Webcast Meeting

Epping Forest District Council

AUDIT AND GOVERNANCE COMMITTEE
Monday, 24th September, 2012

You are invited to attend the next meeting of **Audit and Governance Committee**, which will be held at:

Council Chamber, Civic Offices, High Street, Epping
on **Monday, 24th September, 2012**
at **7.00 pm** .

Derek Macnab
Acting Chief Executive

Democratic Services Officer	Gary Woodhall Office of the Chief Executive Tel: 01992 564470 Email: democraticservices@eppingforestdc.gov.uk

Members:

Councillors A Watts (Chairman), C Finn and Ms S Watson

Independent Mrs M Peddle (Vice-Chairman) and R Thompson

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1. WEBCASTING INTRODUCTION

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

2. APOLOGIES FOR ABSENCE

(Assistant to the Chief Executive) To be declared at the meeting.

3. DECLARATIONS OF INTEREST

(Assistant to the Chief Executive) To declare interests in any item on this agenda.

4. MINUTES

To confirm the minutes of the last meeting of the Committee held on 21 June 2012 (previously circulated).

5. MATTERS ARISING

To consider any matters arising from the previous meeting.

6. DRAFT LOCAL AUDIT BILL (Pages 5 - 10)

(Chief Internal Auditor) To consider the attached report (AGC-005-2012/13).

7. INTERNAL AUDIT MONITORING REPORT - APRIL TO JUNE 2012 (Pages 11 - 24)

(Chief Internal Auditor) To consider the attached report (AGC-006-2012/13).

8. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS FOR 2011/12 (Pages 25 - 42)

(Director of Finance & ICT) To consider the attached report (AGC-007-2012/13).

9. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2011/12 (Pages 43 - 64)

(External Auditor) International Standard on Auditing 260 requires the External Auditor to report to those charged with governance certain matters before they give an opinion on the Statutory Statement of Accounts. The External Auditor has indicated that their audit of the Council's Statutory Statement of Accounts for 2011/12 is nearly complete and that they wish to present their ISA260 report to this meeting (AGC-008-2012/13).

10. STATUTORY STATEMENT OF ACCOUNTS 2011/12 (Pages 65 - 158)

(Director of Finance & ICT) To consider the attached report (AGC-009-2012/13).

11. ANY OTHER BUSINESS

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

12. EXCLUSION OF PUBLIC AND PRESS

Exclusion:
To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set

out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

Confidential Items Commencement:
Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

(1) all business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest;

(2) at the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press; and

(3) any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

Background Papers:
Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

(a) disclose any facts or matters on which the report or an important part of the report is based; and

(b) have been relied on to a material extent in preparing the report and does not include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

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Report to the Audit and Governance Committee

Epping Forest District Council

Report reference: AGC-005-2012/13
Date of meeting: 24 September 2012

Portfolio: Finance and Economic Development

Subject: Draft Local Audit Bill

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) To note the action taken regarding the consultation on the draft Local Audit Bill.

Executive Summary:

This report provides an overview of the Draft Local Audit Bill which was published on 6 July 2012 for consultation and pre-legislative scrutiny and the action taken regarding the consultation.

Reasons for Proposed Decision:

Limited time given for consultation period.

Other Options for Action:

No other options.

Report:

1. In August 2010 the Government announced its intention to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice to the private sector and put in place a new local audit framework. In this framework, local bodies would be able to appoint their own auditors from an open and competitive market. A robust regulatory framework would be established, ensuring that high standards of auditing continue to be upheld.

2. This draft Local Audit Bill abolishes the existing regime and sets out the proposed new audit framework for local public bodies which were previously covered by the Audit Commission regime.

3. The draft Bill was published on 6 July 2012 for consultation and pre-legislative scrutiny. The consultation on the draft Local Audit Bill ran until 31 August 2012.

4. The main provisions in the draft Local Audit Bill are:

- The repeal of legislation setting up the Audit Commission (the Audit Commission Act 1998) and provision to transfer assets, liabilities and continuing functions to other bodies.

- A requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel.
- The creation of a new regulatory framework for local public audit, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local public audit services.
- The transfer of responsibility for setting the high level Code of Audit Practice to the National Audit Office.
- Powers for the National Audit Office to undertake studies of thematic value for money issues relating to local government, and to access information needed to do so.

5. The Bill also lays down provision for the continuation of the National Fraud Initiative data matching exercises following the demise of the Audit Commission.

6. The draft Bill was considered by the Corporate Governance Group (CGG) on 18 July 2012 to consider whether a response was required to any of the questions raised in the Bill (appendix 1).

7. The Corporate Governance Group (CGG) noted with concern that this Government consultation was due to be conducted over the holiday period and that based on previous consultations submitted by the Council there seemed little likelihood of effective influence being exerted on Government thinking. Reference was made to the previous comments made by this and other councils regarding the new audit regime which to a significant extent had been found to be disregarded.

8. CGG decided therefore not to submit detailed observations on the current Bill but, in view of likely interests by Audit and Governance Committee members, requested that members of the Committee should be advised of the main proposals in summary terms and asked whether there are any specific comments they wish to make.

9. Audit and Governance Committee members were consulted on 31 July 2012 and no specific comments were raised for referral to the Department for Communities and Local Government.

10. CGG requested that an information item should be included on the next agenda for the Audit and Governance Committee in order to record the receipt of the draft Audit Bill and any observations which members asked to be put forward.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Department for Communities and Local Government draft Bill and guidance.

Impact Assessments:

Risk Management
The Audit and Governance Committee are required to maintain an overview of the effectiveness of the Council's Risk Management arrangements and to seek assurances that action is being taken on risk related issues as identified by Auditors and Inspectors.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

APPENDIX 1: CONSULTATION QUESTIONS AND HOW TO RESPOND

The following table lists the consultation questions posed in the document.

Draft Local Audit Bill:

Q1. Do you have any comments on the clauses in Part 1 or Schedule 1?

Q2. Do you have any comments on the clauses in Part 2 or Schedule 2?

Q3. Do you have any comments on the clauses in Part 3?

Q4. Do the clauses in Part 3 strike the right balance between ensuring independence in the audit process and minimising any burden on local bodies?

Q5. Does Clause 11 provide sufficient flexibility to local bodies to set up joint panel arrangements and / or put in place other arrangements to suit local circumstances?

Q6. Does the draft Bill strike the right balance in terms of prescription and guidance on the role of auditor panels?

Q7. Do you have any comments on the proposals set out above (paragraphs 26-34) on removal and resignation?

Q8. Do you have any comments on the clauses in Part 4 or Schedules 3 and 4?

Q9. Do you agree with the proposed definition of connected entities in clause 20?

Q10. Do you have any views on how major audits should be defined in regulations?

Q11. Do you have any comments on the clauses in Part 5?

Q12. Do you agree that public interest reports issued on connected entities should be considered by their 'parent' local body?

Q13. Do you have any comments on the clauses in Part 6?

Q14. Do you have any views on the new owner(s) of the National Fraud Initiative?

Q15. Do you have any comments on the powers provided to the Comptroller and Auditor General to undertake studies and access information within clause 94?

Q16. Do you think that the National Audit Office should be able to undertake thematic value for money studies regarding all sectors whose bodies are subject to audit under this Bill?

Q17. Do you have any comments on the other clauses in Part 7 or Schedule 5?

Impact Assessment:

Q18. Does the impact assessment identify the main drivers on fees? Are there any other drivers on fees?

Q19. Are the estimates of local bodies' compliance costs realistic?

Q20. Are the estimates of the costs and benefits to businesses realistic?

Proposals for smaller bodies:

Q21. Do you agree that the threshold below which smaller local public bodies should not be subject to automatic external audit should be £25,000?

Q22. Are the additional transparency requirements we have proposed for those bodies who will not be subject to external audit robust enough to ensure that they will be accountable to the electorate?

Q23. Are these transparency requirements proportionate to the low levels of public money these bodies are responsible for? What steps will smaller bodies need to take in complying with these new requirements? Are there any cost implications?

Q24. Do you agree that our proposals for the eligibility of auditors of smaller local public bodies will ensure that they have the requisite expertise to undertake limited assurance audits?

Q25. Are our proposals for the regulatory framework for the audit of smaller bodies proportionate?

Q26. Do these proposals provide a proportionate and sufficiently flexible mechanism for procuring and appointing audit services to smaller local public bodies?

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Report to the Audit and Governance Committee

Epping Forest District Council

Report reference:	***AGC-006-2012/13***
Date of meeting:	***24 September 2012***

Portfolio: **Finance and Economic Development**

Subject: **Internal Audit Monitoring Report - April to June 2012**

Responsible Officer: **Brian Bassington (01992 564446).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) The Committee is requested to note the following issues arising from the Internal Audit Team's first quarter monitoring report for 2012/13:

(a) The reports issued between April and June 2012 and significant findings (Appendix 1);

(b) The Outstanding Priority 1 Actions Status Report (Appendix 2):

(c) The Limited Assurance Audits follow up status report (Appendix 3); and

(d) The 2012/13 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between April and June 2012, and details the overall performance to date against the Audit Plan for 2012/13. The report also contains a status report on previous priority 1 audit recommendations which have been reviewed and updated during August 2012.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

<u>Work Carried Out in the Period</u>

1. The audit reports issued in the first quarter are listed in paragraph 5 below.

2. Audits completed in the first quarter have included a number of key financial systems which are reviewed by the External Auditors (PKF), the detailed findings of which are in appendix 1. At the end of the quarter a further five audits were substantially complete and at the draft report stage. Further work and top up testing has been carried out for PKF during their review of Internal Audit and its working papers during the first quarter.

3. Advice and guidance continues to be provided on a range of subjects which has included fees and charges, telephone payments, scam emails and mileage claims.

4. The increase in the financial appraisals carried out by the Chief Internal Auditor of the accounts of potential suppliers of goods and services to ensure their sound financial standing has continued.

Reports Issued

5. The following audit reports were issued in the first quarter:

(a) Full Assurance:
- None;

(b) Substantial Assurance:
- Budgetary Control;
- General Ledger;
- Council Tax;
- Car Parking; and
- Management of Sickness Absence;

(c) Limited Assurance:
- Housing and Council Tax Benefits; and
- Housing Maintenance Stores Stock take;

(d) No Assurance:
- None;

(e) At Draft Report Stage:
- Business Plans;
- Debt Recovery;
- Environmental Controls and Backup Procedures;
- Overtime and Committee Allowances; and
- Corporate Procurement.

Limited Assurance

6. The recommendations made in the previous Housing and Council Tax Benefits audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011. The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit during the third quarter.

7. The Housing Maintenance Stores Stocktake identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised.

Follow Up of Previous Priority 1 Recommendations

8. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management.

Follow Up of Previous Limited Assurance Audits

9. Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2012/13 (Appendix 4)

10. The status of the 2012/13 Audit Plan is set out at Appendix 4.

Performance Management

11. The Internal Audit Team has local performance indicator targets to meet in 2012/13, as set out below:

	Actual 2009/10 For year	Actual 2010/11 For year	Actual 2011/12 For year	Target 2012/13 For year	Actual 2011/12 Quarter 1	Actual 2012/13 Quarter 1
% Planned audits completed	87%	82%	82%	90%	13%	16%
% chargeable "fee" staff time	69%	66%	71%	72%	70%	70%
Average cost per audit day	£300	£307	£213	£245	£226	£239
% User satisfaction	94%	86%	89%	85%	86%	95%

12. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan;

(b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system;

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system; and

(d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

13. During the first quarter there was a vacancy within the Internal Audit Unit which was going through the recruitment process as at the end of the quarter.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

Audit files and working papers.

Impact Assessments:

Risk Management
Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 1
APRIL - JUNE 2012

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Budgetary Control	Finance and ICT	**Substantial Assurance** The systems and controls in place in relation to budget setting, monitoring and reporting are operating effectively. Only one priority 2 recommendation has been raised.	There is a good level of budget monitoring and reporting in the Authority. Monthly cost centre monitoring reports, showing actual expenditure against budget, are sent to Spending Control Officers in order for them to monitor their budgets. These are also used as the basis for discussing budgets within directorates; a standing item on directorate team meeting agendas. Quarterly financial monitoring is reported by the Assistant Director (Accountancy) to the Finance and Performance Management Cabinet Committee.
General Ledger	Finance and ICT	**Substantial Assurance** The systems and controls surrounding the processing of data on the general ledger and the close down of accounts are operating satisfactorily.	Data from the feeder systems is completely and accurately transferred to the general ledger. Journals, virements and supplementary estimates are all authorised prior to posting to the general ledger, and an explanation recorded for all adjustments. A final accounts close-down timetable is prepared and monitored to ensure the deadlines are met.
Council Tax	Finance and ICT	**Substantial Assurance** The Council Tax Process is a well managed function and day to day activity is completed accurately and timely. There are minor areas of improvement that audit have identified that would increase control of the process and ensure a good service level is maintained.	The systems and controls currently in place are satisfactory and compliant with Council Policy. Supervisory checks are carried out to ensure control and that best practice and business continuity are given due attention.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Car Parking	Environment and Street Scene	**Substantial Assurance** The controls surrounding the verification and reconciliation of car parking income are operating effectively. However, the reconciliation of pay and display income received to banking could be made more efficient by ensuring that more detail of the monthly transfer is obtained from the contractor.	Income from the pay and display car parks is recorded on detailed spreadsheets, banked daily into Vinci's account and the income transferred to EFDC monthly. However, sometimes the amount transferred does not agree to the spreadsheets and this has to be followed up with the contractor. Additionally, the income split between on and off street car parks sometimes needs to be adjusted as it has been incorrectly analysed.
Management of Sickness Absence	Corporate Support Services	**Substantial Assurance** The systems in place for managing sickness absence are operating effectively. Managers need to ensure the Monthly Certificates of Service include all sickness absence in the directorate. As part of the monitoring of sickness absence by Human Resources, Managers should be asked to provide explanations for any Informal Evaluation Meetings not carried out.	Human Resources monitor all sickness absence in the Authority including Evaluation Meetings held and referrals to the Occupational Health Doctor. Absence reports from KCS provide the information required for the quarterly reporting to the Finance and Performance Management Scrutiny Panel by the Assistant Director (Human Resources).
Housing and Council Tax Benefits	Finance and ICT	**Limited Assurance** The majority of systems and controls in place for the administration and payment of Housing and Council tax benefit are satisfactory and areas of good practice are evident. However, this audit found the recommendations made in the previous audit regarding accuracy checks remain outstanding.	The recommendations made in the previous audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011.

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Maintenance Stores Stocktake	Housing Services	**Limited Assurance** Proper procedures were followed for the year end stocktake, and the accuracy of the stores count could be relied upon. However, there were a significant number of discrepancies between the ledger stock and the physical stock (54% of stock lines).	The audit identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised.

INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT SEPTEMBER 2012 Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	**Income reconciliation** Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.	Assistant Director (Development)	April 2011	Reconciliation between M3 and financial ledger reliant upon 3 different systems – finance, payments and income recording on M3 Northgate. Cheques are now individually itemized (previously batched) on the general financial ledger so progress and part reconciliation has been made. However, inadequate resources to carry out manual reconciliation and compatibility / merging of all 3 systems is reliant upon electronic ICT solution. A Northgate health check (September 2012) is currently underway to find a solution and enable full reconciliation.	In Progress	Audit review planned for 3rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	**Refunds** Management should consider the use of a checklist to be used by Development Control Administration section to ensure that for each application the same data is recorded on M3 and/or the paying in spreadsheet. A report of refund transactions (DC120 9211) should be used to check that refunds are recorded correctly. It is recommended that the notes facility on M3 is updated with details of refunds. Officers responsible for authorising the refund should be reminded they are signing to confirm the refund is due.	Assistant Director (Development Control).	31st March 2012	In respect of producing a report of refund transactions, crystal report training has taken place with key staff, but now awaiting the outcome of the Northgate Health check (September 2012) for further progress.	In Progress	Audit review planned for 3rd quarter.
Licensing Administration	**Reconciliation** Reconciliation between M3 and the cash receipting system not up to date. Reconciliation to be completed on a monthly basis by the end of the month following the month being reconciled.	Assistant Director (Legal)	April 2012	Reconciliation is not being carried out due to insufficient resources (as at 30th July 2012).		Audit to follow up in 3rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	**Accuracy checks** 5% accuracy checks of all assessments should be completed monthly.	Benefits Manager	1st September 2012.	The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit.	In Progress	This was a recommendation in the previous years audit and was highlighted by PKF in their annual report. Audit review planned for 3rd quarter.
Housing and Council Tax Benefits	**Sample review: Accuracy checks** Accuracy checks should cover all officers involved in processing claims.	Benefits Manager	1st September 2012.	Consideration will be given for reviewing the process of documenting accuracy checks to ensure the team leaders follow the same procedure.	In Progress	Audit review planned for 3rd quarter.

INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT SEPTEMBER 2012

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Building Maintenance Depot Stocktake	Housing	June 2012	P1. 1	P1.1	Q3 2012/13	The audit identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised. A Repairs Management Contract presentation – "1 Year On" was presented to a meeting of Housing Scrutiny Standing Panel held on Tuesday, 7 August 2012.
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q3 2012/13	A Northgate health check (September 2012) is currently underway to find a solution and enable full reconciliation.
Housing and Council Tax Benefits	Finance & ICT	June 2012	P1. 2 P3. 1	P1. 2 P3. 1	Q3 2012/13	The recommendations made in the previous Housing and Council Tax Benefits audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011. The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit during the third quarter.

Audit Plan 2012/13 as at 30th June 2012 Appendix 4

AUDIT PLAN 2012/13

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15		PKF
Sundry Debtors	system/follow up	20		PKF
Creditors	system/follow up	20		PKF
Treasury Management	system/follow up	15		PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10		PKF
Risk Management and Insurance	system/follow up	15		PKF
Main Accounting and Financial Ledger	system/follow up	15		PKF
Housing Benefits	system/follow up	25		PKF
Council Tax	system/follow up	25		PKF/R27/AC
National Non Domestic Rates	system/follow up	15		PKF/R27
Cash receipting and Income control	system/follow up	15		PKF
Provision for ‘top up’ testing	systems	25	Completed	PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10	In Progress	PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		**240**		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5		R27
TOTAL		**25**		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20		R20
Car Parking	system	20		R27
North Weald airfield	establishment	15		R27
Leisure contract	contract	15		R20
TOTAL		**70**		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10		R
TOTAL		**10**		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5		AC
Housing Repairs Service	system/follow up	15		
Housing Contracts	system	15		

Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		**65**		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25		PKF
Recruitment and Selection	Follow up	5		AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10		R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20		R9
Property Management System - Asset Register	system	5		PKF
Fleet Operations income	system	5		R27
Legal				
Licensing	system	15		R27
Debt recovery	system	15	In Progress	R27
TOTAL		**115**		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15		R
Business Plans	verification	10	In Progress	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15		AC/R20
Procurement	fraud	15		AC/R2
Council Tax Discounts	fraud	15		AC/R23
National Fraud Initiative (NFI)	fraud	15		R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10	In Progress	R23
Governance Statement	management review	5	Completed	AC/PKF
TOTAL		**155**		
TOTAL DAYS ALLOCATED		**680**		
Contingency/Spot checks/Minor investigations		**40**		R23
Corporate/Service Advice		**55**		
TOTAL		**775**		

Key	**Risk Identifier**
AC	Audit Commission
PKF	External Audit
R no.	Risk No. in Corporate Register
R	Reputation of Council

Report to the Audit & Governance Committee

Report reference: AGC-016-2012/13
Date of meeting: 24 September 2012

Epping Forest District Council

Portfolio: **Finance & Technology**

Subject: **Annual Outturn Report on the Treasury Management and Prudential Indicators for 2011/12.**

Responsible Officer: **Brian Moldon (01992 564455).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) To consider how the risks associated with Treasury Management have been dealt with during 2011/12; and

(2) To make any comments or suggestions that Members feel necessary to the Finance & Performance Management Cabinet Committee.

