 Adjustments between accounting basis and funding basis under regulations and Note 5 Transfers to/from Earmarked Reserves.

20. Unusable Reserves

	31 March '14 £000	31 March '13 £000
Revaluation Reserve	3,448	3,874
Available for Sale Financial Instruments Reserve	(74)	0
Capital Adjustment Account	93,125	94,454
Deferred Capital Receipts Reserve	156	157
Pensions Reserve	(30,844)	(36,133)
Collection Fund Adjustment Account	(1,368)	151
Accumulated Absences Account	(96)	(99)
Total Unusable Reserves	**64,347**	**62,404**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. 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.

	2013/14 £000	2013/14 £000	2012/13 £000
Balance at 1 April		3,874	3,213
Upward revaluation of assets	1,707		780
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,060)		(6)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(353)	774
Difference between fair value depreciation and historical cost depreciation		(73)	(113)
Balance at 31 March		**3,448**	**3,874**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains/losses made by the Council arising from increases/decreases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised.

	2013/14 £000	2013/14 £000	2012/13 £000
Balance at 1 April		0	(9)
Upward revaluation of investments	-		
Downward revaluation of investments not charged to the Surplus/Deficit on the provision of Services	(74)		
		(74)	0
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income		0	9
Balance at 31 March		**(74)**	**0**

20. Unusable Reserves - continued

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 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 Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties that have yet to be consumed by the Council. 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 4 provides details of the source of all transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2013/14		2012/13
	£000	£000	£000
Balance at 1 April		94,454	96,471
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
· Charges for depreciation of non current assets	(2,240)		(2,664)
· Charges for depreciation on revalued assets	73		113
· Revaluation/Impairment on Property, Plant and Equipment	(1,109)		(23)
· Amortisation of intangible assets	(293)		(307)
· Revenue expenditure funded from capital under statute	(1,083)		(742)
· Revenue grants written down to the Capital Adjustment Account	237		288
· Disposal of property, plant and equipment	(52)		(484)
· Disposal of investment properties	(140)		-
		(4,607)	(3,819)
Capital financing applied in the year:			
· Use of the Capital Receipts Reserve to finance new capital expenditure	1,737		1,230
· Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	609		25
· Application of grants to capital financing from the Capital Grants Unapplied Account	6		68
· Statutory adjustment for the capital element of finance lease repayments - Refuse trucks	272		424
· Capital expenditure charged against the General Fund	25		25
		2,649	1,772
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		629	30
Balance at 31 March		93,125	94,454

Pensions Reserve

The Pensions 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 Council 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 Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council 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.

20. Unusable Reserves - continued

Pensions Reserve (continued)

In line with the requirements of the updated IAS19, the loss reported for 2012/13 and the deficit in the CI&E for pensions has been restated.

	2013/14 £000	Restated 2012/13 £000
Balance at 1 April	(36,133)	(30,571)
Actuarial gains or (losses) on pensions assets and liabilities	6,228	(4,216)
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	(3,726)	(3,301)
Employer's pensions contributions and direct payments to pensioners payable in the year	2,787	1,955
Balance at 31 March	**(30,844)**	**(36,133)**

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. Under statutory arrangements, the Council 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.

	2013/14 £000	2012/13 £000
Balance at 1 April	157	158
Transfer to the General Fund for the capital element of finance lease payments	(1)	(1)
Balance at 31 March	**156**	**157**

Collection Fund Adjustment Account

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

	2013/14 £000	2012/13 £000
Balance at 1 April	151	157
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,519)	(6)
Balance at 31 March	**(1,368)**	**151**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2013/14 £000	2013/14 £000	2012/13 £000
Balance at 1 April		(99)	(99)
Settlement or cancellation of accrual made at the end of the preceding year	99		99
Amounts accrued at the end of the current year	(96)		(99)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		3	0
Balance at 31 March		**(96)**	**(99)**

21. Amount reported for Resource Allocation Decisions

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

Services Income & Expenditure 2013/14	**Revenues & Benefits £000**	**Other Internal Services £000**	**Planning & Building Control £000**	**Neighbourhood Services £000**	**Recycling £000**	**Car Parking £000**	**Other Customer & Community £000**	**Total £000**
Fees, charges and other service income	(1,748)	(520)	(1,778)	(608)	(1,465)	(4,451)	(2,681)	(13,251)
Government grants	(36,570)	(16)	(5)	(293)	-	-	(570)	(37,454)
Total Income	**(38,318)**	**(536)**	**(1,783)**	**(901)**	**(1,465)**	**(4,451)**	**(3,251)**	**(50,705)**
Employee expenses	2,819	2,702	2,211	2,040	-	-	3,201	12,973
Other service expenses	35,255	3,735	756	859	2,212	2,365	7,545	52,727
Support service recharges	-	(342)	-	(26)	-	-	-	(368)
Depreciation, amortisation & Impairment	113	457	114	1,252	99	1,336	1,368	4,739
Total Expenditure	**38,187**	**6,552**	**3,081**	**4,125**	**2,311**	**3,701**	**12,114**	**70,071**
Net Expenditure	**(131)**	**6,016**	**1,298**	**3,224**	**846**	**(750)**	**8,863**	**19,366**

Services Income & Expenditure 2012/13	**Revenues & Benefits £000**	**Other Internal Services £000**	**Planning & Building Control £000**	**Other Neighbourhood Services £000**	**Recycling £000**	**Car Parking £000**	**Other Customer & Community £000**	**Total £000**
Fees, charges and other service income	(1,636)	(637)	(1,239)	(567)	(1,579)	(4,326)	(2,873)	(12,857)
Government grants	(41,739)	(2)	-	(320)	-	-	(772)	(42,833)
Total Income	**(43,375)**	**(639)**	**(1,239)**	**(887)**	**(1,579)**	**(4,326)**	**(3,645)**	**(55,690)**
Employee expenses	2,679	3,011	2,334	1,720	-	-	2,977	12,721
Other service expenses	40,898	2,734	374	730	2,263	2,638	6,695	56,332
Support service recharges	-	(440)	-	-	-	-	-	(440)
Depreciation, amortisation & Impairment	120	500	123	865	98	311	1,734	3,751
Total Expenditure	**43,697**	**5,805**	**2,831**	**3,315**	**2,361**	**2,949**	**11,406**	**72,364**
Net Expenditure	**322**	**5,166**	**1,592**	**2,428**	**782**	**(1,377)**	**7,761**	**16,674**

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

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

	2013/14 £000	**2012/13 £000**
Net expenditure in the Service Analysis	**19,366**	**16,674**
Net expenditure of services and support services not included in the analysis	-	-
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	-	51
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	-	-
Cost of Services in Comprehensive Income and Expenditure Statement	**19,366**	**16,725**

21. Amount reported for Resource Allocation Decisions - continued

This reconciliation shows how the figures in the analysis of service 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.