Executive Summary:

The annual treasury management outturn report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2011/12 and confirms that there were no breaches of policy during the year.

The risks associated with setting these indicators are highlighted within the report along with how these risks were managed during the year.

Reasons for Proposed Decision:

The proposed decision is necessary in order to show that the risks associated with the treasury strategy were managed during the year and to comply with the requirements of the CIPFA Code of Practice on Treasury Management on reporting on the performance of the treasury activity.

Other Options for Action:

Members could ask for additional information about the CIPFA Codes or the Prudential Indicators.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes the requirement for reporting on the treasury outturn on the financing and investment

activity for the previous year.

2. The report attached at appendix 1 shows the Treasury Management Outturn Report for 2011/12 in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code.

Capital Activity in the year

3. The Council undertakes capital expenditure on long-term assets. These activities may either be financed immediately through capital receipts, grants etc; or through borrowing.

4. The Council did not plan to borrow in order to carryout its capital investment. The outturn capital programme is shown below in the table:

Capital Expenditure	**2011/12 Original £m**	**2011/12 Revised £m**	**2011/12 Actual £m**
Non-HRA capital expenditure	6.431	5.303	3.943
HRA capital expenditure	6.973	7.026	5.620
Total Capital expenditure	**13.404**	**12.329**	**9.563**
Financed by:			
Capital grants	5.531	5.977	4.251
Capital receipts	5.801	4.237	3.206
Revenue	2.072	2.115	2.106
Total resources Applied	**13.404**	**12.329**	**9.563**
Closing balance on:			
Capital Receipts	12.095	14.612	15.841
Major Repairs Reserve	5.867	6.612	8.241

5. The closing balance on capital receipts is after taking into account new receipts being generated from the right to buy sales and for major repairs reserve the major repairs allowance received in the year.

6. The financial risk involved within the Capital Activity is the impact on reducing the balance of usable capital receipts over the next three years. This risk is included in the Council's Corporate Risk Register (No. 17) and identifies the following potential consequences; loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and large Council Tax increases required.

7. The table above shows that the balances on Capital Receipts and Major Repairs Reserve are higher than expected. This means that moving forward the Council is in a better position than it had estimated and therefore it can be concluded that adequate resources exist for the Capital Programme in the medium term.

The impact on the Council's Indebtedness for Capital Purposes

8. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. During the year the Council borrowed £185.456m to finance the payment to Government for housing self-financing. This has resulted in the Council CFR becoming an overall positive CFR (HRA and Non-HRA). No borrowing was incurred in relation to the Council's capital expenditure programme.

CFR	Original 31-Mar-12 £m	Revised 31-Mar-12 £m	Actual 31-Mar-12 £m
Non-HRA	37.519	37.519	30.281
HRA	-38.303	141.697	154.391
Total Capital expenditure	**-0.784**	**179.216**	**184.672**

9. The Council did not breach the Authorised Limit (set at £200m) or the Operational Boundary (set at £186m) and the Maturity Structure of Fixed Rate Borrowing (restricted to 30 years and below).

10. The risks for Councils are associated with affordability, interest rates and refinancing – the affordability risk is whether the Council can afford to service the loan, this has been achieved through the Council producing a viable thirty-year financial plan. This plan is reviewed quarterly by officers and half yearly reports are presented to Housing Scrutiny Panel. The interest rate risk is whether a change in interest rate could have an impact on the viability of the financial plan. The Council received advice from our treasury advisors before undertaking any borrowing. Only 17% of the amount borrowed was at a variable rate, the remainder were fixed at preferential rates. Any upward movement in interest rates would be 'hedged' by a corresponding increase in interest earned on Council investments. The refinancing risk is that maturing borrowings, capital project or partnership financing cannot be refinanced on suitable terms. Within the financial plan it is anticipated that all borrowing will be repaid when matured and all future capital expenditure will be financed through internal resources, therefore no risk currently exist for refinancing.

<u>The Council's Treasury Position</u>

11. The table below shows the Council's level of balances for 2011/12.

Treasury position	Original 31-Mar-2012 £m	Revised 31-Mar-12 £m	Actual 31-Mar-12 £m
Balances and Reserves	47.0	47.0	47.1

12. It is important that the cash flow of the Council is carefully monitored and controlled to ensure enough funds are available each day to cover its outgoings. This will become more difficult as the Council uses up capital receipts and reduces investment balances.

13. The Council did not breach any of the following indicators:

(a) The Maximum Upper Limit for Fixed Rate Exposure during 2011/12 was 73.81% (limit set at 100%) and Maximum Upper Limit for Variable Rate Exposure during 2011/12 was 26.19% (limit set at 75%);

(b) The maximum amount of the portfolio being invested for longer than 364 days was £5m (limit set at £30m); and

(c) The maximum limit set for investment exposure per country outside of the UK was 14% (limit set at 30%).

14. The risks associated to this section are as follows:

- <u>Credit and Counterparty Risk</u> – the risk of failure by a third party to meet its contractual obligations to the Council, i.e. goes into liquidation. The Council's counter-party lists and limits reflect a prudent attitude towards organisations with which funds may be deposited and these are regularly updated by our treasury advisors.

- Liquidity Risk – the risk that cash will not be available when it is needed, incurring additional unbudgeted costs for short-term loans. The Director of Finance & ICT has monthly treasury meetings with treasury staff, to go through the cash flow for the coming month. A number of instant access accounts are used to ensure adequate cash remains available.

- Interest Rate Risk – the risk of fluctuations in interest rates. The Council allows a maximum of 75% of its investments to be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates.

15. The prudential indicators within this section assist the Council to reduce the risk of:

(a) counterparties going into liquidation by ensuring only highly rated institutions are used when investing the Council's money;.

(b) the Council incurring unbudgeted short-term loans, to pay unexpected expenditure items through ensuring adequate level of money is available immediately through instant access accounts; and

(c) potentially losing out on investment income when interest rates start to increase by ensuring that the majority of deposits are kept within one year.

Summary

16. The Council has continued to finance its capital programme through using internal resources and capital receipts at the year-end exceeded the anticipated closing balances, resulting in the Council having adequate resources going forward to finance its medium term capital programme. During the year the Council procured £185.5m to finance the HRA self-financing payment, resulting in the Council now becoming a debt authority. The Council did not breach any of the treasury prudential indicators during the year.

Resource Implications:

None.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.
- Under section 21(1) AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

The report on the Council's Prudential Indicators for 2011/12 to 2013/14 and the Treasury Management Strategy for 2011/12 went to Council on 22 February 2011 and was amended at Council on 26 July 2011.

Impact Assessments:

Risk Management
As detailed in the report, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council. The specific risks associated with the different aspects of the treasury management function have been outlined within the main report.

Equality and Diversity

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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Epping Forest District Council Treasury Outturn Report 2011/12

1. Background

The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. The Council reports twice a year to the Finance & Performance Management Cabinet Committee and scrutiny of treasury policy, strategy and activity is delegated to the Audit & Governance Committee.

Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

2. Economic Background

At the time of determining the 2011/12 strategy in February 2011, there were tentative signs that the UK was emerging from recession with the worst of the financial crisis behind it. Recovery in growth was expected to be slow and uneven as the austerity measures announced in the 2010 Comprehensive Spending Review were implemented in order to bring down the budget deficit and government borrowing and rebalance the economy and public sector finances. Inflation measured by the Consumer Price Index (CPI) had remained stubbornly above 3%. Unemployment was at a 16-year high at 2.5 million and was expected to rise further as the public and private sector contracted. There was a also high degree of uncertainty surrounding Eurozone sovereign debt sustainability.

Inflation : During 2011-12 inflation remained high with CPI (the official measure) and RPI rising in September to 5.2% and 5.6% respectively primarily due to escalating utility prices and the January 2011 increase in VAT to 20%. Inflation eased slowly as reductions in transport costs, food prices, intensifying competition amongst retailers and supermarkets and the VAT effect falling out in 2012, pushed February 2012's CPI down to 3.4% and RPI to 3.7%. This, however, was not enough to offset low wage growth and, as a result, Britons suffered the biggest drop in disposable income in more than three decades.

Growth, Employment, House Prices : Growth, on the other hand, remained elusive. The Bank's Quarterly Inflation Reports painted a bleak picture as the outlook was downgraded to around 1% in 2011 and 2012 alongside. The unresolved problems in the Eurozone weighed negatively on global economic prospects. UK GDP was positive in only the first and third calendar quarters of 2011; annual GDP to December 2011 registered just 0.5%. Unemployment rose to 2.68 million and, worryingly, youth unemployment broke through the 1 million barrier. House prices struggled to show sustained growth and consumer confidence remained fragile.

Monetary Policy : It was not surprising that the Bank of England's Monetary Policy Committee maintained the status quo on the Bank Rate which has now been held at 0.5% since March 2009, but increased asset purchases by £75bn in October 2011 and another £50bn in February 2012 taking the Quantitative Easing (QE) total to £325bn.

The policy measures announced in the March 2012 Budget statement were judged to be neutral. The government stuck broadly to its austerity plans as the economy was rebalancing slowly. The opinion of the independent Office for Budget Responsibility (OBR) was that the government was on track to meet its fiscal targets; the OBR identified oil price shocks and a further deterioration in Europe as the main risks to the outlook for growth and in meeting the fiscal target.

US

The US economy continued to show tentative, positive signs of growth alongside a gradual decline in the unemployment rate. The US Federal Reserve (the Fed) committed to keeping policy rates low until 2014, although a modest shift in the Fed's language in March, alongside an improvement in economic activity, cast doubts about the permanence of the Fed's policy commitment.

Europe

In Europe, sovereign debt problems for some peripheral countries became critical. Several policy initiatives were largely ineffectual; two bailout packages were required for Greece and one for Portugal, and the contagion spread to Spain and Italy whose sovereign bonds came under increased stress in November. Standard & Poor's downgraded nine European sovereigns and the EFSF bailout fund. The successful Greek sovereign bond swap in March 2012 shortly after its second bailout package allowed it to avoid bankruptcy later that month, but it was not a long-term solution. The ECB's €1.3 trillion Long-Term refinancing Operations (LTROs) flooded the financial markets with ultra-cheap 3-year liquidity and relieved much of the immediate funding pressure facing European banks in 2012, but markets ultimately took the view the LTROs simply served to delay a resolution of, rather than addressed, the fundamental issues underpinning Euroland's problems.

Markets sentiment oscillated between 'risk on'/'risk off' modes, this swing becoming the norm for much of 2011/12 as investors shifted between riskier assets and the relative safety of higher quality government bonds. Gilts, however, were a principal beneficiary of the 'risk-off' theme which helped push yields lower. There was little market reaction to or impact on gilts by the decision by Fitch and Moody's to change the outlook on the UK's triple-A rating from stable to negative. Over the 12-month period from April 2011 to March 2012, 5-year gilt yields more than halved from 2.40% to 1.06%; 10-year gilt yields fell from 3.67% to 2.25%; 20-year yields fell from 4.30% to 3.20% and 50-year yields from 4.20% to 3.35%. PWLB borrowing rates fell commensurately (see table 2 in appendix 2), but the cost of carry associated with borrowing longer-term loans whilst investing the monies temporarily until required for capital financing remained high, in excess of 4.1 % for 20-year PWLB Maturity borrowing.

Credit

Europe's banking sector was inextricably linked with the sovereign sector. Sharp moves in sovereign CDS and bond yields were fairly correlated with the countries' banking sector performance. The deterioration in the prospects for real growth had implications for earnings and profit growth and banks' creditworthiness. The European Banking Authority's banking stress tests of 70 EU banks undertaken in October 2011 identified a collective €106 billion shortfall to banks' Core Tier 1 ratio of 9%. The slowdown in debt and equity capital market activity also had implications for banks' funding and liquidity. These principal factors, as well as a reassessment by the rating agencies of future sovereign support for banks, resulted in downgrades to the long-term ratings of several UK and non-UK financial institutions in autumn 2011.

3. Reform of Council Housing Finance

The Localism Act passed into law in November 2011 which enabled the reform of council housing finance. The Housing Revenue Account subsidy system has now been abolished and replaced with self-financing whereby authorities support their own housing stock from their own income. This reform required a readjustment of each authority's housing-related debt based on a valuation of its council housing stock. The CLG issued the final Settlement Payment Determination in February 2012. Settlement date for the Self Financing transaction was Wednesday 28th March 2012.

As the Council's debt level generated by the housing reform model was higher than the Subsidy Capital Financing Requirement (SCFR), the Council was required to pay the CLG the difference between the two, which was £185.456m.

This required the Council to fund the settlement through borrowing. A preferential set of PWLB rates at 13bps above the equivalent gilt yield were available for this transaction on 26th March only, for settlement on 28th March. Given the one-off nature of the PWLB funding window and the advantages offered in terms of rate, loan structure and administration, the Council took the decision to fund the whole payment through new borrowing from the PWLB.

Loan structures and maturities were discussed and analysed with the Council's Treasury Advisors to fit in with the Council's HRA business plan and strategy, funding costs, as well as the Council's existing treasury management position and risk profile. Details of the loans borrowed are in *section 4*, below. The Council will continue to work with its Treasury Advisors and Housing Consultants to manage the HRA Business Plan and accounting implications going forward.

The Council will henceforth adopt a two-pool approach in relation to the allocation of debt between the General Fund and HRA.

4. The Borrowing Requirement and Debt Management

	Balance on 01/04/2011 £m	Debt Maturing £m	Debt Prematurely Repaid £m	New Borrowing £m	Balance on 31/03/2012 £m	Avg Rate %/ Avg Life (yrs)
CFR	-0.784				184.672	
Short Term Borrowing[1]	0	0	0	0	0	
Long Term Borrowing	0	0	0	185.456	185.456	3% - 25 yrs
TOTAL BORROWING	**0**	**0**	**0**	**185.456**	**185.456**	
Other Long Term Liabilities	0	0	0	0	0	
TOTAL EXTERNAL DEBT	**0**	**0**	**0**	**185.456**	**185.456**	

The Council's underlying need to borrow as measured by the Capital Financing Requirement (CFR) as at 31/3/2012 was estimated at £184.672m. The Council borrowed £185.456m to pay the Government as part of the HRA self-financing payment.

The Council funded all of its capital expenditure (excluding the self-financing payment) through internal resources.

Loans Borrowed during 2011-12	**Principal £m**	**Average Rate %**	**Average Maturity (years)**
PWLB Fixed Rate Maturity Loans	153.656	3.48	28
PWLB Variable Rate Maturity Loans	31.800	0.62	10
Total	**185.456**	**3.00**	**25**

Loans at Variable Rates
Any upward move in interest rates and interest paid on variable rate debt would be 'hedged' by a corresponding increase in interest earned on the Council's variable rate investments. The interest

1 Loans with maturities less than 1 year.

rate risk associated with the Council's strategic exposure is regularly reviewed with our treasury advisor against clear reference points, this being a narrowing in the gap between short and longer term interest rates by 0.5%. When appropriate this exposure will be reduced by replacing the variable rate loans with fixed rate loans.

5. Investment Activity

The CLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

Investments	Balance on 01/04/2011 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 31/03/2012 £m	Avg Rate % / Avg Life (yrs)
Short Term Investments	47.520	117.300	122.471	42.349	1.27% 150 days
Long Term Investments	0.316	0	0.179	0.137	
TOTAL INVESTMENTS	**47.836**	**117.300**	**122.650**	**42.486**	

Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2011/12. Investments during the year included:

- Investments in AAA-rated Stable Net Asset Value Money Market Funds
- Call accounts and deposits with Banks and Building Societies systemically important to UK banking system

Credit Risk
Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2011/12 treasury strategy was A+/A1 across rating agencies Fitch, S&P and Moody's.

Downgrades in the autumn 2011 to the long-term ratings of several counterparties resulted in their ratings falling below the Authority's minimum threshold of A+/A3. The downgrades were driven principally by the agencies' view the extent of future government support (flowing from the recommendations to the government from the Independent Commission on Banking) rather than a deterioration in the institutions' creditworthiness. Further use of these counterparties was suspended until a revised criteria was approved for use from 1st April 2012.

Counterparty credit quality has been maintained as demonstrated by the Credit Score Analysis summarised below where it can be seen that the target of remaining below an average credit risk score of 6 was achieved throughout the year. Table 3 in the Appendix explains the credit score.

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating	Average Life (days)
31/03/2011	3.83	AA-	3.93	AA-	96
30/06/2011	3.83	AA-	4.13	AA-	127
30/09/2011	3.88	AA-	4.03	AA-	108
31/12/2011	4.50	AA-	5.11	A+	74
31/03/2012	4.35	AA-	5.36	A+	42

Liquidity
In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and the use of call accounts.

Yield
The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year.

The Council considered an appropriate risk management response to uncertain and deteriorating credit conditions in Europe was to shorten maturities for new investments. Short term money market rates also remained at very low levels (as shown in table 1 in the Appendix) which had a significant impact on investment income.

The Council's budgeted investment income for the year had been estimated at £0.667m. The average cash balances representing the Council's reserves, were £52.5m during the period and interest earned was £0.693m.

Update on Investments with Icelandic Banks
Following guidance from CIPFA, issued May 2012, it is expected that 86p-90p/£ will be recovered overall for Heritable investment. Repayments in 2011/12 were 6.24% in April, 4.06% in July, 4.18% in October, and 3.32% in January. In total, 67.91% has been repaid to 31 March 2012. The Council have since received two further dividends during 2012/13 for 3.79% in April and 2.85% in July.

6. Compliance with Prudential Indicators

The Council can confirm that it has complied with its Prudential Indicators for 2011/12, which were approved on 22 February 2011 as part of the Council's Treasury Management Strategy Statement.

In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2011/12. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

7. Other Items

Potential for reduced PWLB borrowing rates

A brief paragraph in the 2012 Budget Report (March 2012) contained HM Treasury's intention to offer a 20 basis points discount on loans from the PWLB "for those principal local authorities providing improved information and transparency on their locally-determined long-term borrowing and associated capital spending plans" and a the potential of an independent body to facilitate the provision of "a further reduced rate for authorities demonstrating best quality and value for money". More detail is awaited and, given that discussion with relevant bodies will be required, it could be some months before either of these measures is implemented.

The Budget also contained the following announcement:

"The Government is also implementing reform of the Housing Revenue Account subsidy system to give local authorities responsibility for managing their own council housing business. The OBR currently forecasts that this reform will increase public borrowing more than originally estimated. These estimates are very uncertain but if they do not change then the Government will take action to address the increase in public debt".

This announcement in the Budget needs to be taken in the context of the Coalition Government's primary objective to reduce the structural deficit. A deterioration in the economic outlook and/or public finances would require a policy response and the above statement suggests that the reform of housing finance is one of a range of potential measures that could be considered.

Appendix 1

Capital Financing Requirement (CFR)
Estimates of the Council's cumulative maximum external borrowing requirement for 2011/12 to 2013/14 are shown in the table below:

	31/3/2012 Estimate £m	31/3/2012 Actual £m	31/3/2013 Estimate £m	31/3/2014 Estimate £m
Non-HRA CFR	37.519	30.281	30.281	30.281
HRA CFR	141.697	154.391	154.391	154.391
Capital Financing Requirement	**179.216**	**184.672**	**184.672**	**184.672**
Less: Other Long Term Liabilities	0	0	0	0
Less: Existing Profile of Borrowing	0	0	0	0
Cumulative Maximum External Borrowing Requirement	**179.216**	**184.672**	**184.672**	**184.672**

Usable Reserves
Estimates of the Council's level of Balances and Reserves for 2011/12 to 2013/14 are as follows:

	31/3/2012 Estimate £m	31/3/2012 Actual £m	31/3/2013 Estimate £m	31/3/2014 Estimate £m
Usable Reserves	47.0	47.1	47.0	47.0

Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- The Council's Affordable Borrowing Limit was set at £200m for 2011/12.
- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.
- The Operational Boundary for 2011/12 was set at £186m.
- The Director of Finance & ICT confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year; borrowing at its peak was £185.5m.

(b) Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.
- The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2011/12 %	Maximum during 2011/12 %
Upper Limit for Fixed Rate Exposure on		
Debt	100	83
Investment	(100)	(74)
Upper Limit for Variable Rate Exposure on		
Debt	25	17
Investment	(75)	(26)

(c) Maturity Structure of Fixed Rate Borrowing

- This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Upper Limit %	Lower Limit %	Actual Borrowing as at 31/03/2012	% Fixed Rate Borrowing as at 31/03/2012	Compliance with Set Limits?
under 12 months	100	0	£0m	0	Yes
12 months and within 24 months	100	0	£0m	0	Yes
24 months and within 5 years	100	0	£0m	0	Yes
5 years and within 10 years	100	0	£31.8m	0	Yes
10 years and within 20 years	100	0	£0m	0	Yes
20 years and within 30 years	100	0	£153.656m	100	Yes
30 years and above	100	0	£0m	0	Yes

(d) **Actual External Debt**

- This indicator is obtained directly from the Authority's balance sheet. It is the closing balance for actual gross borrowing (short and long-term) plus other deferred liabilities.
- The indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2012	£m
Borrowing	185.456
Other Long-term Liabilities	0
Total	**185.456**

(e) **Total principal sums invested for periods longer than 364 days**

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2011/12 was set at £30m.
- The Council made one investment for a period greater than 364 days during this period for amount of £5m.

(f) **Capital Expenditure**

- This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2011/12 Estimate £m	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m
Non-HRA	6.431	3.943	7.048	1.199
HRA	6.973	5.620	14.189	15.067
Total	**13.404**	**9.563**	**21.237**	**16.266**

Capital expenditure has been and will be financed as follows:

Capital Financing	2011/12 Estimate £m	2011/12 Actual £m	2012/13 Estimate £m	2013/14 Estimate £m
Capital receipts	5.801	3.206	6.304	0.890
Government Grants	0.658	0.974	0.781	0.449
Major Repairs Allowance	4.873	3.277	8.939	9.027
Revenue contributions	2.072	2.106	5.213	5.900
Total Financing	**13.404**	**9.563**	**21.237**	**16.266**

The table shows that the capital expenditure plans of the Authority could be funded entirely from sources other than external borrowing.

(g) **Ratio of Financing Costs to Net Revenue Stream**

- This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs.
- The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2011/12 Estimate %	2011/12 Actual %	2012/13 Estimate %	2013/14 Estimate %
Non-HRA	0.73	-0.36	-0.03	-3.28
HRA	-2.86	-2.09	16.57	16.97

(h) **Incremental Impact of Capital Investment Decisions**

- This is an indicator of affordability that shows impact if funded through Council Tax / Rents, not what actual impact will be of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2011/12 Approved £	2012/13 Estimate £	2013/14 Estimate £
Increase in Band D Council Tax	0.71	-0.03	0.40
Increase in Average Weekly Housing Rents	1.81	9.31	11.61

(i) **Adoption of the CIPFA Treasury Management Code**

- This indicator demonstrates that the Authority adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code on 22 April 2002.

(j) **Gross and Net Debt**

- The purpose of this treasury indicator is to highlight a situation where the Authority is planning to borrow in advance of need.

Upper Limit on Net Debt compared to Gross Debt	**2011/12 Actual £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**
Outstanding Borrowing (at nominal value)	185.456	185.456	185.456
Other Long-term Liabilities (at nominal value)	0	0	0
Gross Debt	**185.456**	**185.456**	**185.456**
Less: Investments	-47.100	-47.000	-47.000
Net Debt	**138.356**	**138.456**	**138.456**

N.B. CIPFA has acknowledged that the upper limit does not work as was intended and is working on a revised indicator. This indicator will be amended once revised guidance has been received from CIPFA.

(k) **Upper Limit for Total Principal Sums Invested Over 364 Days**

- The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Upper Limit for total principal sums invested over 364 days	**2011/12 Approved £m**	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
	30.0	30.0	30.0	30.0	30.0

(l) **HRA Limit on Indebtedness**

	2011/12 Approved £m	**2011/12 Revised £m**	**2012/13 Estimate £m**	**2013/14 Estimate £m**	**2014/15 Estimate £m**
HRA CFR	141.697	154.391	154.391	154.391	154.391
HRA Debt Cap (as prescribed by CLG)	203.774	185.457	185.457	185.457	185.457
Difference	**62.077**	**31.066**	**31.066**	**31.066**	**31.066**

Appendix 2

The average, low and high rates correspond to the rates during the financial year and rather than those in the tables below

Table 1: Bank Rate, Money Market Rates

Date	Bank Rate	O/N LIBID	7-day LIBID	1-month LIBID	3-month LIBID	6-month LIBID	12-month LIBID	2-yr SWAP Bid	3-yr SWAP Bid	5-yr SWAP Bid
01/04/2011	0.50	0.40	0.54	0.54	0.69	1.12	1.59	1.89	2.36	3.00
30/04/2011	0.50	0.50	0.40	0.49	0.69	1.05	1.52	1.62	2.07	2.74
31/05/2011	0.50	0.40	0.40	0.52	0.69	1.08	1.56	1.53	1.89	2.54
30/06/2011	0.50	0.50	0.40	0.50	0.77	1.06	1.54	1.44	1.82	1.50
31/07/2011	0.50	0.40	0.40	0.50	0.78	1.07	1.55	1.29	1.53	2.09
31/08/2011	0.50	0.40	0.40	0.56	0.86	1.15	1.63	1.27	1.43	1.92
30/09/2011	0.50	0.60	0.60	0.54	0.92	1.21	1.69	1.25	1.38	1.75
31/10/2011	0.50	0.63	0.55	0.56	0.96	1.25	1.74	1.30	1.42	1.81
30/11/2011	0.50	0.65	0.58	0.64	1.01	1.31	1.80	1.41	1.49	1.76
31/12/2011	0.50	0.50	0.65	0.67	1.05	1.35	1.84	1.31	1.34	1.54
31/01/2012	0.50	0.50	0.70	0.68	1.06	1.38	1.87	1.20	1.23	1.46
29/02/2012	0.50	0.50	0.75	0.67	1.05	1.37	1.87	1.22	1.29	1.54
31/03/2012	0.50	0.55	0.55	0.61	1.00	1.33	1.84	1.22	1.30	1.59
Minimum	0.50	0.10	0.35	0.49	0.68	1.01	1.40	1.08	1.23	1.46
Average	**0.50**	0.47	0.52	0.58	0.89	1.21	1.69	1.36	1.55	1.98
Maximum	0.50	0.65	0.95	0.68	1.06	1.38	1.87	1.95	2.42	3.07
Spread	--	0.55	0.60	0.19	0.38	0.37	0.47	0.87	1.19	1.60

Table 2 : PWLB Borrowing Rates - Fixed Rate, Maturity Loans

Change Date	Notice No	1 year	4½-5 yrs	9½-10 yrs	19½-20 yrs	29½-30 yrs	39½-40 yrs	49½-50 yrs
01/04/2011	128/11	1.93	3.66	4.81	5.33	5.35	5.31	5.28
30/04/2011	162/11	1.73	3.45	4.61	5.18	5.21	5.17	5.14
28/05/2011	202/11	1.64	3.21	4.43	5.08	5.12	5.09	5.07
30/06/2011	246/11	1.61	3.09	4.42	5.17	5.21	5.20	5.18
30/07/2011	288/11	1.52	2.75	4.06	4.97	5.07	5.06	5.04
31/08/2011	332/11	1.48	2.50	3.71	4.66	4.84	4.87	4.85
30/09/2011	376/11	1.51	2.41	3.47	4.35	4.61	4.69	4.69
29/10/2011	418/11	1.45	2.42	3.56	4.29	4.46	4.47	4.44
30/11/2011	462/11	1.32	2.14	3.21	3.84	4.02	4.03	3.98
31/12/2011	501/11	1.21	1.99	3.04	3.86	4.09	4.12	4.08
31/01/2012	042/12	1.29	1.99	3.08	3.89	4.11	4.15	4.12
29/02/2012	084/12	1.31	1.96	3.11	4.04	4.25	4.26	4.21
30/03/2012	128/12	1.28	2.05	3.21	4.17	4.38	4.41	4.36
	Low	1.19	1.93	2.98	3.77	3.98	4.02	3.98
	Average	1.47	2.53	3.70	4.50	4.65	4.67	4.64
	High	1.97	3.73	4.89	5.41	5.42	5.39	5.35

Table 3: Credit Score Analysis

Scoring:

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10
Not rated	11
BB	12
CCC	13
C	14
D	15

The value weighted average reflects the credit quality of investments according to the size of the deposit. The time weighted average reflects the credit quality of investments according to the maturity of the deposit

The Council aimed to achieve a score of below 6, to reflect the Council's overriding priority of security of monies invested and the minimum credit rating of threshold of A+ for investment counterparties.

Accountants & business advisers

Councillor Antony Watts
Audit & Governance Committee Chairman
Epping Forest District Council
Civic Offices
High Street
Epping
Essex
CM16 4BZ

Our ref: 4008927/2011-12/RSB/LJC

2 August 2012

Dear Cllr Watts,

Audit of financial statements for the period ended 31 March 2012

In accordance with International Standard on Auditing 265 - *Communicating deficiencies in internal control to those charged with governance and management* (ISA 265), we are required to report to you significant deficiencies in internal control identified during the course of our audit.

The purpose of our audit is for us to express an opinion on the financial statements. Our audit includes consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters that we have reported to you are limited to those matters that we have identified during the audit and our work is not designed to provide a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

We have now completed our audit of the Council's financial systems and controls and details of the significant matters identified that we would like to bring to your attention can be found in the appendix to this letter. We are required by Auditing Standards to report matters at the earliest opportunity to Those Charged with Governance. The deficiency has been discussed and reported to Management by Internal Audit. The deficiency and related action plan will be incorporated into our final Annual Governance Report to Those Charged with Governance which will be presented to the Audit and Governance Committee on 24 September 2012.

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We would also like to take this opportunity to report to you, under ISA260 - *Communicating with Those Charged with Governance*, the results of our updated risk assessment, performed on receipt of the Council's draft financial statements for audit and with the benefit of our knowledge of developments since we presented our original Audit Plan to you. We identified one additional significant risk from our review of the draft financial statements relating to the depreciation charge. Our firm also amended its internal guidance on the revenue recognition risk after we presented our original Audit Plan and as a result of that we have amended our Audit Plan by recognising revenue recognition risk in relation to fees and charges:

Audit risk identified	Audit response
Revenue recognition – ISA (UK & Ireland) 240 *The auditor's responsibilities in relation to fraud in an audit of financial statements* requires us to presume there are risks of fraud in revenue recognition, particularly those revenue areas that relate to fees and charges, due to the nature of these transactions	We will perform substantive testing, using an increased sample size, on income relating to fees and charges to confirm that transactions have occurred, that amounts have been accurately recorded and that income (and any associated expenditure) is recorded in the correct accounting period and under the correct heading in the financial statements.
There is a risk of material misstatement of the depreciation charge on Housing Revenue Account properties arising from an unexpected variance from the figure for depreciation we were expecting in our Preliminary Analytical Review work on the draft financial statements. This could be due to inappropriate estimation of the Useful Economic Lives of properties (the depreciation charge is calculated on the basis of these estimated lives) or incorrect application of the Council's policies. We understand the lives used may have changed in the year.	We will review the Council's estimation of Useful Economic Lives of Housing Revenue Account properties for reasonableness. Specifically, we will: - enquire into the reasons for any change in Useful Economic Lives applied in the current year - consider the appropriateness of any de minimis policies adopted by the Council - ensure the Council's depreciation policy has been applied consistently - review any correspondence/reports from the external Valuer - ensure that any change in policy or estimation has been correctly disclosed within the financial statements.

Yours faithfully,

Richard Bint
Senior Partner
PKF (UK) LLP

cc Robert Palmer, Director of Finance and ICT
Brian Bassington, Chief Internal Auditor

Appendix

Significant deficiencies in internal control have been identified in the system areas set out below:

Control weakness	Potential Impact	Audit response
Housing and Council Tax Benefit		
Two of the three senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims throughout the year, as documented as a control over accuracy of payments within the Council's system notes for benefits. This is one of the Council's stated internal controls and was also reported as a failure in the previous year.	There is an increased risk that incorrect benefit is awarded to claimants, which could result in material misstatement of housing and council tax benefit expenditure.	This control failure reduces the level of assurance we can gain over the occurrence and accuracy of the information recorded on the benefits system and thus calculating the correct benefit award. Our revised approach will be to complete substantive testing on a sample of benefit claimants to ensure that the Council have received the appropriate documentation to support the assessment of benefit claims and that the claims have been awarded correctly.

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PKF

Accountants &
business advisers

Epping Forest District Council

Annual Governance Report
2011/12

September 2012

DRAFT

Contents

Appendices

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

We accept no responsibility for any reliance that might be placed on reports and letters for any purpose by third parties, to whom it should not be shown without our prior written consent.

Code of Audit Practice

Statement of Responsibilities

1 Executive summary

1.1 The purpose of this report is to communicate to you the significant findings from the audit of Epping Forest District Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources. A summary is set out below:

Area of audit	Findings and conclusion
Financial statements	
Financial statements	No material misstatements were identified as a result of our audit work. Some uncorrected non-trivial but not material errors have been identified and these are detailed in Appendix B. **Some areas of work are still outstanding at the time of drafting this report**. Should these result in any significant issues, we will give an oral update to the Audit and Governance Committee. Subject to satisfactory completion of the outstanding work, we anticipate issuing an **unqualified** true and fair opinion on the financial statements for the year ending 31 March 2012. The detailed findings from our work are set out in section 3.
Annual Governance Statement	We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.
Whole of government accounts	Our work to review the consistency of the whole of government accounts return with the audited financial statements is in progress and an oral update will be given at the Audit and Governance Committee on 24 September.
Internal controls	One significant deficiency was identified in relation to checks being undertaken on Housing and Council Tax Benefit claims. This was reported to the Audit and Governance Committee in our letter dated 2 August 2012 and a recommendation has been made in Appendix A of this report.
Use of resources	
Value for money conclusion	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012. The detailed findings from our work are set out in section 4. We anticipate issuing an **unqualified** value for money conclusion.

Acknowledgement

1.2 We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

2 Introduction

2.1 International Standards on Auditing (ISAs) (UK and Ireland) and the Code of Audit Practice require that we report to those responsible for financial governance and reporting (those charged with governance) the key findings of our audit prior to issuing our opinion on the financial statements and our value for money conclusion. This report summarises the results of our audit work completed to date in respect of the financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2012.

2.2 Our report is presented to the Audit Committee in accordance with the provisions of ISA (UK & Ireland) 260 *Communication with those charged with governance*, ISA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance* and Management, and the Audit Commission's *Code of Audit Practice*.

2.3 The contents of this report have been discussed and agreed with the Director of Finance and ICT.

Findings

2.4 Recommendations in response to the key findings identified by our audit of the financial statements and use of resources work are provided in the action plan at Appendix A. We have also included in Appendix A recommendations in respect of significant control deficiencies reported separately to you in our Letter dated 2 August 2012. These recommendations have been discussed with appropriate officers and their responses are included. Additionally we have reported orally to management other non-significant findings from our audit.

2.5 We would highlight that in this report we do not provide a comprehensive statement of all weaknesses that may exist in the financial and operational systems, but only those matters which have come to our attention as a result of the audit procedures performed. We have only restated weaknesses already reported by Internal Audit where we consider these to be significant.

Independence

2.6 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditors and that our independence declaration, included in the Audit Plan for 2011/12, has remained valid throughout the period of the audit.

3 Financial statements

3.1 We are required to provide an opinion on whether your financial statements give a true and fair view of your financial position and income and expenditure and whether they have been prepared properly, in accordance with appropriate legislation and relevant accounting guidance. To do this we carry out risk based procedures designed to obtain sufficient appropriate audit evidence to determine with reasonable confidence whether the financial statements are free from material misstatement and evaluate the overall presentation.

3.2 In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify *all* risks or potential and actual misstatements.

3.3 We consider misstatements of less than £33,000 to be trivial to the financial statements, unless the misstatement is indicative of fraud, and have not reported them. This is unchanged from the triviality level that was reported in our Audit Plan.

Reporting to those charged with governance

3.4 We have set out below those matters relevant to our audit that, under auditing standards, require reporting to those charged with governance or which we believe should be reported to you to assist you with your governance duties.

Significant risks of material misstatement

3.5 We reported our risk assessment in the 2011/12 Audit Plan issued in January 2012. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the Council's draft financial statements, and we reported our updated risk assessment to you in our Letter dated 2 August 2012.

3.6 Our audit approach was designed to address these significant risks and any relevant issues arising have been set out in the remainder of this report.

Accounting practices

Financial statements preparation

3.7 The requirement for Members to approve the draft financial statements by 30 June was removed by the Accounts and Audit Regulations 2011, however these regulations introduced the requirement for the Responsible Financial Officer to sign and present the financial statements for audit by 30 June. The financial statements were signed and presented for audit on 29 June 2012.

3.8 As part of our planning for the audit, we prepared a detailed document request which outlined the information that we would require to complete the audit. The Council provided us with electronic files of the majority of the requested working papers, with the exception of those relating to the Collection Fund, on 9 July 2012, in line with the agreed timetable.

Accounting policies

3.9 The following changes have been introduced by the *2011 Code of Practice on Local Authority Accounting in the United Kingdom* (the 'Code'), resulting in changes in accounting practice:

- The adoption of FRS30 *Heritage Assets,* requiring that heritage assets are carried at valuation, with comprehensive disclosure note requirements
- Amendments to the related party disclosures required in respect of central government departments, government agencies, NHS bodies and other local authorities to clarify the nature of those related party relationships and simplify the information disclosed.
- New disclosure requirements for exit packages to disclose the number and cost of exit packages agreed in the year
- The introduction of disclosure requirements in relation to the nature and amount of trust funds (a previous Statement of Recommended Practice requirement that has been reinstated).

3.10 The Council has dealt with the implementation of these changes in an appropriate manner and assisted the audit in the review of the changes required.

Accounting estimates

Estimation of Useful Economic Lives of HRA properties

3.11 Upon receipt of the draft financial statements we identified an unexpected difference between the figure for depreciation in the financial statements and the figure we were expecting from our analytical review work. This was reported as a significant audit risk in our updated risk assessment in our Letter dated 2 August 2012.