2013/14	**Service Analysis £000**	**Amounts not reported to Management £000**	**Net Cost of Services £000**	**Corporate amounts £000**	**Total £000**
Fees, charges and other service income	(13,252)	-	(13,252)	-	(13,252)
Interest and Investment income	-	-	-	(1,469)	(1,469)
Income from Council Tax	-	-	-	(12,140)	(12,140)
Government grants and contributions	(37,453)	-	(37,453)	(8,076)	(45,529)
Total Income	**(50,705)**	-	**(50,705)**	**(21,685)**	**(72,390)**
Employee expenses	12,973	-	12,973	1,610	14,583
Other service expenses	52,728	-	52,728	320	53,048
Support Service recharges	(368)	-	(368)	-	(368)
Depreciation, amortisation and impairment	4,738	-	4,738	-	4,738
Interest payments	-	-	-	702	702
Precepts and Levies	-	-	-	3,411	3,411
Payments to Housing Capital Receipts Pool	-	-	-	3	3
Changes in value of Investment Properties	-	-	-	(753)	(753)
Gain or loss on disposal of fixed assets	-	-	-	(1,422)	(1,422)
Total Expenditure	**70,071**	**-**	**70,071**	**3,871**	**73,942**
Surplus or deficit on the provision of services	**19,366**	**-**	**19,366**	**(17,814)**	**1,552**

2012/13 comparative figures	**Service Analysis £000**	**Amounts not reported to Management £000**	**Net Cost of Services £000**	**Corporate amounts £000**	**Total £000**
Fees, charges and other service income	(12,857)	-	(12,857)	-	(12,857)
Interest and Investment income	-	-	-	(1,756)	(1,756)
Income from Council Tax	-	-	-	(12,926)	(12,926)
Government grants and contributions	(42,833)	-	(42,833)	(6,631)	(49,464)
Total Income	**(55,690)**	-	**(55,690)**	**(21,313)**	**(77,003)**
Employee expenses	12,720	51	12,771	1,029	13,800
Other service expenses	56,333	-	56,333	384	56,717
Support Service recharges	(440)	-	(440)	-	(440)
Depreciation, amortisation and impairment	3,751	-	3,751	-	3,751
Interest payments	-	-	-	739	739
Precepts and Levies	-	-	-	3,541	3,541
Payments to Housing Capital Receipts Pool	-	-	-	2	2
Changes in value of Investment Properties	-	-	-	(30)	(30)
Gain or loss on disposal of fixed assets	-	-	-	(749)	(749)
Total Expenditure	**72,364**	**51**	**72,415**	**4,916**	**77,331**
Surplus or deficit on the provision of services	**16,674**	**51**	**16,725**	**(16,397)**	**328**

22. Jointly Controlled Operations

The Council is party to two jointly controlled operations to provide the following services:
- the Revenues and Benefits
- Business and Technology

The accounting and governance arrangements are detailed at page 23.

	2013/14 Business & Technical Service	2013/14 Revenues & Benefits Service	2012/13 Revenues & Benefits Service
	£000	£000	£000
Expenditure			
Employees	808	2,404	2,560
Transport Related Expenses	18	32	32
Supplies and Services	581	267	253
Support Services	-	1,017	1,002
Total Expenditure	1,407	3,720	3,847
Income			
Stevenage Borough Council	652	1,341	1,380
East Herts District Council	755	2,379	2,467
Total Income	1,407	3,720	3,847
Net Expenditure	**0**	**0**	**0**

Note: The expenditure and income for the Business & Technology Services reflects the financial impact of the agreement from its formation on 1st August 2013.

The contribution made by the Council has been incorporated into the Comprehensive Income and Expenditure Statement in the Net Costs of Service.

23. Members Allowances

The total payments made to elected Members of East Herts Council, under its Members' Allowance Scheme for the year ending 31 March, was as follows:

	2013/14 £000	2012/13 £000
Basic Allowances	256	254
Special Responsibility Allowances	119	110
Travel and Subsistence expenses	8	10
	383	**374**

A full disclosure of payments is available on the Council's website.

24. Officer Emoluments

The number of employees, including senior officers, whose remuneration, was £50,000 or more in bands of £5,000 were:-

Remuneration Band	Number of Employees 2013/14 Total	2012/13 Total
£50,000 to £54,999	1	2
£55,000 to £59,999	3	5
£60,000 to £64,999	6	6
£65,000 to £69,999	1	1
£70,000 to £74,999	-	-
£75,000 to £79,999	-	-
£80,000 to £84,999	-	-
£85,000 to £89,999	1	-
£90,000 to £94,999	1	1
£95,000 to £99,999	-	-
£100,000 to £104,999	-	-
£105,000 to £109,999	-	1
£110,000 to £114,999	-	-
£115,000 to £119,999	-	-
£120,000 to £124,999	-	-
£125,000 to £129,999	1	-
£130,000 to £134,999	-	-

The above table includes those members of staff who left the Council and received an exit package. See Note 25 below.

25. Exit Packages

The numbers of exit packages with total cost per band and total cost of the compulsory and other departures are set out in the table below.