3.12 During the audit the reasons for the unexpected variance were investigated and were found to be due to a change in the useful economic lives of Housing Revenue Account (HRA) properties.

3.13 The Council had previously calculated their remaining useful economic lives on a sample basis because there was not a detailed list of the Council's repairs and renewals programme on a component by component basis (a component being an individual part of a property with a different useful life to the whole property). During the year, a detailed breakdown was produced and the Council therefore used this analysis to determine a more accurate average remaining useful economic life for each component, which was used to calculate depreciation.

3.14 The Council's new methodology is reasonable and, overall, it provides an enhanced, refined set of data upon which to base its estimation of depreciation. However, sample testing of the data that supports the depreciation charge still needs to be completed.

3.15 Furthermore, this represents a change in accounting estimate and the financial statements have been amended to disclose the impact of this change on the depreciation charge to the reader. Also, the Council has changed its replacement cycle as at 1 April 2012 because the move to self-financing of the HRA has given the Council more financial freedom to maintain properties to a higher standard and replace components on a more frequent basis. This will result in a significant decrease in the average remaining useful economic lives next year, which will significantly increase the annual depreciation charge, and the Council has made a disclosure to this effect within their financial statements.

Disclosures

3.16 We identified a number of departures from the expected presentation of the financial statements or where notes and other disclosures had not been presented in accordance with the Code. We have agreed that these matters will be amended in the financial statements, none of which impact on the reported financial outturn in the Consolidated Income and Expenditure Statement, and include:

- The vacant possession value disclosed in Note 3 to the HRA did not reflect the disposals and adjustments made during 2011/12 and, therefore, required updating to show the correct figure as at 31 March 2012.
- The revaluations note (Note 12) incorrectly disclosed the revalued amount for Council Dwellings and Garages within the 31 March 2011 line in this note. The financial statements should be updated to include this revaluation within the 31 March 2012 line.
- The formulas used in the Council's calculations of the total future minimum payments within the leases note (Note 36) were incorrect. The financial statements should therefore be updated to reflect the correct values.
- Responsibility for concessionary fares transferred to Essex County Council during 2011/12. The income and expenditure in relation to this should be shown as a separate line from Highways and Transport for both the current and prior year so that the reader of the financial statements can better understand the consistent year on year costs.
- Four related parties were identified from our testing where the transactions that the Council had with them in the year had not been disclosed in the financial statements (Note 34).
- £106,811 had been included within accruals in the creditors note (Note 21), however testing identified that these related to amounts where cheques had been written back and therefore did not relate to accrued amounts, but should have been classified as Sundry Creditors.
- The financial instruments note (Note 17) had not been prepared in accordance with the Code and included amounts such as deferred income, where there is not a right to receive cash, and therefore does not meet the definition of a financial instrument.

Uncorrected misstatements

3.17 We are required to report to you uncorrected misstatements that relate to the current financial year (including those arising in previous periods that have an effect on the current year financial statements) and the effect that they have individually, or in aggregate, on the financial statements, except for those that are clearly trivial. These are set out below and their potential impact is summarised at Appendix B:

- **New Homes Bonus**: The Council received a payment of grant for the new homes bonus of £58,000 in March 2012 that was described as 'The new homes bonus scheme grant determination 2012-13'. The Council did not account for this as income in the year. However, the Code requires that where a grant is received, and there are no conditions attached to the grant, the amount should be recognised as income immediately.
- **Revaluation of Housing Stock**: The value of one property had been removed from the valuation provided by the Valuer because the Council believed that it was incorrectly included in the valuation when it had previously been disposed. However, our testing identified that it had not been included in the valuation and therefore this property had been incorrectly removed, resulting in an £85,000 understatement of the Council's housing stock in the Balance Sheet.

- **Bad Debt Provision:** The Council incorrectly included write offs processed during the year within the calculation of the year end provision, resulting in an overstatement of the bad debt provision of £58,000 and an understatement of the debtors balance by the same amount within the Balance Sheet.
- **Rental Income:** Our income testing identified approximately £35,000 in relation to rental income that was raised after the year end, but related to 2011/12 and therefore should have been included within the financial statements.
- **HRA income:** Our testing identified that income of £104,844 was not being recognised as income in the HRA Income and Expenditure Statement but was instead being netted down within the Repairs and Maintenance expenditure line. Income and expenditure should be accounted for gross and are, therefore, both understated.

3.18 We have requested that these misstatements be corrected and seek written representation from those charged with governance that they acknowledge these misstatements and that they are satisfied with management's reasoning for not correcting the financial statements.

3.19 The draft letter of representation is set out in Appendix C.

Misstatements corrected by management

3.20 In addition to the matters raised in paragraph 3.16 and 3.17 we identified the following notable departures from the technical guidance in the Code of Practice. The Council have agreed to amend the financial statements for these departures, which include:

- Deferred revenue income
- Collection Fund distribution of the deficit brought forward.

Deferred revenue income

3.21 The Council had entered into a number of agreements over the years with developers under which the developer has paid a one-off lump sum to the Council (described as a "commuted sum") and in return the Council has agreed to maintain (cut grass etc.) certain common land in developments. £498,000 had been included within long term liabilities in the current year as deferred revenue income in respect of these lump sums received.

3.22 There are no conditions attached to this money received by the Council and, therefore, in accordance with the Code, the amount should be recognised immediately as income. Although the amount is not material the Council has chosen to restate their financial statements back to 1 April 2010 and have set up an earmarked reserve to release the income to the general fund over time.

Collection Fund distribution of the deficit brought forward

3.23 The Council have been incorrectly including only the Council's share of the collection fund deficit within the Collection Fund Income and Expenditure Account. In accordance with the Code, the Council should have been recording the full deficit arising on the Collection Fund as a whole and have, therefore, been understating the deficit and the Collection Fund Adjustment Account. The prior year amount has been restated by £530,000 to show a total deficit of £615,000 and the current year has been restated by £620,000 to show a deficit of £720,000.

Other matters

3.24 We are required to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- Significant deficiencies in internal control identified during the audit

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.)
- Other audit matters of governance interest.

3.25 We reported one significant deficiency in internal control within the Housing and Council Tax Benefits system, and the impact of this deficiency, to you in our Letter dated 2 August 2012.

3.26 The work on the Whole of Government Accounts Return is still on-going and an oral update will be provided at the Audit and Governance Committee.

3.27 There are no others matters which we wish to draw to your attention and we can confirm that we are satisfied that the draft Annual Governance Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council

Written representations

3.28 We are required by ISAs to obtain written confirmation from you of certain representations that have been made during the course of our audit. The draft letter of representation has been attached as Appendix C.

3.29 We do not anticipate any changes being required before providing our opinion on the financial statements.

Audit report

3.30 Subject to satisfactory resolution of the following outstanding issues and final clearance of the audit, we anticipate issuing an unqualified audit opinion on the financial statements:

- Clearance of review points
- Completion of sample testing of the data that supports the depreciation calculation
- Completion of testing on the Whole of Government Accounts

3.31 We will provide an oral update on these outstanding issues at the Audit and Governance Committee.

4 Use of resources

4.1 We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

4.2 In accordance with our Audit Plan, our principal work in arriving at our value for money conclusion was comparing the Council's performance against characteristics specified by the Audit Commission in its guidance to auditors. The focus of our work in 2011/12 involved reviewing the financial resilience of the organisation and its arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

4.3 Our financial resilience work has considered the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

4.4 As well as achieving savings of £1.74m the Council increased its General Fund Balance by £631,000 which was £562,000 above its forecast outturn position. Earmarked general fund reserves were also increased by £325,000. The Housing Revenue Account realised an overall decrease in its balance of £1.39m which is £400,000 worse than the Council's revised budget estimate. This was largely due to £650,000 being appropriated to the Insurance Fund in recognition of the potential liabilities faced by the Council relating to asbestos claims. Despite this decrease the Housing Revenue Account reserve remains at £4.5m, which is considered reasonable.

4.5 During the year, the Council borrowed £185.5m to finance the payment to the Department of Communities and Local Government to release the Council from the Housing Revenue Account subsidy arrangement, in line with recent reforms. The borrowing is supported by a 30 year Business Plan to demonstrate the affordability of the debt.

4.6 The Council has a good track record of achieving its budgets and successful financial management arrangements putting it in a relatively strong position, compared to similar councils, of having built up good levels of funds and reserves to support it in its response to the continued financial pressures faced. From review of current documentation, the Council is on track to deliver its 2012/13 budget and although its medium term financial plan forecasts that it will be necessary to utilise reserves during 2013-2017 it is estimated that reserves at the end of this period will still be in the region of £7.7m. This is more than twice the minimum level of reserves necessary to comply with its own financial management policies.

Challenging economy, efficiency and effectiveness

4.1 The Council has continued to review and consolidate its baseline arrangements for challenging and securing value for money during 2011/12. The arrangements operated during the year remain adequate. Business Plans continue to outline annual VFM considerations and implications for each service and include benchmarking comparisons where appropriate. Performance management and risk management arrangements that support the achievement of value for money are evidenced as continuing to operate as previously assessed with no contra-indicators.

4.2 The implementation of the VFM Strategy action plan and the Data Quality Strategy action plan has been monitored and the VFM Strategy has been formally reviewed for continued relevance. Some of the previously implemented proactive VFM actions have remained on hold but there have been specific targeted pieces of work that demonstrate a continued awareness of the need to seek value for money improvements. These include completion of specific externally contracted consultancy reviews with a VFM aspect that were funded by Improvement East's Efficiency Challenge monies. The result of these studies will be used to target specific areas for more detailed challenge where necessary and include:

- Review of the Grounds Maintenance service and contract
- A revenue income optimisation study
- An organisational structure review.

4.3 The Council has completed a review of its position compared to its nearest neighbours, using the Audit Commission Value for Money Profile Tool. The analysed results of this review were reported to the Finance and Performance Management Cabinet Committee in June 2012 and decisions on which areas require further in-depth review will be made by the Finance and Performance Scrutiny Panel in September 2012. We expect that any in-depth studies completed in 2012/13 to challenge value for money will be driven by the outcomes from the various internal and external reviews undertaken in the pursuit of improved value for money outcomes.

4.4 During 2011/12 a number of efficiency savings have been achieved through partnership working arrangements, including joint procurement.

Audit report (value for money conclusion)

4.5 Our value for money conclusion is based on considering our overall risk assessment, focusing on the two criteria set by the Audit Commission as well as consideration of the processes underpinning your review of the effectiveness of your controls as described in your Annual Governance Statement.

4.6 We anticipate issuing an unqualified value for money conclusion for the year ended 31 March 2012.

Appendix A: Action Plan

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Financial statements				
The Council has not implemented its property management system in the financial year which has meant that an asset by asset split of the 2011/12 valuations could not be provided in respect of housing stock. This could lead to the Council not accounting for their revaluations correctly going forward.	1. Implement a property management system that can record the housing stock on an asset by asset basis so that the revaluation reserve can be maintained in line with the requirements of the Code and is correctly calculated on a component by component basis.			
In line with previous Code requirements the Council currently revalue their assets as at 1 April. Assets then need to be critically reviewed as at 31 March to ensure their carrying values are materially accurate at the Balance Sheet date. The Code requirement to value assets as at 1 April has been removed from the 2011/12 Code and consequently we consider that performing the revaluation of the Council's assets as at 31 March each year would improve the accuracy of their stated values.	2. Instruct the Valuer to undertake revaluations as at 31 March.			
Three unsigned employment contracts, from a sample of ten, were identified as part of our testing. There is a risk that contracts are not enforceable if signed copies are not retained.	3. Human Resources should obtain and retain signed employment contracts for all new starters.			

Conclusions from work	Recommendations	Management responses	Responsibility	Timing
Four members declared related parties on their declaration form but the Council did not identify that there were transactions with these parties during the year and therefore did not disclose the transactions with these parties in the financial statements. There is a risk that related parties are not identified.	4. Review all declaration forms and, for any related parties disclosed, interrogate the general ledger to determine whether there are related party transactions to disclose.			
Internal controls				
Two of the three senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims throughout the year, as documented as a control over accuracy of payments within the Council's system notes for benefits.	5. Remind the senior benefit staff of the on-going requirement for them to perform the 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims.			

Appendix B: Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
Factual misstatements					
Being a grant for £58,000 in relation to the New Homes Bonus that was received in advance in March 2012, with no conditions in place. This should therefore be recognised as income in 2011/12.	(58)		58		
Being the understatement of the valuation of the council dwellings and land due to a property being removed incorrectly.	(85)		85		
Being the overstatement of the bad debt provision due to write offs being incorrectly included.	(58)		58		
Being the understatement of income due to four invoices in relation to rental income not been accrued for during 2011/12.	(35)		35		
Being the understatement of both income and expenditure due to netting off of income against the repairs and maintenance expenditure.	(105)	105			
Judgemental misstatements					
None.					
Projected misstatements (extrapolation of errors)					
Being the projected misstatement arising from incorrect treatment of accruals.		(44)		44	
Total net misstatements	(341)	61	236	44	
- Net understatement of income	(280)				
- Net understatement of net assets			280		

Appendix C: Draft letter of representation

Representations for the preparation of the Statement of Accounts (as set out below), which includes the financial statements, will be sought from the Director of Finance and ICT (as the Responsible Financial Officer) and from Members on behalf of the Council in relation to its responsibility to approve the Statement of Accounts and the Annual Governance Statement.

PKF (UK) LLP
Farringdon Place
20 Farringdon Road
London
EC1M 3AP

26 September 2012

Dear Sirs

Financial statements of Epping Forest District Council for the year ended 31 March 2012

This representation letter is provided in connection with your audit of the financial statements of Epping Forest District Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

FINANCIAL STATEMENTS

Responsibility for the financial statements

I acknowledge as the Director of Finance and ICT and s151 Officer my responsibilities for the Statement of Accounts, which include the financial statements, and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

Significant assumptions

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable and appropriate:

Pension fund assumptions

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

• Rate of inflation (RPI)	3.3%
• Rate of inflation (CPI)	2.5%
• Rate of increase in salaries	4.3%
• Rate of increase in pensions	2.5%
• Rate for discounting scheme liabilities	4.6%
• Take up option to convert the annual pension into retirement grant	50.0%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

Fair value measurements and disclosures

I confirm that the valuation at which land and buildings are carried in the financial statements is a reasonable approximation of their fair values, on the bases required by the Code of Audit Practice.

Valuation of housing stock

The useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me by the expert valuer appointed by the Council to provide this information.

Plans or intentions

I confirm that the Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims, the effects of which should be considered when preparing the financial statements and these have been accounted for and disclosed in accordance with the applicable financial reporting framework.

Related parties

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the applicable financial reporting framework.

Subsequent events

All events occurring subsequent to the date of the financial statements for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.

Uncorrected misstatements

I believe that the uncorrected misstatements identified during the audit are immaterial both individually and in aggregate to the view given by the financial statements as a whole. A list of these items is attached as an appendix to this letter.

Going concern

I confirm that we are satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements will be approved.

Comparative information

We confirm that, in respect of the restatement to implement the Heritage Assets accounting policy changes the adjustments relate to a change in accounting policy as we believe that the new accounting policy is more appropriate, and accordingly to ensure the consistency of accounting treatment between periods it is necessary to restate the current and corresponding periods on the basis of the new policy.

INFORMATION PROVIDED

Completeness of information

All the accounting records have been made available to you for the purpose of your audit. I have provided you with all other information requested and given unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and Committee meetings held during the year and up to the date of this letter have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

There is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have communicated to you all significant deficiencies in internal control of which I am aware.

Fraud

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting the financial statements, nor have any allegations of fraud or suspected fraud affecting the financial statements been communicated to me by employees, former employees, councillors, regulators or others.

Compliance with law and regulations

I 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 the financial statements.

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.

Related parties

I confirm that I have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which I am aware.

Liabilities, contingent liabilities or guarantees

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

Title to assets

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

Yours faithfully

Robert Palmer

Director of Finance and ICT

Representations of the Council

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

Responsibility for the financial statements

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts, which include the financial statements. The Director of Finance and ICT is responsible for the preparation of the Statement of Accounts, which include the financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

Uncorrected misstatements

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance and ICT for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

Annual Governance Statement

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

Councillor A Watts
Audit and Governance Committee Chair

Signed on behalf of the Council

Note: Appendix 1 referred to in this letter relates to Appendix B in this report

Report to the Audit and Governance Committee

Epping Forest District Council

Report reference: AGC-009-2012/13
Date of meeting: 24 September 2012

Portfolio: **Finance and Technology**

Subject: **Statutory Statement of Accounts 2011/12**

Responsible Officer: **Bob Palmer** **(01992 564279)**

Democratic Services: **Gary Woodhall** **(01992 564470)**

Recommendations/Decisions Required:

(1) That a report be submitted to the Council recommending that the Statutory Statement of Accounts for 2011/12 be adopted.

Executive Summary:

One of the key roles of this Committee is scrutinising the annual Statutory Statement of Accounts. All Members of the Council will have the opportunity to debate the Accounts at Full Council and part of that debate will be to consider the recommendation of this Committee.

It is anticipated that the audit will be completed shortly and that the Statutory Statement of Accounts will be presented to Council on 27 September. There is a separate report elsewhere on the agenda that sets out the key findings of the audit.

The changes to the annual Statutory Statement of Accounts for 2011/12 are relatively modest compared to those necessary for compliance with International Financial Reporting Standards (IFRS) in 2010/11. To assist Members with their consideration of the Accounts a report follows together with the Accounts themselves.

Reasons for Proposed Decision:

It is important that this Committee scrutinises the annual Statutory Statement of Accounts so that residents and other Members can have confidence in the Accounts.

Officers have exercised their professional judgement and liaised closely with external experts and the External Auditor to produce the Statutory Statement of Accounts. If Members are satisfied with the content of this report and the verbal responses to any questions raised, they are requested to recommend the Statutory Statement of Accounts for adoption by Full Council on 27 September.

Other Options for Action:

The Committee could decide that the accounts should be amended or expanded prior to them being presented to Full Council.

Report:

1. The Accounts and Audit Regulations require Full Council or an Executive Committee to adopt the Council's Statement of Accounts before the end of September. The Council's constitution reserves the adoption of the Accounts to Full Council only. However, prior to Council considering the accounts it is important that they have been subject to Member

scrutiny. This Committee has scrutinised the Statement of Accounts for the previous five years.

2. The consideration of the Statement of Accounts is contained in the Terms of Reference of this Committee, the relevant parts being:

> *"(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to members, and monitor management action in response to the issues raised by External Audit.*
>
> *(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:*
>
> > *(i) critical accounting policies and practices, and any changes to them;*
> >
> > *(ii) decisions requiring a major element of judgement;*
> >
> > *(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;*
> >
> > *(iv) significant adjustments resulting from the audit; and*
> >
> > *(v) any material weakness in internal control reported by the Internal or External Auditor."*

<u>Changes to the Contents of the Statutory Statement for 2011/12</u>

3. There have been no significant changes in content this year to either the main accounting statements or their accompanying notes. One additional note has been added for Heritage Assets.