Exit package cost band (including special payments)	Number of Compulsory redundancies		Number of other departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13
£							£	£
0-20,000	-	1	-	2	-	3	-	36,248
20,001-40,000	1	1	-	-	1	1	25,043	22,566
40,001-60,000	-	-	-	-	-	-	-	-
60,001-80,000	-	-	-	-	-	-	-	-
80,001-100,000	-	-	-	-	-	-	-	-
100,001-150,000	-	-	-	-	-	-	-	-
Total	**1**	**2**	**-**	**2**	**1**	**4**	**25,043**	**58,814**

26. Senior Officer Remuneration

An additional disclosure is required for Senior Officer's Remuneration (the Chief Executive and those reporting directly to the Chief Executive) included in Note 24, whose salary is more than £50,000 per year:-

Post Holder	Salary (inc expense allowance)	Benefits in Kind	Compensation for Loss of Office	Total Remuneration excluding pension contributions	Pension Contributions	Total Remuneration including pension contributions
	£	£	£	£	£	£
2013/14						
Chief Executive & Director of Customer and Community Services	126,398	2,780	-	129,178	20,263	149,441
Director of Neighbourhood Services	87,711	1,975	-	89,686	14,034	103,720
Director of Finance & Support Services	90,240	-	-	90,240	14,940	105,180
2012/13						
Chief Executive & Director of Customer and Community Services	104,148	3,291	-	107,439	16,399	123,838
Director of Neighbourhood Services	88,470	2,245	-	90,715	14,034	104,749
Director of Internal Services **	55,324	-	-	55,324	8,300	63,624
Director of Finance & Support Services	33,099	-	-	33,099	5,478	38,577

** Left during the year to be replaced by the Director of Finance and Support Services

27. External Audit Costs

This note discloses the amounts that East Herts Council has paid to its external auditors for work carried out in performing statutory functions and in providing any additional services.

In 2013/14 East Herts Council incurred the following fees relating to external audit and inspection:

	2013/14 £000	2012/13 £000
Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor	69	75
Rebate from the Audit Commission in respect of audit fees	(9)	(6)
Fees payable to Grant Thornton for the certification of grant claims and returns	10	13
	70	**82**

28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2013/14 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	12,140	12,926
Non-Domestic Rates	1,714	5,432
Revenue Support Grant	3,572	105
Council Tax Freeze Grant	93	233
New Homes Bonus	1,414	772
Local Services Support Grant	-	50
Small Business Rate Relief	484	-
Other Capital Grants	611	25
Other Revenue Grants	188	14
	20,216	**19,557**
Credited to Services		
Grants		
DWP	36,320	41,668
DCLG	492	360
Environment Agency	-	4
LAA	26	28
Cabinet Office	15	-
DEFRA	39	31
EEDA	561	744
	37,453	**42,835**
Other Contributions		
Contributions from Other Authorities*	2,509	2,419
Income from Other Bodies	530	548
	3,039	**2,967**

* includes the contribution from Stevenage Borough Council for the Shared Revenues and Benefits Service

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the funding body if not used for the purpose provided. The balances at year end are as follows:

Grants Receipts in Advance	**2013/14**	**2012/13**
Capital	**£000**	**£000**
Performance Reward Grant	31	31
Developer Contributions	1,722	1,295
	1,753	1,326
Revenue	**£000**	**£000**
Developer Contributions	652	486
	652	486

29. Related Party Transactions

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

Related parties to this authority would include :

central government; local authorities and other bodies precepting or levying demands on the Council Tax; its members; its chief officers; and its pension fund. Members of close family, or the same household of an individual identified as a related party are also assumed to be related parties.

All significant material transactions with related parties, such as government grants, parish precepts, precepts, pension fund contributions etc, have been disclosed in the Comprehensive Income and Expenditure Statement, page 7.

The spouse of a member of the Council held the position of Chairman of CVS Broxbourne and East Herts which received £15k core funding from the Council, £6k for a community transport project and £3k in other grants.

During the year 2 members sat on the Board of Riversmead Housing Association which received £6331k from the Council in 2013/14, principally relating to the statutory payments of housing benefit to the housing association as landlord. The 2 members were not in a position to influence individual housing benefit payments made.

A number of District Council members are also members of Town and Parish Councils that receive funding from this Council. Precept payments are disclosed in the Comprehensive Income and Expenditure Statement. Any grants made to these bodies were made with proper consideration of declarations of interest.

Hertfordshire County Council are a related party in respect of various transactions including pensions contributions and precepts. Additionally they act as the "accountable body" for the Hertfordshire Local Area agreement.

Shown in the Balance Sheet are totals for creditors and debtors which represent amounts due to or from related parties. The principal year end balances with related parties included in these totals are shown on pages 36 & 37 within Notes 14 & 17.

30. Capital Expenditure and Capital Financing

	2013/14 £000	2012/13 £000
Opening Capital Financing Requirement	**(43,510)**	**(44,028)**
Capital investment		
Property, Plant & Equipment	3,230	1,614
Intangible Assets	187	222
Revenue Expenditure Funded from capital under Statute	1,083	743
Sources of finance		
Capital receipts	(1,737)	(1,230)
Government grants and other contributions	(851)	(381)
Sums set aside from Revenue:		
Direct revenue contributions	(25)	(25)
Loan/ finance lease principal repayments	(272)	(425)
Closing Capital Financing Requirement	**(41,895)**	**(43,510)**
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	1,615	518
Decrease in Surplus in Capital Resource *	**1,615**	**518**

* East Herts has a negative Capital Financing Requirement which represents a surplus in capital resources

31. Leases

Council as a lessee

Finance leases

In April 2010, the Council identified an arrangement containing a lease relating to 27 vehicles used in the Refuse Collection and Recycling and Street Cleansing contract with Veolia Environmental Services. Under this arrangement, the Council was seen as effectively leasing 27 vehicles from Veolia. The lease term is for 7 years starting from May 2011.The vehicles are specialised in nature and the term is for the full expected life of the asset therefore the lease is classified as a finance lease. The assets acquired under the lease were carried as Vehicles, Plant and Equipment in the Balance Sheet at £2,287k at 31 March 2013 after the two years depreciation.

Following changes to the Recycling operation, ten (10) of the existing vehicles were surrendered and replaced by 6 new vehicles purchased directly by the Council. The remaining 17 vehicles continue to accounted for as a finance lease.

The Council has a commitment to make four minimum payments under the lease as at 31 March 2014. The gross commitment is made up of the following amounts:

	2013/14 £000	2012/13 £000
Finance lease Creditor as at 31 March	1,440	2,554
Finance expenditure	(272)	(207)
Gross commitment in lease as at 31 March	**1,168**	**2,347**

The gross commitment in the lease which is the minimum lease payments (fair value is not considered to be materially different) will be made over the following periods:

	Gross investment in lease 31 March '14 £000	Gross investment in lease 31 March '13 £000
Not later than 1 year	280	502
Later than 1 year and not later than 5 years	888	1,803 *
Later than 5 years	0	42
	1,168	**2,347**

*prior year comparator amended in the interest of consistency

Operating leases

The Council leases the Buntingford Service Centre, and offices at Charrington House which have been accounted for as operating leases. The Waitrose Car Park was disposed of in the year ended 31 March 2010.