4. The concept of Heritage Assets was introduced by the accounting standard FRS 30. A heritage asset is defined as an asset that is maintained principally for the contribution it makes to knowledge and culture. In the case of the Council the museums service hold a number of artefacts that fall within this definition. The Code also states that such assets should be recognised where the authority has information on the cost or value of the assets but where this is not available a note to that effect should be included. This is a change of policy and as a result the Balance Sheet has been restated, including the opening Balance Sheet for 2010/11, to reflect those assets where a value is available. However the amount is not material to the accounts themselves and therefore not all the disclosures required by the code have been made.

5. The effect on the Balance Sheet has been to reduce the value of Property, Plant and Equipment by £24,000, due to the reclassification of the Epping Fountain as a Heritage Asset, and add Heritage Assets as a new Long Term Asset with a net value of £543,000. This has had the net effect of increasing Total Assets less Liabilities by £519,000. This is mirrored on the bottom half of the Balance Sheet by an increase of £519,000 in Unusable Reserves.

<u>Critical Accounting Policies and Practices, and any changes to them</u>

6. There have been no significant changes in accounting policies and practices during the year. The accounting policies are set out on pages 9 to 15 of the Accounts.

<u>Decisions Requiring a Major Element of Judgement</u>

7. In preparing a set of accounts at a point in time it is inevitable that some of the information required will not yet be available. If an actual amount is uncertain an estimate is

used. The estimate will be based on the assessment of information available at the time the accounts are closed. When the actual figures are determined any difference is usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

8. Two of the additional notes introduced by IFRS last year are relevant here, note 3 "Critical judgements in applying accounting policies" and note 4 "Assumptions made about the future and other major sources of estimation uncertainty". The key critical judgement highlighted in note 3 is that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values.

9. Three areas are covered by note 4, these are firstly property, plant and equipment, secondly pensions liability and finally arrears. The assumption made on property, plant and equipment is that assets will continue to be maintained so as to maximize their useful lives. If this were not to be the case additional depreciation would need to be charged. In reviewing arrears an estimate has to be made to allow for bad debts and, whilst a prudent view is taken in making this calculation, if the economic climate were to worsen significantly the charge to the CIES would increase.

10. The substantial annual fluctuations in the pension's liability make clear the element of judgement exercised by the actuary in establishing the pension figures. The largest creditor on the Balance Sheet is the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council has increased in the year from £46.3 million to £65.6 million. The value of the scheme assets has increased during the year but the projected liabilities have increased by even more. The main factor in increasing the scheme's liabilities has been the change in discount rate for future outgoing cash flows. This discount rate has reduced from 5.5% to 4.6%, causing increases in liabilities for Essex authorities ranging from 13% to 25%. The increase is all the more noticeable this year as the value of our liabilities had been reduced by over £9 million in the previous year.

11. The following table is included to illustrate how the overall deficit has fluctuated over time, part of this volatility may be due to the change in actuaries during the year from Mercer to Barnett Waddington.

	2011/12 £'m	2010/11 £'m	2009/10 £'m	2008/09 £'m	2007/08 £'m
Liabilities	(150.8)	(130.1)	(139.2)	(102.3)	(120.4)
Assets	85.2	83.8	82.7	60.8	76.9
Deficit	(65.6)	(46.3)	(56.5)	(41.5)	(43.5)

12. The inclusion of this amount in the Balance Sheet shows the extent of the authority's liability if the pension fund was to close on 31 March 2012. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

13. There are no other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. Where it has been necessary to exercise judgement in the interpretation of the Code of Practice advice has been sought from CIPFA and staff have liaised closely with both the External Audit Manager and other Essex authorities.

<u>The Extent to which the Financial Statements are Affected by any Unusual Transactions in the year and how they are disclosed</u>

14. Where a transaction has been separately disclosed as an Exceptional Item it clearly needs to be mentioned in this section. Last year the Council received a substantial VAT refund relating to over declared VAT and interest on output tax charged on sports tuition between 1 January 1978 and 31 December 1989. A number of authorities across the country made similar claims and Members may have seen them described in the press as "Fleming

Claims". The claim produced a net benefit of £714,000. This year a further net refund of £253,000 has been agreed in relation to trade waste for the period from 1 April 19738 to 30 November 1996.

15. The other exceptional item in the accounts is the borrowing of £185,456,000 from the Public Works Loan Board in order to pay an equivalent amount over to the Department for Communities and Local Government. This payment was the amount prescribed as payable on the cessation of the Housing Revenue Account Subsidy regime on 31 March 2012. The payment is of a capital nature but as it neither creates nor improves an existing asset the payment is written off to the Comprehensive Income and Expenditure Statement in the year of payment. This item is reversed out within the Adjustments Between Accounting Basis and Funding Basis under Regulation as it is not funded from revenue resources. The 30 year business plan for the HRA shows that overall this transaction will bring significant benefits to the HRA, as annual payments into the subsidy pool of £11.3 million have been replaced by interest payments of £5.5 million.

Significant Adjustments Resulting from the Audit

16. Any significant adjustments that are made to the Statement of Accounts will be reported to this Committee, none have arisen so far for 2011/12.

Any Material Weakness in Internal Control Reported by the Internal or External Auditor

17. The weakness reported in 2010/11 of Senior Benefit Officers failing to perform the required amount of checking was still not fully resolved in 2011/12. However, no material errors arose as a result of this.

Resource Implications:

The Accounts set out the resource implications of the Authorities activities for 2011/12. The recommendation of the Accounts to Full Council does not in itself have any resource implications.

Legal and Governance Implications:

Full Council must approve the Accounts before the end of September and as part of the overall governance framework the Accounts should be subject to Member scrutiny prior to their approval.

Safer, Cleaner and Greener Implications:

There are no environmental implications.

Consultation Undertaken:

None.

Background Papers:

Reports on the revenue and capital outturns to the Finance & Performance Management Cabinet Committee on 25 June 2012.

Impact Assessments:

There are no equalities or risk management impacts.

Epping Forest District Council

www.eppingforestdc.gov.uk

STATEMENT OF ACCOUNTS
2011-12

STATUTORY STATEMENT OF ACCOUNTS 2011/12

CONTENTS

Further copies of this report are available from the Director of Finance & ICT at the Civic Offices, High Street, Epping, Essex, CM16 4BZ

INTRODUCTION AND EXPLANATORY FOREWORD

INTRODUCTION

Over a period of time the appearance and content of local authority accounts has changed dramatically and the change to International Financial Reporting Standards (IFRS) last year introduced major changes. It is unfortunate that these changes have made the accounts more difficult for the avearge reader to understand. Thankfully there have been no significant changes for this year and it is hoped that we may now see a reduction in the significance and number of changes. The process we are required to follow and the key financial statements are outlined below.

The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes a Code of Practice on Local Authority Accounting (the Code) every year that local authorities are required to follow in producing their financial statements. Before the Code is published the Accounting Standards Board (ASB) approves the document. In recent years the ASB has insisted that the Code moves closer to Generally Accepted Accounting Principles (GAAP), so that public sector financial statements more closely resemble those prepared in the private sector and hence the switch to IFRS.

- Comprehensive Income and Expenditure Statement - this brings together all gains and losses during the year to report them in one statement. This statement replaces the previous Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.

- Movement in Reserves Statement - this shows the movements on all reserves in the bottom half of the Balance Sheet and reconciles the surplus or deficit on the Comprehensive Income and Expenditure Statement to the movement in the General Fund Balance. This replaces the Statement of Movement on General Fund Balance and the note which had previously been used to disclose movements on reserves.

- Balance Sheet - this is the statement of the Council's net worth. There have been presentational changes to the Balance Sheet but it is broadly similar to previous years.

- Cashflow Statement - this reports the movement on cash and cash equivalents in a more summarised form than used previously. Under IFRS some items are now included within cash that would previously have been excluded.

The above are described as core financial statements as all local authorities are required to produce them. Both the Balance Sheet and the Cashflow Statement are long established documents that have not been radically amended over time by the successive accounting standards. The Balance Sheet lists what the Council owns, what is owed to the Council and what the Council owes to others. The Cashflow Statement summarises the movements in assets, liabilities and capital broken down into operating, investing and financing activities that have taken place during the year and their effect on the Council's holdings of cash.

2011/12 saw the ongoing concerns about the weakness of peripheral Euro zone members such as Greece, Ireland and Portugal expand to encompass the larger economies of Italy and Spain. Drastic austerity measures have not been sufficient to prevent downgrading of sovereign debt ratings and a need for further bail outs. Fears about a Greek default and the long term viability of the Euro remain. Closer to home, economic growth has remained weak and the feared "double dip" recession has occured. In both the United Kingdom and Europe the debate continues to determine how reductions in public expenditure can be achieved whilst providing some stimulus for growth.

The depressed property market and low interest rates have continued to impact on some of the Council's key income streams throughout the year. The coalition Government has embarked on a Local Government Resource Review which will fundamentally change the way local authorities are financed from 2013/14. As an incentive to promote economic growth authorities will be able to retain a share of any growth in income from non-domestic rates. However, the scheme remains work in progress at this time and so the outcomes are uncertain.

For 2010/11 the Council received £9.415 million of formula grant although, due to changes in responsibilities between tiers of local government, this figure was re-stated as £8.71 million for comparisons going forward. The formula grant for 2011/12 of £7.59 million represents a 12.9% reduction against the adjusted 2010/11 figure. The 2011/12 figure is itself then re-stated and the formula grant figure of £6.656 million for 2012/13 is a further 12.3% reduction.

The reductions in grant over two years were approximately £100,000 worse than had been anticipated for the entire four year CSR period. In making these reductions the government only gave broad indications of the grant figures beyond 2012/13 and, as mentioned above, there is no clarity yet around what authorities can expect from 2013/14. The Medium Term Financial Strategy (MTFS) has been adjusted and levels of net savings required set for 2013/14 and 2014/15, although these figures will need to be re-visited.

The necessary net savings to the General Fund for 2012/13 were delivered primarily through budget reductions in areas with an historic trend of underspending and through the re-negotiation of the waste management contract, which has provided an annual saving of £850,000. In common with other Essex authorities, the Council has stopped funding Police Community Support Officers and this has saved over £90,000 per annum.

In 2011/12 the Council's Balance Sheet has suffered a substantial reduction with reform of the Housing Subsidy System requiring the Council to borrow £185 million to buy itself out of the system. Normally borrowing in the bottom half of the balance sheet is mirrored by the appearance of an asset in the top half that the loans have financed. Instead of creating an asset the payment of £185 million has allowed the Council to avoid annual payments of £11.4 million into the subsidy system.

Having been debt free for many years, taking on such significant borrowings did not seem attractive. However, the debts will be repaid over 30 years and the business plan for this period shows that the Housing Revenue Account will be in a much stronger financial position than if the subsidy system had continued. The additional funds now available within the HRA have allowed the introduction of an enhanced maintenance standard, which exceeds the requirements of the Decent Homes Standard, and the creation of a programme for building new homes. The business plan will need to be adjusted in subsequent years once the effects of the enhanced right to buy discounts becomes clear, although the current expectation is that this change may benefit the HRA overall as more money will be available for the new build programme.

A number of the Council's significant income streams are property related and these have continued to provide lower returns than has historically been the case, although the Continuing Service Budgets have been adjusted down for these trends. A ring-fenced account is maintained for Building Control which is required to break even over a three year rolling period. Cost control measures proved very effective in 2011/12, as despite operating at a lower level of income the account has returned a £67,000 surplus for the year. Previously the MOT service provided by Fleet Operations had performed strongly, although late in 2011/12 two significant customers moved their business to other providers and this reduced income for the year.

The second largest liability on the Council's Balance Sheet is in respect of the pension fund. This has increased significantly in the year from £46.3 million to £65.6 million. The assets of the scheme have increased in value by £1.4 million but the major change is on the liabilities which have increased by £20.7 million. A change in the discount rate for future cash flows increased liabilities for scheme members between 13% and 25% and this is by far the biggest reason for the overall increase in the liability. The inclusion of this amount in the Balance Sheet shows the extent of the Council's liability if the pension fund was to close on 31 March 2012. It does not mean that this full liability will have to be paid over to the pension fund in the near future.

The year-end position is better than was anticipated when the revised estimates were set. A predicted General Fund surplus of £69,000 has been exceeded and a surplus of £631,000 was achieved. The Housing Revenue Account has a deficit of £1.393 million, slightly worse than the revised estimate of a deficit of £949,000. The next section provides more detail on both the revenue and capital outturn for the year.

SUMMARY OF OUTTURN

The following tables provide a summary review of net expenditure and financing for 2011/12.

General Fund

The table below summarises the revenue outturn for the General Fund and the consequential movement in balances for 2011/12

General Fund	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Net Expenditure after Adjustments	15,682	15,643	15,081	(601)	(562)
Government Grants and Local Taxation	15,511	15,712	15,712	201	-
(Contribution to)/from Balances	**171**	**(69)**	**(631)**	**(802)**	**(562)**
Opening Balances - 1/4/11	(8,570)	(8,570)	(8,570)	-	-
(Contribution to)/from Balances	171	(69)	(631)	(802)	(562)
Closing Balances - 31/3/12	**(8,399)**	**(8,639)**	**(9,201)**	**(802)**	**(562)**

Net expenditure for 2011/12 totalled £15.081 million, which was £601,000 (3.8%) below the original estimate and £562,000 (3.6%) below the revised. When compared to a gross expenditure budget of approximately £82 million, the variances can be restated as 0.7% and less than 0.7% respectively.

An analysis of the changes between Continuing Services Budget (CSB) and District Development Fund (DDF) expenditure illustrates where the main variances in revenue expenditure have occurred.

General Fund	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Opening CSB	17,090	17,393	16,942	(148)	(451)
In Year Growth	486	1,102	1,112	626	10
In Year Savings	(1,894)	(2,852)	(2,973)	(1,079)	(121)
Total Continuing Services Budget	**15,682**	**15,643**	**15,081**	**(601)**	**(562)**
DDF - Expenditure	1,698	1,965	1,557	(141)	(408)
DDF - One Off Savings	(594)	(1,615)	(1,745)	(1,151)	(130)
Total DDF	**1,104**	**350**	**(188)**	**(1,292)**	**(538)**
Appropriations	**(1,104)**	**(350)**	**188**	**(1,292)**	**(538)**
Net Expenditure	**15,682**	**15,643**	**15,081**	**(601)**	**(562)**

Continuing Services Budget

CSB expenditure was £601,000 below the original estimate and £562,000 lower than the revised. The variances have arisen on both the opening CSB, £451,000 lower than the revised estimate and the in year figures, £111,000 lower than the revised estimate.

In common with recent years salary savings make up a proportion of the saving on the opening CSB. Actual salary spending for the Council in total, including agency costs, was some £18.847 million compared against a probable outturn of £19.796 million. The saving of £949,000 was primarily spread over four directorates Housing, Environment and Street Scene, Planning and Economic Development and Office of the Chief Executive, though much of the latter has been treated as DDF. The largest monetary saving related to Housing so broadly half of the overall saving fell on the Housing Revenue Account (HRA) or Housing Repairs Fund rather than the General Fund. There were an number of other underspent CSB budgets, with the largest underspends being on the corporate improvement budget (£33,000) building maintenance (£25,000) and NDR reductions (£23,000). In addition to these there were many other budgets which had underspends of between £6,000 and £12,000.

The original in year CSB saving figure of £1,408,000 increased at revised estimate to a saving of £1,750,000. The main reasons related to the savings on the waste management contract and the inclusion of the New Homes Bonus. This was offset to a degre by the decision to build the whole of the pension deficit payments into the CSB. Given that the capitalisation direction applied for 2011/12 was refused this was considered the appropriate prudent step to take in the circumstances. In the event the savings were higher than both at £1,861,000, the main aditional saving was the cessation ot the contribution toward the community support officers being achieved earlier than expected.

District Development Fund

Net DDF expenditure was £1,292,000 below the original estimate and £538,000 below the probable outturn. There are requests for carry forwards totalling £446,000 and therefore the variation actually equates to a £92,000 net under spend on the DDF items undertaken. These one-off projects are akin to capital, in that there is regular slippage and carry forward of budgetary provision. Therefore the only reasonable variance analysis that can be done is against the revised position.

The net DDF spend reduced between the Original and Revised position by £754,000, this was due to a mixture of items brought forward from 2010/11 and new items identified during 2011/12. The largest item introduced into the probable outturn was additional net income for a VAT refund relating to trade waste charges originating betweenn 1973 and 1996. There was also anticipated to be a substantial reduction in investment income. Funds allocated to the Local Plan were rephased into 2012/13.

Three Directorates saw variations in excess of £100,000 on their DDF when compared to the probable outturn. Within Corporate Support Services the variation related to Local Land Charges. Within Finance and ICT there are two variations. The anticipated allowance required for the new concessionary fare arrangements will not now be required and whilst on going court cost income is expected to reduce the total income in 2011/12 was better than expected. It is felt the additional income though was of a one off nature. The main variation within Planning services relates to slippage within the Local Plan budget.

The effect of this is that there is a balance of £3.46 million on the DDF as at 31 March 2012 whereas it was expected that the balance would be £2.92 million. The carry forward provision of £446,000 has been added to the programme for 2012/13 meaning that at the end of that year there is an additional £92,000 available to spend. The MTFS set in February 2012 had anticipated that the DDF balance would still be £1.309 million at the end 2015/16 and this position has improved slightly.

Appropriations

The only variations on appropriations arose from the under spend on the DDF.

Housing Revenue Account

The table below summarises the revenue outturn for the HRA.

Housing Revenue Account	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Revenue Expenditure	13,416	13,154	12,866	(550)	(288)
Housing Revenue Account Subsidy Payable	11,312	11,342	11,304	(8)	(38)
Depreciation	8,904	12,893	10,032	1,128	(2,861)
Total Expenditure	**33,632**	**37,389**	**34,202**	**570**	**(3,187)**
Gross Dwelling Rents	27,502	27,544	27,538	(36)	6
Other Rents and Charges	2,980	2,815	2,741	239	74
Total Income	**30,482**	**30,359**	**30,279**	**203**	**80**
Net Cost of Service	**3,150**	**7,030**	**3,923**	**773**	**(3,107)**
Interest and Other Transfers	750	590	637	(113)	47
Interest Payable			(61)	(61)	(61)
Transfer from Major Repairs Reserve	3,998	7,965	5,104	1,106	(2,861)
Net Operating Income	**(1,598)**	**(1,525)**	**(1,757)**	**(159)**	**(232)**
Appropriations					
Capital Expenditure Charged to Revenue	2,050	2,050	2,050	0	0
Transfer to Insurance Fund			650	650	650
Other	130	424	450	320	26
Deficit for Year	**582**	**949**	**1,393**	**811**	**444**
Opening Balance - 1/4/11	(5,886)	(5,886)	(5,886)	-	-
Deficit for year	582	949	1,393	811	444
Closing Balance - 31/3/12	**(5,304)**	**(4,937)**	**(4,493)**	**811**	**444**

A deficit within the HRA of £582,000 and £949,000 was expected within its original and probable outturn revenue budgets respectively; the actual outturn was a higher deficit of £1,393,000. There were a number of areas underspent, including heating and lighting, choice based lettings and allocations and dispersed alarms. There was also an additional appropriation of £650,000 to the Insurance Fund in recognition of the potential liabilities faced by the Council relating to asbestos claims.

The underspend on the capital programme, has reduced the use of the Major Repairs Reserve (MRR). The MRR is shown in the following section covering the Capital Outturn, where it can be seen that the balance on the MRR is £1.6 million higher than the probable outturn at a very healthy £8.24 million.