Previously, the Council had leased the car park and accounted for it as an operating lease where the Council is a lessor. There was a pre-existing agreement between the lessee and the Council, and it was agreed that the lessee will continue to pay the Council the lease payments due, and the Council will forward the payment received to the new owners of the car park. The amounts due to the new owner has been accounted for as lease payments below. In 2013/14, the lease payments received from the lessee which was subsequently paid over to the new owners was £97,000

31. Leases - continued

Operating Leases - continued

The Council has granted leases to various occupiers of shops, offices, industrial units and other miscellaneous assets for varying number of years. These arrangements are accounted for as operating leases.

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

	31 March '14	31 March '13
	£000	£000
Not later than one year	444	444
Later than one year and not later than five years	1,775	1,775
Later than five years	4,629	5,072
	6,848	7,291

The expenditure charged to Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2013/14	2012/13
	£000	£000
Minimum lease payments	444	444
Lease payments receivable	(139)	(139)
	305	**305**

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Council as a lessor

Finance leases

The Council has one property lease, Pinders Lodge, where the accounting treatment has changed following the introduction of the IFRS Code. The lease term is 50 years from March 1997. The lease was previously classified as an operating lease, but under the Code, the buildings element of the lease has been classified as a finance lease.

The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

	2013/14	2012/13
	£000	£000
Finance lease debtor as at 31 March	156	157
Unearned finance income	304	317
Gross investment in lease as at 31 March	**460**	**474**

31. Leases - continued

Finance leases - continued

The gross investment in the lease which is the minimum lease payments will be received over the following periods:

	Gross investment in lease 31 March '14 £000	Gross investment in lease 31 March '13 £000
Not later than 1 year	14	14
Later than 1 year and not later than 5 years	56	56
Later than 5 years	391	404
	461	**474**

Operating Leases

The council receives income from a variety of properties ranging from Industrial and Commercial ground leases, to a small number of commercial premises including shops and other miscellaneous properties. Each is subject to individual agreements and reviews. The terms are dependent upon a number of criteria; the corporate priorities of the Council, options that are available, historic and legal agreements.

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

	31 March '14 £000	31 March '13 £000
Not later than one year	411	476
Later than 1 year and not later than 5 years	1,452	1,531
Later than 5 years	25,734	26,066

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 £199k contingent rents were receivable by the Council (2012/13 £194k).

32. Pension Scheme

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

The Council participates in the Local Government Pension Scheme which is administered by Hertfordshire County Council. This is a funded defined benefit final salary scheme which means that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets in the long term. Under the Scheme members' retirement benefits are not affected by the Fund's performance.

Pension contributions are based on rates determined by the Fund's professionally qualified actuary based on triennial reviews. The most recent review was undertaken in January 2014.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year.

32. Pension Scheme - continued

The following transactions set out the position for the year:

	2013/14	Restated 2012/13
Comprehensive Income & Expenditure Statement:		
Net Cost of Services:	£000	£000
Current service cost	2,116	1,786
Non Distributed Costs -		
Past Service Cost / (Gain)	-	21
Losses / (Gains) on Curtailments & Settlements	-	30
Net Operating Expenditure:		
Interest cost	4,770	4,450
Expected returns on assets in the scheme	(3,160)	(2,986)
Costs charged against CI&E	3,726	3,301
Amounts to be met from Government Grants & Local taxation:		
movement on the pensions reserve	(939)	(1,346)
Actual amount charged against council tax for pensions in the year:		
Employers contributions payable to scheme	2,787	1,955

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2014 is a loss of £31,142k

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2013/14 £000	2012/13 £000
1 April	106,901	93,394
Current Service Cost	2,116	1,786
Interest Cost	4,770	4,450
Contributions by scheme participants	546	562
Actuarial (gains) and losses	(839)	10,436
Benefits paid	(4,318)	(3,778)
Past service costs (Gains)	-	21
Losses on Curtailments	-	30
31 March	109,176	106,901

The liabilities detailed above represent the Council's underlying commitment to pay retirement benefits in the long term.
The total liability of £109,175k (£106,901k in 2012/13 has a substantial impact on the net worth of of the Council as recorded on the balance sheet, resulting in a negative overall balance of £30,844k (£36,132k in 2012/13).

32. Pension Scheme - continued

Reconciliation of fair value of the scheme assets:

	2013/14 £000	Restated 2012/13 £000
1 April	70,769	62,823
Expected rate of return	3,160	2,986
Actuarial gains and losses	5,388	6,221
Employer contributions	2,787	1,955
Contributions by scheme participants	546	562
Benefits paid	(4,318)	(3,778)
31 March	78,332	70,769

Note: In line with the requirements of the updated IAS19, the actuarial gain and expected return have been restated.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £8,548k (2012/13 £9,216k).

Scheme history	31 March 2014 £000	31 March 2013 £000	31 March 2012 £000	31 March 2011 £000	31 March 2010 £000
Present value of liabilities	(109,176)	(106,901)	(93,394)	(85,316)	(102,115)
Fair value of assets	78,332	70,769	62,823	63,223	60,047
(Deficit) in the scheme	**(30,844)**	**(36,132)**	**(30,571)**	**(22,093)**	**(42,068)**

The net pension liability for the council of £30,844m (£36,133m in 2012/13) has a substantial impact on the net worth of the Council.

However, statutory arrangements for funding the deficit means that the financial position of the Council remains healthy as:

- the deficit on the Local government scheme will be made good buy 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 pension scheme by the Council in the year to 31 March 2015 is £1,932k (£1,803k to 31 March 2014).

32. Pension Scheme - continued

Basis for estimating assets and liabilities
Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Hertfordshire County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the Hertfordshire County Council Fund being based on the latest full valuation of the scheme as at January 2014.

The principal assumptions used by the actuary have been:

	31 March '14		31 March '13	
Long-term expected rate of return on assets in the scheme:				
Equity investments	4.1%		4.5%	
Bonds	4.1%		4.5%	
Property	4.1%		4.5%	
Cash	4.1%		4.5%	
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	22.3	years	21.0	years
Women	24.5	years	23.8	years
Longevity at 65 for future pensioners:				
Men	24.3	years	22.9	years
Women	26.7	years	25.7	years
Rate of inflation/ Pension increase	2.6%		2.8%	
Rate of increase in salaries	3.9%		5.1%	
Expected Return on Assets	4.1%		4.5%	
Discount Rate	4.1%		4.5%	
Take up option to convert annual pensions into retirement lump sum for pre April 2008 service	50%		50%	
Take up option to convert annual pensions into retirement lump sum for post April 2008 service	75%		75%	

In summary the County Council Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March '14 %	31 March '13 %
Equity investments	75	71
Bonds	16	18
Property	6	5
Cash	3	6
	100	**100**

History of experience gains and losses	31 March 2014 %	31 March 2013 %	31 March 2012 %	31 March 2011 %	31 March 2010 %
Differences between the expected and actual return on assets	6.88	8.19	(4.69)	1.75	19.98
Experience gains and losses on liabilities	0.24	0.16	(1.43)	2.11	0.00

32. Pension Scheme - continued

A full breakdown of the Fund's assets including the prior financial year comparator is detailed below:

Asset Category	**Period Ended 31 March 2014**				**Period Ended 31 March 2013**			
	Quoted prices in active markets £000	**Quoted prices not in active markets £000**	**Total £000**	**% of Total Assets %**	**Quoted prices in active markets £000**	**Quoted prices not in active markets £000**	**Total £000**	**% of Total Assets %**
Equity Securities								
Consumer	7,888	-	7,888	10	7,085	-	7,085	10
Manufacturing	9,025	-	9,025	12	7,955	-	7,955	11
Energy & Utilities	3,480	-	3,480	5	3,410	-	3,410	5
Financial Institutions	8,507	-	8,507	11	7,248	-	7,248	10
Health & Care	1,203	-	1,203	2	1,623	-	1,623	2
Information Technology	5,509	-	5,509	7	4,833	-	4,833	7
Other	893	-	893	1	715	-	715	1
Debt Securities								
Corporate Bonds (investment grade)	6,493	-	6,493	9	5,618	-	5,618	8
UK Government	4,825	-	4,825	6	5,668	-	5,668	8
Other	1,658	-	1,658	2	1,920	-	1,920	3
Private Equity	-	3,175	3,175	4	-	2,979	2,979	4
Real Estate								
UK Property	-	3,033	3,033	4	-	3,126	3,126	4
Overseas Property	-	1,721	1,721	2	-	647	647	1
Investment Funds and Unit Trusts:								
Equities	11,919	-	11,919	15	10,909	-	10,909	16
Bonds	1,910	-	1,910	2	1,415	-	1,415	2
Commodities	333	-	333	0	265	-	265	0
Other	4,143	-	4,143	5	2,684	-	2,684	4
Derivatives								
Foreign Exchange	-	68	68	0	-	35	35	0
Cash and Cash Equivalents	2,549	-	2,549	3	2,634	-	2,634	4
TOTALS	**70,335**	**7,997**	**78,332**	**100**	**63,982**	**6,787**	**70,769**	**100**

32. Pension Scheme - continued

Nature and Extent of Risks arising

In general, participation in a defined benefit pension scheme means the council as an employer is exposed to a number of risks:

Investment risks - the Fund holds investments in asset classes such as equities, which have volatile market values. Whilst these assets are expected to provide a real return in the long term, their short term return is volatile and can result in the need for additional funding should a funding deficit emerge.

Interest Rate risk - Under the requirements of IAS 19, the Pension Fund's liabilities are discounted using market yields on high quality corporate bonds, with a similar duration of the funding needs of the Fund. The value of the Fund's real assets may not move in the same way.

Inflation Rate risk - the Fund's benefits are locked to inflation, however the Fund's assets are not. Deficits may arise as a result of asset performance being lower than inflation.

Longevity risk - inherent longevity and demographic disparity will exist between longer term assumptions and actual experience.

Since the estimation of the Council's defined benefit obligations is sensitive to the actuarial assumptions set, a sensitivity analysis has been included to demonstrate the impact of a change in assumption would have on the Council's deficit.

Change in assumptions as at 31 March 2014:	Approximate % increase to Employer Liability	Approximate monetary amount
	%	£000
0.5% decrease in real discount rate	9	9,568
1 year increase in member life expectancy	3	3,275
0.5% increase in the salary increase rate	2	2,644
0.5% increase in the Pension increase rate	6	6,915

Impact on the Council's Cashflow

The objectives of the scheme is to keep employer contributions at as constant a rate as possible. The Council has agreed a strategy with the schemes actuary, Hymans Robertson LLP, to achieve a funding level of 100% over the next 25 years. The next triennial valuation will take place in January 2017

Governance Arrangements

Governance of the Pension Scheme is the responsibility of the full Council of Hertfordshire County Council, with delegated authority to the Council's Pension Committee. The governance arrangements are specified by a 'Governance Policy' and 'Compliance Policy' Statement. In addition fund investments are undertaken in line with the Fund's Investment Strategy which specifies the need for a diversified investment portfolio and that the investment structure reflects the liability duration of the Fund.

33. Nature and Extent of Risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect and maximise (given the identified level of risk) the financial resources available to fund services. The Council in the annual Treasury Management Strategy Statement specifies the counterparties to be used and the priority is the security of the capital. It also sets out the borrowing requirement, prospects on interest rates and exposure limits. (This document is available on our website www.eastherts.gov.uk). This was agreed on 20th February 2013 at the meeting of Full Council.

1 Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities. It is the policy of the Council to place deposits only with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisors (based on credit ratings provided by the three main rating agencies: Moody's, Standard and Poor and Fitch) and to restrict lending to a prudent maximum amount for each institution. The Council expects full repayment on the due date of deposits placed with its counterparties. (There has been no history of any past defaults on the Council's investments).