The revenue balance on the HRA of £5.886 million is still much higher than the target balance of between £3 million and £4 million agreed by Cabinet when considering the most recent HRA five-year forecast.

Capital Outturn

The table below summarises the capital expenditure outturn and its financing for 2011/12

Capital Expenditure and Financing	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Non-Housing	4,653	4,128	2,993	(1,660)	(1,135)
Housing	8,751	8,201	6,570	(2,181)	(1,631)
Total Expenditure	**13,404**	**12,329**	**9,563**	**(3,841)**	**(2,766)**
Grants	658	1,071	974	316	(97)
Capital Receipts	5,801	4,237	3,206	(2,595)	(1,031)
Revenue Contributions	6,945	7,021	5,383	(1,562)	(1,638)
Total Financing	**13,404**	**12,329**	**9,563**	**(3,841)**	**(2,766)**

The table identifies a net underspend against the revised estimate of £2.766 million, some of which has been established as genuine savings. However, the majority represents slippage and expenditure has therefore currently been re-phased into 2012/13.

The main areas of slippage on non-housing items were Waltham Abbey all weather pitch (£495,000) and waste management equipment (£192,000). Whilst there is a net £1,135,000 underspend on the non-housing programme £1,098,000 will be carried forward, this is due to a net underspend of £37,000 on the projects undertaken. On the housing programme the greatest slippage was on small capital repairs (£449,000) and Kitchen and Bathroom Replacements (£420,000). There was also a net underspend of £1,631,000 on the Housing programme however £1,551,000 needs to be carried forward leaving an underspend of £80,000 on projects undertaken.

Council house sales remained in single digits for the fourth year in a row, although there were two more sales and the values did slightly exceed the amounts allowed for in the probable outturn. There were no significant land sales in 2011/12, although interest in potential developments is improving. Even with the relatively low level of sales, the Council has substantial capital resources available to it and given the level of these the Council is unlikely to need to borrow to finance the capital programme in the medium term. The movements in capital resources are set out in the tables below:

Usable Capital Receipt Balances	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Opening Balance - 1/4/11	**17,661**	**18,694**	**18,694**	**1,033**	**-**
Usable Receipts Arising	235	155	353	118	198
Use of Other Capital Receipts	(5,801)	(4,237)	(3,206)	2,595	1,031
Closing Balance - 31/3/12	**12,095**	**14,612**	**15,841**	**3,746**	**1,229**

Major Repairs Reserve	Original Estimate £000	Revised Estimate £000	Actual Spend £000	Variance from Original £000	Variance from Revised £000
Opening Balance - 1/4/11	**5,791**	**6,540**	**6,540**	**749**	**-**
Major Repairs Allowance	4,949	4,978	4,978	**29**	-
Use of MRR	(4,873)	(4,906)	(3,277)	**1,596**	**1,629**
Closing Balance - 31/3/12	**5,867**	**6,612**	**8,241**	**2,374**	**1,629**

CARBON REDUCTION

The Council remains committed to reducing its carbon footprint and in addition to signing the Nottingham Declaration has developed a Carbon Change Strategy. The objectives of the Carbon Change Strategy are:

- **Reduce our carbon footprint**
  Substantially reduce the amount of CO2 and the other greenhouse gases we as a Council emit through all our services and operations.

- **Be a community leader**
  To reduce our impact and to lead by example, taking forward our knowledge, partnerships and resources to encourage and help the wider community and stakeholders to become more sustainable.

- **Use our powers**
  Influence and use our powers in procurement, private housing, commercial sector and planning. Minimise the environmental impact of new development and ensure any future developments are able to withstand the challenge of the changing climate.

- **Prepare the Council and the District for the impacts of climate change**
  Make preparations to ensure the Council's assets and operations are resilient to the predicted climate change impacts and assist in the work to prepare the District for the new climate.

The Council is working on a number of initiatives to reduce its carbon footprint and has completed the virtualisation of computer servers and the installation of replacement windows and heating at the Civic Offices. The combined effect of these initiatives should be to substantially reduce power consumption.

THE FUTURE

Before looking ahead it is worth a quick look back at 2011/12 and some of the events that have occurred as these have provided further shocks to limit the economic recovery across the world. The Arab world has seen ongoing conflicts and instability which creates unceratinty on oil prices and discourages activity and investment. Closer to home some of our Euro zone neighbours continue to struggle with deficit reduction measures and have required further bail outs. Many economic commentators now feel it is a question of when rather if Greece will leave the single currency. In the United Kingdom the impacts of the failure of earnings to keep pace with inflation and welfare reforms are being felt in lower standards of living. There is little sign of recovery in the economy and confidence remains weak. Policy makers at all levels have to contend with this uncomfortable new world where resources are scarcer and decisions need to be taken after fully considering all of their consequences and impacts.

The coalition Government surprised most people with the size and speed of their spending reductions. I mentioned above that 2011/12 and 2012/13 saw this authority lose more than 25% of its grant support and it appears likely now that the reductions in subsequent years will be even greater. The whole system of funding is currently under review and the allocation model for grant support will change from 2013/14 with further changes scheduled for other areas including National Non-Domestic Rates and Council Tax Benefit. It is a concern that we are less than a year away from these major structural changes but that we still have no legislation and figures on which to rely. The recently issued "Statements of Intent" from the DCLG were of little practical help and it appears that many key areas of these policies are still being developed.

Reductions in grant support have been partly off-set by the introduction of the New Homes Bonus (NHB) and additional grant for councils that chose not to increase their council tax levels, although this was a one-off and has not been included in the base for future calculations. Going forward the NHB could prove to be a major source of income, although there is significant uncertainty as you cannot precisely predict how many new homes will be built in a given year. There is also uncertainty around the funding of NHB as this comes from a top slicing of grant support at the national level. As the top slicing will affect all authorities it is clear that those areas that see the largest increases in homes will benefit at the expense of those with lower growth.

This will also be true with the local retention of non-domestic rates, where those authorities able to grow their rating lists will be rewarded and those suffering reductions will lose funding. This creates opportunity but also considerable uncertainty on the various sources of income from the Government over the medium term. This is a challenge in constructing the Medium Term Financial Strategy which needs to be prudent but realistic.

A key concern going forward is the localisation of Council Tax Benefit. Currently central government bears the risk of changes in demand but this will change from 2013/14. Local authorities will be given only 90% of current spending and have to devise local schemes to allocate the reduced amounts, whilst protecting pensioners. If the economy continues to struggle and the change from a benefit to a discount also increases the number of claimants, authorities will face a growing cost which is financed by a fixed grant. The Government have argued that this incentivises authorities to get people off benefit and into work, although this represents a challenge given the current economic climate and reduced funding.

Whilst the General Fund revenue balances are higher than anticipated they still need careful management. The current policy stipulates that the balances should not go below 25% of net budget requirement. This would allow a reduction from the current level of £9.2 million to £3.7 million by the end of 2015/16.

The single largest change in 2011/12 was the reform of the Housing Subsidy System. Under the new system of self financing the Council made a payment in late 2011/12 of £185 million to avoid the ongoing annual payments of £11.4 million. The management of that debt going forward and the continued protection of the General Fund are new challenges for an authority that has been debt free for many years. The prospect of a programme to build new Council houses is an exciting one and although it will not eliminate the substantial waiting lists it will give more hope to those on the lists.

The four-year programme of non-housing capital investment totals £5.1 million, again inclusive of amounts carried forward from 2011/12. Environment and Street Scene and Corporate Support Services have the largest programmes, with some £4 million being spent. Within Environment and Street Scene £0.4 million is available for parking schemes and £1.2 million for waste management vehicles and equipment. The main items under Corporate Support Services are £815,000 for works on the Civic Offices and £390,000 for upgrades to industrial units. As it is still unclear which of the many development opportunities will be taken forward and on what timescale no provision has been included at this time.

The Council's financial strength has meant its response to the austerity programme could be more measured than many other authorities who have already cut jobs and services. This foreword has demonstrated that the Council still has considerable revenue resources at its disposal and capital resources are higher than originally estimated. However, the reductions in grant support have been greater than anticipated and financial pressures are likely to arise from continuing high inflation and in areas such as benefits. It is likely that, to achieve the savings needed over the medium term the Council will have to reduce the level at which many services are provided and stop providing some completely.

The Council's accounts were completed and approved for issue on 29 June 2012.

Robert Palmer BA ACA
Director of Finance & ICT

Statement of Responsibilities for the Statement of Accounts

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and ICT;

- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

- Approve the Statement of Accounts

COUNCILLOR BRIAN ROLFE
CHAIRMAN OF THE COUNCIL

THE CHIEF FINANCIAL OFFICERS RESPONSIBILITIES

The Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code of Practice')

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgments and estimates that were reasonable and prudent;

- Complied with the Code of Practice.

The Chief Finance Officer has also:

- Kept proper accounting records which were up to date; and

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the accounts set out on pages 2 to 64 give a true and fair view of the financial position of the Council as at 31 March 2012 and the income and expenditure for the year then ended.

ROBERT PALMER BA ACA
CHIEF FINANCE OFFICER

27 September 2012

Independent auditor's report to the Members of Epping Forest District Council

Opinion on the financial statements

We have audited the financial statements of Epping Forest District Council (the Council) for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the *Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund* and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (based on International Financial Reporting Standards).

This report is made solely to the members of the 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 2011. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council'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 ICT and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and ICT is responsible for the preparation of the Council's Statement of Accounts, that include 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 Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and ICT; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Epping Forest District Council's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matter

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 are required to report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Independent auditor's report to the Members of Epping Forest District Council

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council 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.

Respective responsibilities of the Council and auditor

The Council 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.

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council'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 2010, as to whether the Council 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 Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council 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 2010, we are satisfied that, in all significant respects, Epping Forest District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

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

Richard Bint
For and on behalf of PKF (UK) LLP
London, UK
September 2012

MOVEMENT IN RESERVES STATEMENT

	Note	General Fund Balance	Earmarked GF Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Total Unusable Reserves**	**Total Reserves**
Movements in 2010/11		***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Balance as at 31 March 2010		***8,300***	***5,574***	***6,089***	***4,381***	***21,091***	***5,730***	***331***	***51,496***	***599,734***	***651,230***
Surplus/(Deficit) on Provision of Services		*(871)*	*(17)*	*(80,257)*					***(81,145)***	***-***	***(81,145)***
Other Comprehensive Income and Expenditure								*(21)*	***(21)***	***(11,368)***	***(11,389)***
Total Comprehensive Income and Expenditure		***(871)***	***(17)***	***(80,257)***	***-***	***-***	***-***	***(21)***	***(81,166)***	***(11,368)***	***(92,534)***
Adjustment between accounting and funding bases under regulations	***6***	*(90)*	*-*	*79,806*	*-*	*(2,397)*	*810*	*(124)*	***78,005***	***(78,005)***	***-***
Net Increase/(Decrease) before transfer to Earmarked Reserves		***(961)***	***(17)***	***(451)***	***-***	***(2,397)***	***810***	***(145)***	***(3,161)***	***(89,373)***	***(92,534)***
Transfers to Earmarked Reserves		*1,231*	*(1,233)*	*248*	*(248)*				***(2)***	***-***	***(2)***
Increase\(Decrease) in Year		***270***	***(1,250)***	***(203)***	***(248)***	***(2,397)***	***810***	***(145)***	***(3,163)***	***(89,373)***	***(92,536)***
Balance as at 31 March 2011		***8,570***	***4,324***	***5,886***	***4,133***	***18,694***	***6,540***	***186***	***48,333***	***510,361***	***558,694***
Movements in 2011/12		**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance as at 31 March 2011		**8,570**	**4,324**	**5,886**	**4,133**	**18,694**	**6,540**	**186**	**48,333**	**510,361**	**558,694**
Surplus/(Deficit) on Provision of Services		(263)	(11)	(187,573)					**(187,847)**	**-**	**(187,847)**
Other Comprehensive Income and Expenditure									**-**	**(19,214)**	**(19,214)**
Total Comprehensive Income and Expenditure		**(263)**	**(11)**	**(187,573)**	**-**	**-**	**-**	**-**	**(187,847)**	**(19,214)**	**(207,061)**
Adjustment between accounting and funding bases under regulations	**6**	1,219	-	186,624	-	(2,852)	1,701	4	**186,696**	**(186,696)**	**-**
Net Increase/(Decrease) before transfer to Earmarked Reserves		**956**	**(11)**	**(949)**	**-**	**(2,852)**	**1,701**	**4**	**(1,151)**	**(205,910)**	**(207,061)**
Transfers to Earmarked Reserves		(325)	325	(444)	444	-	-	-	**-**	**-**	**-**
Increase\(Decrease) in Year		**631**	**314**	**(1,393)**	**444**	**(2,852)**	**1,701**	**4**	**(1,151)**	**(205,910)**	**(207,061)**
Balance as at 31 March 2012		**9,201**	**4,638**	**4,493**	**4,577**	**15,842**	**8,241**	**190**	**47,182**	**304,451**	**351,633**

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

for the year ended 31 March 2012

	Note	Gross Expend £000	2011/12 Income £000	Net Expend £000	2010/11 Net Expend £000
CONTINUING OPERATIONS					
Central Services to the Public		12,442	10,247	**2,195**	***2,606***
Corporate and Democratic Core		2,503	-	**2,503**	***2,728***
Cultural & Related Services		4,430	677	**3,753**	***5,634***
Environmental & Regulatory Services		10,758	2,863	**7,895**	***8,363***
Highways and Transport Services		1,833	1,848	**(15)**	***371***
Concessionary Fares		26	57	**(31)**	***632***
Local Authority Housing		38,349	36,704	**1,645**	***1,505***
Planning Services		3,758	1,083	**2,675**	***2,969***
Housing Revenue Account		33,735	31,513	**2,222**	***5,649***
EXCEPTIONAL ITEMS					
General Fund					
Past Service Gain - Central Services	37			**-**	***(5,345)***
Vat Refund - Environmental and Regulatory Services	11	68	321	**(253)**	***-***
Vat Refund - Cultural and Related Services	11			**-**	***(714)***
Housing Revenue Account					
HRA Self Financing	11	185,456	-	**185,456**	
Past Service Gain	37			**-**	***(2,506)***
Change in Discount Factor	11			**-**	***77,443***
NET COST OF SERVICES		***293,357***	***85,313***	***208,045***	***99,335***
OTHER OPERATING EXPENDITURE	8			**3,232**	***3,367***
FINANCING AND INVESTMENT INCOME AND EXPENDITURE	9			**(4,265)**	***(922)***
TAXATION AND NON-SPECIFIC GRANT INCOME	10			**(19,176)**	***(20,652)***
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES				**187,836**	***81,128***
(Surplus)/Deficit on Revaluation of Property Plant and Equipment	22			**(29)**	***15,079***
Actuarial (gains)/losses on Pension Assets/Liabilities	37			**19,222**	***(3,711)***
Other (Gains)/Losses				**21**	***21***
TOTAL COMPREHENSIVE INCOME AND EXPENDITURE				**207,050**	***92,517***

BALANCE SHEET

	Note	31 March 2012 £000	31 March 2012 £000	*31 March 2011 £000*	*31 March 2011 £000 Restated*	*1 April 2010 £000*	*1 April 2010 £000 Restated*
LONG TERM ASSETS							
Property, Plant & Equipment	12		512,881		*516,035*		*617,842*
Heritage Assets	13		542		*543*		*543*
Investment Properties	14		41,541		*39,566*		*37,870*
Intangible Assets	15		819		*853*		*748*
Long Term Investments	17		140		*320*		*677*
Long Term Debtors	16		1,801		*1,800*		*1,844*
TOTAL LONG TERM ASSETS			557,724		*559,117*		*659,524*
Current Assets							
Inventories	18	181		*223*		*188*	
Debtors and Prepayments	19	6,682		*6,591*		*11,969*	
Short Term Temporary Investments	17	32,500		*43,707*		*38,163*	
Cash & Cash Equivalents	20	13,817		*4,730*		*4,138*	
			53,180		*55,251*		*54,458*
Current Liabilities							
Creditors	21	(7,246)		*(8,704)*		*(5,948)*	
			(7,246)		*(8,704)*		*(5,948)*
LONG TERM LIABILITIES							
Long Term Loans	17	(185,456)		*0*		*0*	
Pensions Liability	37	(65,625)		*(46,324)*		*(56,493)*	
Capital Grant Receipts in Advance	33	(944)		*(646)*		*(311)*	
			(252,025)		*(46,970)*		*(56,804)*
TOTAL ASSETS LESS LIABILITIES			351,633		*558,694*		*651,230*
Usable Reserves			47,182		*48,333*		*51,496*
Unusable Reserves	22		304,451		*510,361*		*599,734*
			351,633		*558,694*		*651,230*

THE CASH FLOW STATEMENT

	Note	2011/12 £000	*2010/11 £000*
Net Surplus or (Deficit) on Provision of Services		**(187,836)**	***(81,128)***
Adjustments to net surplus or deficit on the provision of services for non-cash movements	**23**	**9,410**	***93,710***
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	**23**	**(2,050)**	***(1,864)***
Net cash flows from Operating Activities	**23**	**(180,476)**	***10,718***
Investing Activities	**24**	**4,724**	***(11,752)***
Financing Activities	**25**	**184,839**	***1,626***
Net Increase or (Decrease) in cash and cash equivalents		**9,087**	***592***
Cash and Cash Equivalents at the beginning of the reporting period		**4,730**	***4,138***
Cash and Cash equivalents at the end of the reporting period	**20**	**13,817**	***4,730***

Index of Notes to the Statement of Accounts

1. ACCOUNTING POLICIES

1.1 GENERAL PRINCIPLES & RESTATEMENT OF PRIOR YEAR FIGURES

General Principles

The Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in Great Britain 2012. The Code has been developed by the CIPFA/LASAAC Joint Committee under the oversight of the Financial Reporting Advisory Board as opposed to the Accounting Standards Board as previously.

The Code is based on International Financial Reporting Standards (IFRS) which comprises of International Accounting Standards (IAS), interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and interpretations of the Standing Interpretations Committee (SIC). The Code notes that it interprets and adapts IFRS but such instances are identified within the Code. The Code constitutes a 'proper accounting practice' under the terms of section 66(4) of the Local Government and Housing Act 1989.

Restatement of Prior Year Figures

The restated figures are in relation to Heritage Assets and Deferred Revenue Income on the Balance Sheet on page 6 and to the Collection Fund on page 59.

1.2. ACCOUNTING CONCEPTS

The accounting policies referred to are consistent with the persuasive accounting concepts of:

Going Concern - the accounts have been drawn up on the basis that the Council is going to continue in its operational existence for the foreseeable future.

Accruals - Income and expenditure is recognised in the period to which they relate rather than when the related cash is received or paid.

The Primacy of Legislation - Where there is conflict between legislative requirements and accounting principle, legislative requirements will prevail.

1.3. ESTIMATION

Where actual amounts to be included within the accounts are uncertain estimates are used. The estimate is based on the best assessment of information available at the time of closing the accounts. When the actual figures are determined any difference arising is accounted for in the year when the actual figure is determined.

1.4 CASHFLOW PREPARATION

The Code allows the preparation of the cashflow to be either the direct or indirect method. The Council has prepared the statement using the indirect method.

1.5 GROUP ACCOUNTS

Accounting practice requires that where the Council has a material financial interest and a significant level of control over another entity, it should prepare group accounts. The Council has reviewed its relationships with other entities and has concluded that no material financial interest or significant control exists and group accounts are therefore not required.

1.6 COLLECTION FUND

This records all transactions in relation to Council Tax and Non Domestic rates. The Council transfers its share of Council Tax income to the General Fund to finance expenditure and the remainder is passed to precepting authorities. Non Domestic Rate income is passed to Central Government after passing a collection allowance to the General Fund.

Until 2008/09 the SORP required the Council Tax income included in the Income and Expenditure Account to be the amount that, under regulation was required to be transferred from the Collection Fund to the General Fund of the billing authority. From the financial year commencing on 1 April 2009 the Council Tax income included in the Income and Expenditure Account for the year shall be the accrued income for the year.

Until 2008/09 the SORP required that debtors and creditors relating to NNDR taxpayers be treated as debtors and creditors of the authority. From 2009/10 the requirement changed such that they should now be treated as debtors and creditors of central government, given that the Council acts as a collecting agent. Prepayments and amounts owing as well as the provision for bad and doubtful debts should be part of the amount either owing to or from the NNDR pool.

1.7 PROPERTY PLANT AND EQUIPMENT

All expenditure on the acquisition, creation or enhancement of property plant and equipment (ppe) is capitalised on an accruals basis in the accounts. Expenditure is capitalised, provided that the asset yields benefits to the Council and the services it provides for more than one year. This excludes expenditure on routine repairs and maintenance of assets, which is charged directly to service accounts.

Property Plant and Equipment were originally valued and recorded in the accounts as at 1 April 1994. These valuations were based upon certificates issued by the Council's Chief Valuer and Estates Surveyor. Additions since that date are included in the accounts at cost. Council dwellings and garages are revalued every year using the Beacon Properties approach as the basis for valuation. The valuation takes the form of a full revaluation followed by four years of desk top revaluations, with the last full revaluation occurring as at 1 April 2010. Other assets are revalued as part of the Council's rolling programme under which assets are revalued over a five year period. The Council dwellings and garages valuation has been carried out by District Valuer A Wilcock, MRICS, and other assets by the Council's Principal Valuer and Estates Surveyor.

IFRS has introduced the requirement to value component parts of Property Plant and Equipment for the first time. This applies when an asset is either revalued or a component replaced or created and is subject to a significance test. The purpose of this is to ensure that the depreciation charge accurately reflects the differing useful lives of components particularly where the asset within which the component is situated has a rather longer life. Within the 2010/11 accounts Council Dwellings and associated land were valued on the basis of Existing Use for Social Housing (EUV-SH) being 39% of the Vacant Possession value. The components within the dwelling have been valued based on the proportion of the total dwelling to which their value relates.

The policy was introduced for property plant and equipment revalued during 2010/11 and as part of that process the necessity to recognise significant components was also considered. A series of significance tests were applied to identify which assets it was appropriate to componentise. The first stage was applied to council housing and leisure centres as the largest asset categories; council dwellings and leisure centres which had a value greater than 20% of the total value of the asset categories were considered significant. As a result of these tests all council dwellings and two leisure centres were identified and a second test was applied; any component which exceeded 20% of the total value of the asset as a whole was deemed significant. The value of plant and equipment within council dwellings and one of the leisure centres, namely Loughton Leisure Centre, was thereby identified as significant and componentisation has been applied to these assets. Componentisation has not been applied to any other assets.

The useful lives of both dwellings and the components within have been reviewed during 2011/12. Whilst the useful lives of the dwellings have remained unchanged, the component's remaining lives have been amended in light of further information regarding replacement cycles becoming available.

An impairment is defined as a loss in value due to the consumption of economic benefits. Where a valuation reduction occurs due to a fall in prices generally this is known as a downward revaluation. In both cases the loss is taken to the revaluation reserve to the extent that revaluation gains relating to that particular asset exists within the revaluation reserve in the first place.

If the value of the impairment or downward revaluation exceeds the revaluation amount relating to that asset already residing in the revaluation reserve then the difference is recognised in the Comprehensive Income and Expenditure Statement in the year in which it occurs. The valuations are based upon the facts and evidence prevailing at the date of valuation. The latest valuation date is 1 April 2011 for Council dwellings and garages. A review of property values toward the end of the financial year suggested that values had changed little, it was therefore felt that no further valuation adjustment was necessary.

Revaluations of individual assets are also undertaken when a material change happens. Infrastructure and community assets do not have a value attributed to them and therefore their value is based on the historic cost of providing the asset. Surplus assets, which are identified for sale on the open market, are revalued at market value which reflects any changes in planning permission granted.

Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use. Investment properties are included in the balance sheet at the lower of net current replacement cost and net realisable value (open market value). Community assets are included in the balance sheet at historical cost and Infrastructure assets at depreciated historic cost. Council dwellings have been included in the balance sheet at their open market value in existing use for social housing.

Long term assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes, issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets (excluding land) are classified as follows:

Type of Asset	Valuation Method	Estimated Useful Life (Years)
Council Dwellings and Garages	Existing use value for social housing Existing use value	15 to 59
Other land and buildings	Existing use value	20 to 50
Infrastructure assets	Depreciated Historic Cost	15 to 40
Community assets	Historic Cost	Indeterminable
Vehicles, plant, furniture and equipment	Depreciated historic cost	5 to 20
Non-operational assets	Existing use value Market value Historic Cost (where market value for existing use cannot be ascertained)	

Where assets are acquired under operating leases, the leasing rentals payable are charged to revenue. The cost of assets and the related liability for future rentals payable are not shown in the balance sheet but are disclosed in the notes. (See Note 36).

Where an asset has been disposed of, the profit or loss on disposal is applied to the Comprehensive Income and Expenditure Statement with corresponding entries to fixed assets and cash/debtors. Subsequently the income derived is credited to the Usable Capital Receipts Reserve, and accounted for on an accruals basis. The profit or loss on disposal is then reversed within the Movement in Reserves Statement to neutralise the effect on the General Fund of the entry in the Comprehensive Income and Expenditure Statement. Upon disposal, any valuation gains relating to those assets since 1 April 2007 are written off against the Revaluation Reserve with the remainder being written off against the Capital Adjustment Account. (See Note 22).

1.8 DEPRECIATION

In accordance with the provisions of IAS 16, assets are depreciated on a straight-line basis over their useful economic life. Where a unique asset is purchased or constructed the useful life is assessed based on information available concerning that asset. The only general exceptions to this are freehold land, community assets and non-operational investment properties which are not depreciated. Subsequent expenditure on a fixed asset that maintains or enhances the previously assessed standard of performance of the asset does not negate the need to charge depreciation.

1.9 HERITAGE ASSETS

The 2011/12 Code introduces the concept of heritage assets. The accounting standard (FRS 30) was introduced during 2010/11 but only applicable from this financial year. A heritage asset is defined as an asset that is maintained principally for the contribution it makes to knowledge and culture. In the case of the Council the museums service hold a number of artefacts that fall within this definition. The Code also states that such assets should be recognised where the authority has information on the cost or value of the assets but where this is not available a note to that effect should be included. This is a change of policy and as a result the Balance Sheet has been restated, including the opening Balance Sheet for 2010/11, to reflect those assets where a value is available. However the amount is not material to the accounts themselves and therefore not all the disclosures required by the code have been made.

The Council has an acquisitions and disposals policy in place for these assets. The intention on acquisition is to keep the items in perpetuity and an acquisition would only be made once the long term value and the ability of the museum to provide adequate care and public accesability to it has been assesed. This would include the ability to acquire the asset with valid title. If an item is to be disposed of it would be necessary to confirm that the museums service could legally do so and would be after due consideration but would not be based on the principle of generating funds. The museum keeps records of its collection on a database allocating a unique reference number to each artefact and is cared for by the collections manager. The Councils Museum is open to the public to view some of the artefacts but a significant number are not generally on display. There is a temporary exhibitions programme whereby certian items are shown for a limited period and some items are being stored in digital format for prentation the the museums part of the web-site.

1.10 INTANGIBLE ASSETS

Intangible assets are payments of a capital nature where no tangible fixed asset is created but which are expected to yield future economic benefits to the Council. Software, including licences is considered an intangible asset as it fulfils the two tests above. Council policy is to capitalise such expenditure but amortise it to revenue over the useful life of the asset, in this case five years.

1.11 CAPITAL EXPENDITURE CHARGED TO REVENUE

The Local Government and Housing Act 1989 allows local authorities to finance an unlimited amount of capital expenditure through its revenue accounts. The Council's policy has been to finance a significant amount of Housing Revenue Account capital expenditure in this way. However, because the financing of this expenditure is from a capital source, it is then reversed out within the Movement in Reserves Statement so has no overall effect on the Council Tax nor the General Fund.

1.12 REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue expenditure funded from capital under statute relates to expenditure of a capital nature that does not result in the creation of a fixed asset either tangible or intangible. This expenditure was previously known as Deferred Charges and such expenditure was initially classified as capital expenditure but then written off in full to the relevant service heading within the Income and Expenditure Account. Proper practice now is that the expenditure is charged directly to revenue. However, because the financing of this expenditure is from a capital source, it is then reversed out within the Movement in Reserves Statement so has no overall effect on the Council Tax nor the General Fund.

Unlike 2010/11 and previous years the Council has been unable to obtain capitalisation directions for additional pension contributions made during 2011/12 and these have therefore had to be borne by the General Fund and Housing Revenue Account. The costs have now been built into ongoing budgets but this of course does not preclude the Council from applying for such directions in future.

1.13 REVALUATION RESERVE/CAPITAL ADJUSTMENT ACCOUNT

The Revaluation Reserve contains upward revaluations occurring to Fixed Assets since 1 April 2007, revaluations prior to that date would have been within the now defunct Fixed Asset Restatement Account the balance of which was transferred to the Capital Adjustment Account on the same date. Where a subsequent downward valuation occurs, relating to a fall in market values generally, then previous upward revaluations relating to that particular asset are reversed. Any excess write down is charged to the Capital Adjustment Account after being passed through the Comprehensive Income and Expenditure Statement and the Adjustments between Accounting Basis and Funding Basis Under Regulation.

1.14 INVESTMENTS

Investments are accounted for in accordance with IAS 32, 39 and IFRS 7. These reporting standards prescribe the recognition, measurement and disclosure requirements in relation to financial instruments. All the Council's financial assets are in the form of loans and receivables. Investments are therefore shown in the Balance Sheet at amortised cost. The Council held investments with the Heritable Bank, a UK regulated subsidiary of an Icelandic Bank, that has since gone into administration. As a result the value of the investments held have been impaired in line with CIPFA's LAAP Bulletin 82 which was issued to provide guidance relating specifically to this situation.

1.15 INVENTORIES

Separate stores are maintained in the Fleet Operations and Building Maintenance services. Stores are valued in the accounts at the lower of cost or net realisable value.

1.16 DEBTORS AND CREDITORS

The revenue and capital accounts of the Council are maintained on an accruals basis in accordance with the Code of Practice and IAS 8. That is, sums due to or from the Council during the year are included whether or not the cash has actually been received or paid in the year. An exception to this principle relates to electricity and similar periodic receipts and payments, which are charged at the date of meter reading rather than being apportioned between financial years. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

The recoverability of the Council's General Fund debts is considered each year through an analysis by age and type of debt outstanding at 31 March. An appropriate provision is made for any bad debts/losses that are anticipated. An analysis of size and type of debt outstanding at 31 March on the Housing Revenue Account has also been undertaken in accordance with the Housing Revenue Accounts (Arrears of Rent and Charges) Directions 1990.

1.17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For aninvestment to qualify as a cash equivalent is must be capable of being converted into cash within 24 hours.

1.18 FINANCIAL LIABILITIES

Financial liabilities are carried at amortised cost. The Council had no borrowings until 28 March 2012 when a payment had to be made to the Department of Communities and Local Government of £185,456,000 and an equivalent amount had to be borowed from the Public Works Loan Board. This occurred on the cessastion of the HRA subsidy regime.

1.19 CAPITAL RECEIPTS

Capital Receipts from the sale of assets are treated in the accounts as laid down by regulations made under the Local Government Act 2003. Under the act 75% of the value of council house sales and 50% of the value of other Housing Revenue Account asset sales must be paid over to a central government pool for re-distribution. If however, non right to buy receipts are used to finance further capital expenditure on affordable housing then pooling can be avoided. The amount that remains with the Council is credited to the Usable Capital Receipts Reserve and is therefore available to fund capital expenditure.

1.20 GOVERNMENT CAPITAL GRANTS AND OTHER CAPITAL CONTRIBUTIONS

Where a grant or contribution has been received the first consideration is whether there is a condition attached to the receipt of that grant. Where there is no condition or the condition is met then the income is recognised in the CIES. This income must then be reversed out within the Movement in Reserves Statement. If the related expenditure has been incurred the reversal is to the Capital Adjustment Account, if the expenditure has not been incurred the reversal is to the Capital Grants Unapplied Account.

Where a condition is not met the income must be recognised in the Capital Grants Received in Advance Account. If in a future accounting period the condition is met, at that point the grant income is recognised in the CIES and reversed out in the Movement in Reserves Statement as before. If there is no prospect of the conditions being met the grant monies are held as a Creditor until such time as repayment can be made. Where the only condition attached to a grant is that it must be spent on a particular asset or used for a particular purpose then the condition is assumed to be met only when expenditure actually occurs.

1.21 COST OF SUPPORT SERVICES AND SERVICE ADMINISTRATION

Administrative expenses are allocated over all services and to all users including services to the public, trading undertakings, capital accounts and services provided for other bodies and other support services, on a consistent basis applicable to the service provided, i.e. actual time spent by staff, area occupied, per capita, actual use etc.

1.22 RESERVES

The Council has set aside certain revenue and capital amounts as earmarked reserves. They include reserves for the District Development Fund, pensions deficit, insurance, housing repairs, on-street parking, building control and future museum acquisitions. All other fund balances represent working balances for the purpose of the specific fund and are made up of accumulated surpluses and deficits derived over a period of time. All earmarked fund balances and reserves are reviewed periodically as to their size and appropriateness.

1.23 PENSIONS

The accounting treatment for pensions is to recognise the assets, liabilities and long term commitments, rather than merely the contributions to the scheme. The assets of the scheme are measured at realisable value (Bid Values), the liabilities are measured on an actuarial basis which examines the benefits for pensioners and accrued benefits for current scheme members.

1.24 INTERNAL INTEREST

Interest is credited to the Housing Revenue Account based on the level of its fund balances. The amounts are calculated using the average rate of interest on approved investments, as prescribed in the Housing Revenue Account Item 8 Credit and Item 8 Debit (general) Determinations 2011/12.

1.25 CONTINGENT ASSETS

A contingent asset arises when it is possible that an asset will materialise from past events and will only be confirmed by the occurrence of one or more future events which are not wholly within the control of the Council. A claim has been lodged with HM Revenue and Customs relating to output tax on off street parking fees, which fall within this definition (Note 38).

1.26 CONTINGENT LIABILITIES

A contingent liability arises when it is possible that an obligation will materialise from past events and will only be confirmed by the occurrence of one or more future events which are not wholly within the control of the Council, or a present obligation arising from past events is not recognised because it either is unlikely that a transfer of economic benefits will occur or the amount of such a transfer cannot be measured with sufficient reliability (Note 39).

1.27 VALUE ADDED TAX (VAT)

VAT is included in the accounts only to the extent that it is irrecoverable from HM Revenue and Customs. VAT can only be recovered on partially exempt activities where all such activities account for less than 5% of total VAT on all the Council's activities. The partially exempt proportion for 2011/12 was 2.25% (2010/11 3.16%).

1.28 LEASES

Finance Leases: The Council has no agreements that meet the definition of a finance lease.

Operating Leases: The Council has a variety of assets under operating leases, including vehicles, vending machines and mowers. The leases transfer benefits of ownership without actually transferring title to the assets, and therefore in accordance with accounting practice the leased assets are not stated in the Balance Sheet. Hire purchase contracts similar to operating leases are accounted for on the same basis where applicable.

Rentals are charged to service revenue accounts on a straight line basis over the period of the lease. No provision is made for outstanding lease commitments.

Various Council assets such as Commercial Properties, industrial estate units and areas of land are let to tenants under the heading operating leases. Rental income (net of cash incentives for a lessee to sign a lease) is credited to the Income and Expenditure Account.

1.29 COUNCIL TAX

The Balance Sheet shows only the Council's portion of arrears, prepayments and related bad debt provision with the balance being a debtor to major preceptors.

1.30 NON DOMESTIC RATES

The Balance Sheet shows the net debtors as being that due to the non domestic rate pool.

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

There have been some amendments to the reporting requirements of IFRS7 financial Instruments in particular to the disclosure requirements when financial assets are transferred. It is unlikely though that this change will have any effect on the Councils accounts.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

The major uncertainty is around future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

Property Plant and Equipment

Assets are depreciated over useful lives that are dependant on assumptions relating to repairs and maintenance to those assets. It is possible that the Council may not be able to expend the resources necessary to maintain the estimated useful life assessed and therefore additional depreciation and a fall in asset values may occur. For example the annual Depreciation charge for Council Dwellings, being the most significant Council assets, would increase by around £433,000 if the useful economic life of the buildings and significant components were reduced by one year. The carrying value of the Council dwellings as at 31 March 2012 is £444,677,000.

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Consultant actuaries are engaged to provide advice about assumptions to be applied. The actuary has provided some sensitivity analysis around the assumptions and this is contained within the pensions note no. 37. The carrying value of the Pensions Liability is (£65,625,000).

Arrears

The Council has a number of sundry debtors relating to arrears and what is felt to be an appropriate provision for bad and doubtful debts has been provided against this. Given the current economic climate it is possible that this level of provision might become inadequate. If collection rates were to deteriorate then the charge to the CIES would increase. The carrying value of the Councils debtors is £6,682,000.

5. EVENTS AFTER THE BALANCE SHEET DATE

There was no post balance sheet events.