The following analysis summarises the Council's exposure and historic experience of default:-

	Long Term Rating as at 31 March 2014	Short Term Rating	Limits per category £000	Amounts as @ 31.3.14 £000	Historical Experience Default
UK Treasury	AAA-AA	F1	No limit	6,787	0
Canadian Banks	AA	F1	5,500	-	0
UK Banks	AA-A	F1	55,500	61,937	0
Australian Banks	AA	F1	5,500	-	0
Netherlands Banks	AA	F1	5,500	-	0
Finland Banks	AA	F1	5,500	-	0
Sweden Banks	AA	F1	5,500	-	0
Investec Money Market Funds	AAA		No limit	461	0
Other Money Market Funds	AAA		No limit	-	0
				69,185	

Accounts Receivable

The Council does not generally allow credit facilities to customers in relationship to debts.
The past due amount can be analysed by age as follows: (see policy xvii, page 22)

	31 March '14 £000	31 March '13 £000
Less than three months	640	598
Three months to six months	317	208
Six months to one year	404	530
More than one year	929	1,602
	2,290	**2,938**

The Council pursues all debts in line with its established debt recovery policy.

2 Liquidity Risk

The Council has ready access to borrowing from the Public Works Loans Board, there is no significant risk that the Council will be unable to raise finance to meet its commitments in the short or long term. The Council reviews its borrowing requirements as part of its annual Treasury Management strategy in order to optimise financial performance and reduce exposure to interest rate risk. This includes safeguards that if borrowing is undertaken then the maturity profile would be monitored to alleviate any future funding problems in any one year. As no new borrowings have been entered into in recent years this has not been relevant. (see note 35, page 58).

The Council's cash flows are managed on a day to day basis in line with established procedures.

33. Nature and Extent of Risks arising from Financial Instruments - continued

3 Market Risk

Interest rate risk
The Council is exposed to significant risk in terms of its exposure to interest rate movements on its 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 fixed rates - the fair value of the liabilities 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 Income and Expenditure Account. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the Comprehensive Income & Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. Current policy is to aim to keep a maximum of 50% of its borrowings in variable rate loans, all borrowing at 31 March 2014 was fixed rate. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates and provide compensation for a proportion of any higher costs.

The Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to manage the budgets during the year. This allows any adverse changes to be accommodated. The strategy will also consider new borrowing opportunities.

With low interest rates generally prevailing, the Council has an interest equalisation reserve that assists in managing interest rate fluctuations in the medium term. The balance as at 31 March 2014 is £2.25m, with £574k being added to the reserve in 2013/14.

Based on the current Treasury Management position at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings	no variable borrowings
Increase in interest receivable on variable rate investments	9
Increase in government grant receivable for financing costs	de minimus
Impact on Comprehensive I & E Statement	9
Decrease in fair value of fixed rate investment assets (impact on Comprehensive I & E Statement)	126
Decrease in fair value of fixed rate borrowing liabilities (no impact on Comprehensive I & E Statement)	917

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

33. Nature and Extent of Risks arising from Financial Instruments - continued

4 Price Risk / Foreign Exchange Risk

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

The Council also has no shareholdings or insurance investment fund, therefore has no exposure to any further risks.

34. Investments

The Council's investments consists of:

	31 March 2014 £000	31 March 2013 £000
Long term investments	10,080	15,145
Temporary investments:	-	
Money market fund	-	-
Building Society Deposits	-	-
Bank deposits	34,963	35,627
UK Treasury Securities	6,787	5,296
	51,830	**56,068**

35. Borrowing

Source of Loan	Range of interest rates payable (%)	Total Outstanding 31 March 2014 £000	Total Outstanding 31 March 2013 £000
Public Works Loan Board	8.875	1,521	1,521
Bonds	8.785	6,189	6,189
		7,710	**7,710**

An analysis of loans by maturity is:-

	£000	£000
Maturing within one year	-	-
Maturing in 1-2 years	-	-
Maturing in 2-5 years	-	-
Maturing in 5-10 years	6,189	6,189
Maturing in 10-15 years	-	-
Maturing in 40-45 years	1,521	1,521
	7,710	**7,710**

Refer to notes 11 and 13 to the Core Statements.

36. Deferred Credits

Deferred Credits are amounts derived from sales of assets which will be received in instalments over agreed periods of time. They arise from mortgages on sales of council houses.

	Mortgages 31 March 2014 £000	Mortgages 31 March 2013 £000
Balance as at 1 April	10	13
Movements in the year	(4)	(3)
Balance as at 31 March	**6**	**10**

37. Publicity

The Council's spending on publicity, as required to be disclosed under Section 5 (1) of the Local Government Act 1986 was as follows:

	2013/14 £000	2012/13 £000
Recruitment Advertising	31	48
Local Authority Periodical	34	34
Total	65	82

38. Building Regulations Charging Account

The Local Authority Building Control Regulations 1998 require the disclosure of information regarding the cost of operating the building control service.
The following statement sets out the costs and income for 2013/14 divided between chargeable and non-chargeable activities.

	2013/14		
	Chargeable	Non Chargeable	Building Control Total
Expenditure	£000	£000	£000
Employee Expenses	445	104	549
Premises	24	6	30
Transport	28	7	35
Supplies and Services	24	6	30
Support Service Charges	123	29	152
Total Expenditure	**644**	**152**	**796**
Income			
Building Regulation Charges	555	-	555
Total Income	**555**	**0**	**555**
(Surplus) / Deficit	**89**	**152**	**241**

	2012/13		
	Chargeable	Non Chargeable	Building Control Total
Expenditure	£000	£000	£000
Employee Expenses	457	93	550
Premises	22	4	26
Transport	28	6	34
Supplies and Services	16	3	19
Support Service Charges	126	32	158
Total Expenditure	**649**	**138**	**787**
Income			
Building Regulation Charges	496	-	496
Total Income	**496**	**0**	**496**
(Surplus) / Deficit	**153**	**138**	**291**

39. Contingent Liability

The Council has identified two contingent liabilities which may give rise to future costs. The first relates to a possibility that current litigation may lead to a settlement whereby the Council would need to reimburse personal search agents / companies for Land Charge fees for certain services as the power to make these charges is being contested. A potential liability of circa £185k has been identified.

Following the Municipal Mutual Insurance Scheme Arrangement being" triggered" the Council made a provision of £19,443 (based on a 15% levy) within its accounts at 31 March 2013. This levy was paid in 2013/14. A contingent liability of around £125,000 remains in respect of potential further exposure against existing claims.

Given the level of General Reserves held by the Council and the uncertainty of the value of the potential liabilities identified it has not been considered appropriate to make specific financial provision within the accounts at this stage.

40. Post Balance Sheet Event

CCTV Partnership - in 2013/14 the Council, along with its partner authorities agreed to incorporate a new company to conduct the commercial trading affairs of the CCTV Partnership. It is anticipated that the incorporation of this new company will take place during 2014/15. This change is not expected to impact on the 2013/14 Statement of Accounts.

THE COLLECTION FUND
INCOME AND EXPENDITURE ACCOUNT - (SUPPLEMENTARY NOTE)

INCOME		2013/14 £000 Council Tax	2013/14 £000 NDR	2013/14 £000 Total	2012/13 £000
Income collectable from Council Taxpayers	Note 2	82,724	-	82,724	80,768
Transfers from General Fund					
- Council Tax Benefits (Refer to note below)		-	-	0	6,993
Income collectable from Business Ratepayers	Note 3	-	43,995	43,995	41,653
Total Income		**82,724**	**43,995**	**126,719**	**129,414**

EXPENDITURE		2013/14 £000 Council Tax	2013/14 £000 NDR	2013/14 £000 Total	2012/13 £000
Council Tax Precepts and Demands	Note 4	81,861	-	81,861	87,131
Business Rate - payment to National Pool		-	-	0	41,456
Business Rates Shares:					
-Payments to Government		-	21,544	21,544	-
-Payments to Hertfordshire County Council		-	4,309	4,309	-
-Payment to East Herts District Council		-	17,235	17,235	-
Charges to Collection Fund	Note 5				
Costs of Collection		-	196	196	197
Bad Debt Provision - Increase:					
Council Tax		412	-	412	255
Non Domestic Rates			1,177	1,177	
Non Domestic Rates Appeals Provision	Note 5	-	2,560	2,560	-
Transitional Protection Payment	Note 6	-	506	506	-
Distribution of prior years Fund balance		1,060	-	1,060	417
Total Expenditure		**83,333**	**47,527**	**130,860**	**129,456**

Movement in Fund	2013/14 £000 Council Tax	2013/14 £000 NDR	2013/14 £000 Total	2012/13 £000
In year Movement in Fund	608	3,532	4,140	42
Balance as at 1 April	(1,018)	-	(1,018)	(1,060)
Balance as at 31 March	**(410)**	**3,532**	**3,122**	**(1,018)**

Allocation to Preceptors and Central Government	2013/14 £000 Council Tax	2013/14 £000 NDR	2013/14 £000 Total	2012/13 £000
East Herts District Council	(45)	1,413	1,368	(151)
Hertfordshire Police	(43)	-	(43)	(101)
Hertfordshire County Council	(322)	353	31	(766)
Government	-	1,766	1,766	-
Total	**(410)**	**3,532**	**3,122**	**(1,018)**

The Council Tax Benefit Scheme ended in 2012/13 and was replaced by 'Localised Council Tax Support' in 2013/14. The Retained Business Rates Regime was introduced in 2013/14 and resulted in the cessation of the national NNDR pool arrangements.

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT

1. General

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund.
The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and Government of CouncilTax and Non-Domestic Rates.

There is no requirement for a separate Collection Fund Balance sheet, as the assets and liabilities of the fund belong to the various bodies and Government.

This financial year the local government finance regime has been revised with the introduction of the Retained Business Rates scheme. The main aim of the scheme is to give Council's a greater incentive to grow businesses in the district. It does, however, also increase the financial risk to the Council due to non collection and the volatility of the NDR tax base.

The retained income scheme allows the Council to retain a proportion of the total NDR income received. The Council's share is 40% with the remainder being split between Hertfordshire County Council (10%) and Government (50%).

2. Council Tax

The Council's tax base i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of Band D dwellings, is calculated as follows:-

Band	**Estimated No. of Taxable Properties after effect of discounts**	**Ratio**	**Band D Equivalent Dwellings**
A	493	6/9	328.67
B	3,647	7/9	2,836.56
C	11,154	8/9	9,914.67
D	12,582	9/9	12,582.00
E	9,462	11/9	11,564.67
F	6,601	13/9	9,534.78
G	4,933	15/9	8,221.67
H	700	18/9	1,400.00
	49,572	**Council Tax Base for 2013/14**	**56,383.02**
		2014/15 Estimated Council Tax Base	**55,469.00**

Tax Collection	**£000**	
13/14 Tax Base of 56,383 x £1,486.17 (Average Band D Charge)	83,795	Estimated Tax Due
13/14 Council Tax Income (including Council Tax Benefits)	82,724	Actual Tax Income
	1,071	Deficit

This deficit is explained by movements in the tax base.

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT (continued)

3. Income from Business Ratepayers

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate which for 2013/14 was 46.2p (2012/13 45.8p). The total amount, less certain reliefs and other deductions, is distributed in line with each organisations share as detailed at Note 1.

At the year end the total non-domestic rateable value was £114,615 million (£115,851 million for 2013/14).

The amounts included in the accounts for 2013/14 can be analysed as follows:

	2013/14 £000	2012/13 £000
Gross rates payable	44,713	42,489
Less allowances and other adjustments	(718)	(836)
Income collectable from business ratepayers	43,995	41,653
Less Costs of Collection	(196)	(197)
Total Collectable NDR Income for Distribution	43,799	41,456

Note: The retained Business Rates Regime was introduced in 2013/14 and resulted in the cessation of the National Non Domestic Rates Pool.

4. Council Tax Precepts and Demands

	2013/14 £000	2012/13 £000
East Hertfordshire District Council	12,089	12,870
Hertfordshire County Council	61,630	65,595
Police Authority	8,142	8,666
	81,861	87,131

5. Provisions

The Collection Fund account includes provisions for bad debts on arrears based on past years experience and the current years collection rate.

	2013/14			2012/13		
	£000 Council Tax	£000 NDR	£000 Total	£000 Council Tax	£000 NDR	£000 Total
Balance at 1 April	(1,137)	(937)	**(2,074)**	(1,134)	(925)	**(2,059)**
Additional provisions made in 2013/14	(412)	(1,177)	**(1,589)**	(255)	(750)	**(1,005)**
Provision applied in 2013/14	106	718	**824**	252	738	**990**
Balance at 31 March	**(1,443)**	**(1,396)**	**(2,839)**	**(1,137)**	**(937)**	**(2,074)**

NOTES TO THE COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT (continued)

5. Provisions - continued

In addition, a provision has been made for NDR appeals against the rateable valuations assessed and determined by the Valuation Office Agency(VOA) which have not been settled by 31 March 2014. This is a new provision under the NDR retention Scheme.

	2013/14 £000 NDR	2012/13 £000 NDR
Balance at 1 April	0	0
Additional provisions made in 2013/14	(2,560)	-
Provision applied in 2013/14	-	-
Balance at 31 March	(2,560)	0

6. Transitional Protection Payments

During the year the Council received £112,414 in Transitional Protection Payments to protect the NDR taxpayers and the Collection Fund against significant increase in their tax liability as a result of material revaluations(up or down). As at 31 March 2014 the Collection Fund is liable for repayment to Government of £618,149, as the rateable values on settlement by the VOA were lower than anticipated.

STATEMENT OF ACCOUNTS 2013/14

GLOSSARY OF FINANCIAL TERMS

Accounting Policies
Those principles, bases, conventions, rules and practices applied by the Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- Recognising
- Selecting measuring bases for
- Presenting

Accruals
The concept that Income & Expenditure are recognised as they are earned or incurred, not as money is received or paid.

Accumulated Absences
Holiday entitlements (or any form of leave such as time off in lieu) earned by employees but not taken before the year end which can be carried forward into the following year.

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
- the actuarial assumptions have changed

Amortisation
The term used to refer to the charging of the value of a transaction or asset (usually related to intangible fixed assets) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for tangible fixed assets.

Asset
An item having value measurable in monetary terms. Assets can either be defined as fixed or current. A fixed asset has use and value for more than one year whereas a current asset (eg stocks or short term debtors) can readily be converted into cash.

Capital Expenditure
Expenditure on the acquisition of a fixed asset or works which have a long term value to the Council, either directly to the Council or indirectly in the form of grants to other bodies.

Capital Financing Requirement
It measures an authority's underlying need to borrow or finance by other long term liabilities for a capital purpose.

Capital Receipts
The proceeds from the disposal of land and other assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by government, but they cannot be used for revenue purposes.

CIPFA
Chartered Institute of Public Finance and Accountancy. The principal accountancy body dealing with local government finance.

Code of Practice on Local Authority Accounting (The Code)
Code of Practice on Local Authority Accounting sets out the arrangements required to be followed in the Statement of Accounts. It constitutes 'proper accounting practice' and is recognised as such by statute.

GLOSSARY OF TERMS (continued)

Community Assets
Assets that a local authority intends to hold indefinitely, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Consistency
The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Asset
A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the Council's control.

Contingent Liability
A contingent liability is a possible liability arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the local authority's control.

Creditor
An amount owed by the Council for work done, goods received, or services provided within the accounting period and for which payments has not been made at the Balance Sheet date.

Current Service Cost (Pensions)
The increase in liabilities as a result of years of service earned this year.

Curtailment
For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.
Curtailments include:

- Termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business.
- Termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtor
Sums of money due to the Council but not yet received at the Balance Sheet date.

Deficit
An excess of expenditure over income (or liabilities over assets)

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

Depreciation
Charges reflecting the decline in the value (not cost) of assets as a result of their usage or ageing

GLOSSARY OF TERMS (continued)

DCLG
Department for Communities and Local Government

DCMS
Department for Culture, Media and Sport

DEFRA
Department for Environment, Food and Rural Affairs

DWP
Department for Work & Pensions

EEDA
East of England Development Agency

Expected Rate of Return on Pensions Assets
For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

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

Financial Instruments
Any document with monetary value. For example, securities such as bonds and stocks which have value and may be traded in exchange for money.

Finance Lease
A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

Government Grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, towards either revenue or capital expenditure incurred in providing local services.

International Financial Reporting Standards
International Financial Reporting Standards cover specific aspects of accounting practice and set out the correct accounting treatment. Compliance with them is mandatory.

Impairment
This is a reduction in value of a fixed asset as shown in the balance sheet to reflect its true value

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

Intangible Asset
Non-financial fixed assets that do not have physical substance but are identifiable and are controlled by the authority though custom or legal rights e.g. computer software.

GLOSSARY OF TERMS (continued)

Interest Cost (pensions)
For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (non-pensions fund)
A long term investment is one that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments, other than those in relation to the pension fund, that do not meet the above criteria should be classified as current assets.

Investment properties
Property that is used solely to earn rentals and/or for capital appreciation.

LAA
Local Area Agreement

Liquid resources
Current asset investments that are readily disposal by the authority without disrupting its business.

MTFP
Medium Term Financial Plan

NDR
Non Domestic Rates

Operating Lease
A lease whereby the ownership of the fixed asset remains with the lessor.

Past Service Cost
The increase / decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years

Revenue Expenditure
The day to day running costs incurred by the Council in providing its services.

REFCUS (Revenue Expenditure Funded from Capital Under Statute)
Capital expenditure which is allowable under statute to be funded from capital resources but which does not fall within the definition of a fixed asset. An example is a grant made to another party to finance capital investment.

Surplus
An excess of income over expenditure (or assets over liabilities)

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East Herts Council
Wallfields, Pegs Lane
Hertford, Herts
SG13 8EQ
Tel: 01279 655261

Grant Thornton UK LLP
Grant Thornton House
Melton Street, London NW1 2EP

24 September 2014

Dear Sirs

East Hertfordshire District Council

Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of **East Hertfordshire District Council** for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

ii We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

East Herts Council
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vi We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

vii Except as stated in the financial statements:

a. there are no unrecorded liabilities, actual or contingent
b. none of the assets of the Council has been assigned, pledged or mortgaged
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.

ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

x All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii We have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and

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other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi We have communicated to you all deficiencies in internal control of which management is aware.

xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on **24 September 2014.**

East Herts Council
Wallfields, Pegs Lane
Hertford, Herts
SG13 8EQ
Tel: 01279 655261

Signed on behalf of the Council

Name..................................

Position...............................

Date...................................

Name..................................

Position...............................

Date...................................