6. 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 Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	2011/12 £000 Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments involving the Capital Adjustment Account:						
Exclusions;						
Charges for depreciation and impairment of non-current assets	(2,179)	(5,092)		(1,701)		8,972
Downward revaluation of non-current assets	(21)	1,298				(1,277)
Movements in the market value of Investment Properties	1,975					(1,975)
Amortisation of intangible assets	(235)	(11)				246
Capital Grants and contributions applied	815	210				(1,025)
Revenue expenditure funded from Capital under statute	(889)	(185)			(4)	1,078
Amounts of non-current assets written off on disposal or sale as part of the gain\loss on disposal to the CIES	(49)	(422)				471
Capital expenditure charged against the General Fund and HRA balances	56	2,050				(2,106)
Application of HRA self financing loan transferred to the Capital Adjustment Account		(185,456)				185,456
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain\loss on disposal to the CIES	52	1,000	(1,052)			-
Used to finance new capital expenditure			3,206			(3,206)
Contribution towards administrative costs of non-current asset disposals		(33)	33			-
Contribution to finance the payments to the Government capital receipts pool	(673)		673			-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash.		61	(8)			(53)
Adjustments involving the Pensions Reserve:	(54)	(25)				79
Reversal of items relating to retirement benefits debited\credited to the CIES (see Note 37)						
Adjustments involving the Collection Fund Adjustment Account	(13)					13
Amount by which council tax income credited to the CIES is different from that calculated in accordance with statutory requirements.						
Adjustments involving the Accumulated Absences Account	(4)	(19)				23
TOTAL ADJUSTMENTS	(1,219)	(186,624)	2,852	(1,701)	(4)	186,696

	2010/11 £000 Usable Reserves					
	General Fund	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
Adjustments involving the Capital Adjustment Account: Exclusions;						
Charges for depreciation and impairment of non-current assets	(2,023)	(8,059)		(810)		**10,892**
Downward revaluation of non-current assets	(2,230)	(77,443)				**79,673**
Movements in the market value of Investment Properties	643	921				**(1,564)**
Amortisation of intangible assets	(165)					**165**
Capital Grants and contributions applied	598	276				**(874)**
Revenue expenditure funded from Capital under statute	(921)	(174)				**1,095**
Amounts of non-current assets written off on disposal or sale as part of the gain\loss on disposal to the CIES	(10)	(555)				**565**
Capital expenditure charged against the General Fund and HRA	47	2,163				**(2,210)**
Application of grants to capital financing transferred to the Capital Adjustment Account					124	**(124)**
Adjustments involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain\loss on disposal to the CIES	15	1,044	(1,059)			**-**
Used to finance new capital expenditure			2,680			**(2,680)**
Contribution towards administrative costs of non-current asset disposals		(49)	49			**-**
Contribution to finance the payments to the Government capital receipts pool	(744)		744			**-**
Transfer from Deferred Capital Receipts Reserve upon receipt of cash.			(17)			**17**
Amounts involving the Financial Instruments Adjustment Account:	466					**(466)**
Adjustments involving the Pensions Reserve:	4,397	2,061				**(6,458)**
Reversal of items relating to retirement benefits debited\credited to the CIES (see Note 37)						
Adjustments involving the Collection Fund Adjustment Account *Amount by which council tax income credited to the CIES is different from that calculated in accordance with statutory*	(21)					**21**
Adjustments involving the Accumulated Absences Account *Amount by which officer remuneration charged to CIES on an accruals basis is different from that required in accordance with statutory requirements*	38	9				**(47)**
TOTAL ADJUSTMENTS	***90***	***(79,806)***	***2,397***	***(810)***	***124***	***78,005***

7. EARMARKED RESERVES

A summary of balances on earmarked reserves is set out below.

	Balance 1 April 2010 £000	Transfers Out £000	Transfers In £000	Balance 31 March 2011 £000	Transfers Out £000	Transfers In £000	Balance 31 March 2012 £000
Housing Repairs Reserve	*4,157*	*(5,636)*	*5,600*	*4,121*	(5,406)	5,200	3,915
District Development Fund	*4,041*	*(2,707)*	*1,935*	*3,269*	(1,557)	1,745	3,457
Pension Deficit Reserve	*728*	*(920)*	*258*	*66*			66
Deferred Revenue Income	*526*	*(17)*		*509*	(11)		498
Insurance Reserve	*428*	*(4)*		*424*		719	1,143
Building Control	*23*		*4*	*27*		67	94
On Street Parking	*41*	*(13)*		*28*			28
Museum Fund	*6*		*2*	*8*		1	9
Small Loans Fund	*5*			*5*			5
Total Earmarked Reserves	***9,955***	***(9,297)***	***7,799***	***8,457***	**(6,974)**	**7,732**	**9,215**

8. OTHER OPERATING EXPENDITURE

	31 March 2012 £000	31 March *2011 £000*
Parish Council Precepts	3,107	*3,068*
Payments to the Government Housing Receipts Pool	673	*744*
Gains/losses on the disposal of non-current assets	(548)	*(445)*
Total	**3,232**	***3,367***

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	31 March 2012 £000	31 March *2011 £000*
Total Net (Surplus)/Deficit from Trading Operations	(3,037)	*(1,390)*
Interest payable and Similar charges	91	*26*
Pensions interest cost and expected return on pensions assets	1,472	*2,657*
Interest receivable and similar income	(693)	*(653)*
Changes in Fair Values of Investment Properties	(1,976)	*(1,564)*
Changes in value of Deferred Capital Receipts	(61)	*-*
Impairment of Investments	(61)	*2*
Total	**(4,265)**	***(922)***

10. TAXATION AND NON SPECIFIC GRANT INCOMES

	31 March	
	2012	*2011*
	£000	*£000*
Council tax income	(11,215)	*(11,120)*
Non domestic rates	(5,643)	*(8,221)*
Non-ring fenced government grants	(2,243)	*(1,194)*
Capital Grants and Other Contributions	(75)	*(117)*
Total	**(19,176)**	***(20,652)***

11. EXCEPTIONAL ITEMS

There are two exceptional items reported within the Accounts:

There was a refund of VAT deemed to be overdeclared and interest in respect of output tax charged on Trade Waste from 1 April 1973 to 30 November 1996. In the prior year there was a similar claim payable in relation to overdeclared tax on sports tuition for the period 1 January 1978 to 31 December 1989 and 1 April to 31 July 1994.

On 28 March the Council borrowed £185,456,000 from the Public Works Loan Board in order to pay an equivalent amount over to the Department for Communities and Local Government. This payment was the amount prescribed as payable on the cessation of the Housing Revenue Account Subsidy regime on 31 March 2012. The payment is of a Capital nature but as it neither creates or improves an existing asset the payment is written off to the Comprehensive Income and Expenditure Statement in the year of payment. This item is of course reversed out within the Adjustments Between Accounting Basis and Funding Basis under Regulation as it is not funded from revenue resources.

There are two further items reported in the prior period, these are:-

There was a Past Service Gain relating to changes made to pension scheme benefits. The gain has been split between the General Fund and Housing Revenue Account. More information in relation to this is shown under note 37.

There was a change to the discount factor to be applied for existing use for social housing from 46% to 39% of the open market value. The total revaluation reduction on HRA dwellings differs from that reported in the Housing Revenue Account Income and Expenditure Statement as some of the reduction has been written off against previous gains held in the Revaluation Reserve. See also note 1 of the Housing Revenue Account notes.

12. PROPERTY PLANT AND EQUIPMENT

	OPERATIONAL ASSETS							
	Council Dwellings and Garages	**Other Land and Buildings**	**Vehicles, Plant and Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**WIP Assets**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Gross Book Value 31 March 2011	459,538	41,621	17,824	17,257	2,784	756	498	540,278
Reclassified	1,781	(191)	(1,593)	-	-	-	(18)	(21)
Restated	(12,658)	16	-	-	(4)	-	-	(12,646)
Revalued	1,351	(78)	-	-	-	-	-	1,273
1 April 2011	450,012	41,368	16,231	17,257	2,780	756	480	528,884
Additions	4,882	40	1,573	218	42	-	1,543	8,298
Disposals	(431)	-	(318)	-	-	-	-	(749)
Reclassified in year	-	1,415	(332)	271	-	-	(1,354)	-
Gross Book Value 31 March 2012	454,463	42,823	17,154	17,746	2,822	756	669	536,433
Depreciation 31 March 2011	(12,658)	(685)	(6,781)	(4,115)	(4)	-	-	(24,243)
Accumulated Depreciation written off on revaluation	12,658	-	-	-	4	-	-	12,662
1 April 2011	-	(685)	(6,781)	(4,115)	-	-	-	(11,581)
Depreciation in Year	(9,795)	(651)	(1,324)	(479)	-	-	-	(12,249)
Depreciation on Assets Sold	9	-	269	-	-	-	-	278
Depreciation 31 March 2012	(9,786)	(1,336)	(7,836)	(4,594)	-	-	-	(23,552)
Net Book Value 31 March 2012	**444,677**	**41,487**	**9,318**	**13,152**	**2,822**	**756**	**669**	**512,881**

	OPERATIONAL ASSETS							
	Council Dwellings and Garages	***Other Land and Buildings***	***Vehicles, Plant and Equipment***	***Infrastructure Assets***	***Community Assets***	***Surplus Assets***	***WIP Assets***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***	***£000***
Gross Book Value 31 March 2010	*547,474*	*41,940*	*20,789*	*16,052*	*2,774*	*715*	*481*	*630,225*
Reclassified	*9,201*	*(4,460)*	*(5,806)*	*927*	*-*	*41*	*107*	*10*
Restated				*(25)*				*(25)*
Revalued	*(100,524)*	*2,743*	*-*	*-*	*-*	*-*	*-*	*(97,781)*
1 April 2010	*456,151*	*40,223*	*14,983*	*16,954*	*2,774*	*756*	*588*	*532,429*
Additions	*3,880*	*1,168*	*2,190*	*303*	*10*	*-*	*1,093*	*8,644*
Disposals	*(561)*	*-*	*(65)*	*-*	*-*	*-*	*-*	*(626)*
Reclassified in year	*19*	*230*	*716*	*-*	*-*	*-*	*(1,183)*	*(218)*
Revalued in year	*49*	*-*	*-*	*-*	*-*	*-*	*-*	*49*
Gross Book Value 31 March 2011	*459,538*	*41,621*	*17,824*	*17,257*	*2,784*	*756*	*498*	*540,278*
Depreciation 31 March 2010	*-*	*(3,164)*	*(5,544)*	*(3,647)*	*(4)*	*-*	*-*	*(12,359)*
Restated Depreciation				*1*				*1*
Accumulated Depreciation written off on revaluation	*-*	*2,979*	*-*	*-*	*-*	*-*	*-*	*2,979*
1 April 2010	*-*	*(185)*	*(5,544)*	*(3,646)*	*(4)*	*-*	*-*	*(9,379)*
Accumulated Depreciation written off in year	*6*	*-*	*55*	*-*	*-*	*-*	*-*	*61*
Depreciation in Year	*(12,664)*	*(500)*	*(1,292)*	*(469)*	*-*	*-*	*-*	*(14,925)*
Depreciation 31 March 2011	*(12,658)*	*(685)*	*(6,781)*	*(4,115)*	*(4)*	*-*	*-*	*(24,243)*
Net Book Value 31 March 2011	***446,880***	***40,936***	***11,043***	***13,142***	***2,780***	***756***	***498***	***516,035***

At 31 March 2012, the authority has entered into a number of contracts for the enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £969,000. The major commitment is the development of an All Weather Pitch in Waltham Abbey at an estimated cost of £462,000.

	OPERATIONAL ASSETS							
	Council Dwellings and Garages	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Surplus Assets	WIP Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	4,882	1,586	17,154	17,746	2,822		669	44,859
Valued at fair value as at:								
31 March 2012	449,581	1,474				216		1,690
31 March 2011		31,913						481,494
31 March 2010		7,850						7,850
31 March 2009						540		540
Total Cost or Valuation	454,463	42,823	17,154	17,746	2,822	756	669	536,433

13. HERITAGE ASSETS

	Waltham Abbey Bible	Other Artefacts	Civic Chains	Epping Fountain	Total
	£000	£000	£000	£000	£000
Gross Book Value 31 March 2011	262	147	110	26	545
Depreciation 31 March 2011	-	-	-	(2)	(2)
Depreciation in Year	-	-	-	(1)	(1)
Depreciation 31 March 2012	-	-	-	(3)	(3)
Net Book Value 31 March 2012	**262**	**147**	**110**	**23**	**542**

	Waltham Abbey Bible	*Other Artefacts*	*Civic Chains*	*Epping Fountain*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Gross Book Value 31 March 2010	*262*	*147*	*110*	*26*	*545*
Depreciation 31 March 2010	-	-	-	*(1)*	*(1)*
Depreciation in Year	-	-	-	*(1)*	*(1)*
Depreciation 31 March 2011	-	-	-	*(2)*	*(2)*
Net Book Value 31 March 2011	***262***	***147***	***110***	***24***	***543***

Waltham Abbey Bible and other artefacts

The Bible and other Artefacts are valued based on their valuation on the current insurance schedule. The items included on the Balance Sheet relate only to the top items featuring on the schedule. The total insurance valuation is rather higher than this but cannot be identified to a particular item or items that are in the Council's collection.

There are some quite significant assets within the collection. The most valuable being the Waltham Abbey Bible valued at £262,500, a painting 'view from the garden, Epping' by artist Lucien Pissarro who lived in the district for a while (£63,000), A purbeck marble bust of a knight valued in 1985 at £36,000, two hoards of coins valued at £21,900 in total and five other items identified separately valued in total at a little over £25,000.

The Council's museums service holds a large collection of Heritage Assets but in many cases no valuation is available.

As well as the assets referred to earlier there are between 25,000 and 30,000 pieces of art work including watercolours and sketches, over 10,000 objects and documents of social historic interest, a large number of photographic and archaeological items and some costumes. Some of this has been catalogued but by no means all. The assets are either held within the museum itself or held in storage. No valuation has been undertaken of these assets as it would have been too onerous to do so in the time scale applicable to the financial statements.

Epping Fountain

The Epping Fountain was previously recognised as an Infrastructure Asset and has been reclassified as a Heritage Asset. The fountain was erected many years ago and, although removed for some years, has now been refurbished and re-erected in its original position.

Civic Chains

The Chains were both passed to the Council by predecessor authorities. They feature a number of symbols related to the history of the district.

The Hunting Horn is the Master Keeper’s symbol of office and Chigwell and Loughton were two of the ten walks in the forest over which the Master Keeper had authority. In the forest region, the Lordship of the Manor developed from the office of Master Keeper.
The wreath of Oak Leaves is also symbolic of the forest.

The Stag is thought to be the single feature unifying the district. The Stag is particularly representative of Buckhurst Hill.
The Axe-heads were introduced because they were the Verderer’s symbol of Office and the Verderer’s Court was held at the King’s Head, Chigwell. They are also symbolic of the great fight to save the forest from enclosure, in which Loughton was so prominent.

14. INVESTMENT PROPERTY

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the CIES. Income and expenditure relating to the General Fund is recorded under trading operations. However income and expenditure relating to those properties held within the Housing Revenue Account are recorded there.

	31 March	
	2012	***2011***
	£000	***£000***
Rental income from investment property	4,439	***3,770***
Direct operating expenses arising from investment property	(860)	***(941)***
Net gain/(loss)	**3,579**	***2,829***

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

	31 March 2012 £000	31 March 2011 £000
Balance at start of the year	39,566	*37,870*
Additions		
Construction	-	-
Disposals		
Net gains/losses from fair value adjustments	1,975	*1,564*
Transfers to/from Property, Plant and Equipment		*132*
Balance at end of the year	**41,541**	***39,566***

15. INTANGIBLE ASSETS

The Council 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, and is amortised over a 5 year period.

The carrying amount of intangible assets is amortised on a straight line basis. All but £11,000 of the amortisation charge of £246,000 to revenue in 2011/12 was charged to the ICT cost centre and then absorbed as an overhead across all the service headings in the Net Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2011/12 Total	***2010/11 Total***
Balance at start of year:-		
Gross carrying amounts	1,233	*963*
Accumulated amortisation	(380)	*(215)*
Net carrying amount at start of year	853	*748*
Reclassifications at start of year	-	*(10)*
Additions	191	*192*
Amortisation	(246)	*(165)*
Reclassifications during the year	21	*88*
Net Carrying Amount at end of year	**819**	***853***

16. LONG TERM DEBTORS

	31 March 2012 £000	31 March 2011 £000
Mortgages	29	*34*
Rents to Mortgages	1,346	*1,285*
Other Local Authorities - Transferred Debt	426	*481*
Net Carrying Amount at end of year	**1,801**	***1,800***

17. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

	Long term		Current	
	31 March 2012 £000	*31 March 2011 £000*	**31 March 2012 £000**	*31 March 2011 £000 Restated*
Financial liabilities at amortised cost				
Borrowing	185,456	-	61	-
Trade Creditors	-	-	4,056	*6,790*
Total financial liabilities	**185,456**	**-**	**4,117**	***6,790***
Loans and receivables at amortised costs				
Investments	140	*320*	32,500	*43,707*
Debtors	1,801	*1,800*	5,301	*5,038*
Cash			3,808	*728*
	1,941	***2,120***	**37,801**	***49,473***
Available for Sale	-	-	10,009	*4,002*
Total financial assets	**1,941**	***2,120***	**47,810**	***53,475***

On the 28 March 2012 the Council took on new debt of £185.456m from the Public Works Loan Board (PWLB) to pay the Department of Communities and Local Government on the cessation of the HRA Subsidy System. The short term borrowing cost of £61,000 relate to the interest accrued on the PWLB loan for 2011/12.

The item included under Available for Sale in the financial instruments balances table above is included within the cash & cash equivalents on the balance sheet. The £10m relates to an investment made to a Money Market Fund and interest accrued, which needs to be reported under Available for Sale within the financial instruments balances. The Code of Practice requires an Available for Sale Financial Instruments Reserve Account to record any unrealised gains or losses from holding available for sale investment. However, as this is a Money Market Fund which has a constant net asset value, this means that each £1 invested 1 unit, which is re-priced back to £1 at the end of each day. All gains are realised and credited to the CIES.

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consists of the following items:

	Financial Liabilities:		Financial Assets:	
	2011/12 £000	**2010/11 £000**	**2011/12 £000**	**2010/11 £000**
Interest expense	(61)	-	-	-
Impairment (losses) / gains	-	-	61	*(466)*
Interest payable and similar charges	**(61)**	**-**	**61**	***(466)***
Interest income		-	693	*653*
Interest and investment income	**-**	**-**	**693**	***653***
Net gain/(loss) for the year	**(61)**	**-**	**754**	***187***

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost, i.e. the aggregate of principal and accrued interest. Fair value is the amount for which an asset can be exchanged, or a liability settled. The Council's debt outstanding at 31 March 2012 consists of loans from the Public Works Loan Board (PWLB). The PWLB has provided the Council with Fair Value amounts in relation to its debt portfolio. The PWLB has assessed the Fair Values by calculating the amounts the Council would have to pay to extingish the loans on these dates.

The fair value for financial assets can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions: a) where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; b) the fair value of trade and other receivables is taken to be the invoiced or billed amount.

	31 March 2012		31 March 2011	
	Carrying amount £000	**Fair Value £000**	**Carrying amount £000**	**Fair Value £000**
Financial liabilities				
Borrowing	185,517	192,020	-	-
Long-term creditors	-	-	-	-
Total Financial Liabilities	**185,517**	**192,020**	**-**	**-**
Financial assets				
Investments	32,640	32,640	44,027	*44,027*
Long-term debtors	1,801	1,801	1,800	*1,800*
Total Financial Assets	**34,441**	**34,441**	**45,827**	***45,827***

The fair value of long term liabilities is higher than the carrying amount because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The Council had £140,000 (£320,000 in 2010/11) classed as investments in excess of one year. This relates to the Heritable investment where the adminstrator has advised the anticpated repayment of the loan. It is assumed that the carrying amount shown in the balance sheet is approximate to the fair value.

18. INVENTORIES

	2011/12				
	Franking Machines £000	**Miscellaneous Stocks £000**	**Works Unit £000**	**Work In progress £000**	**TOTAL £000**
Balance at the start of the year	15	106	76	26	**223**
Purchases	27	260	211	23	**521**
Recognised as an expense during the year	(25)	(292)	(211)	(35)	**(563)**
Balance at year end	**17**	**74**	**76**	**14**	**181**

	Franking Machines	Miscellaneous Stocks	Works Unit	Work In progress	TOTAL
			2010/11		
	£000	*£000*	*£000*	*£000*	*£000*
Balance at the start of the year	*11*	*82*	*72*	*23*	***188***
Purchases	*27*	*233*	*211*	*45*	***516***
Recognised as an expense during the year	*(23)*	*(209)*	*(207)*	*(42)*	***(481)***
Balance at year end	***15***	***106***	***76***	***26***	***223***

19. DEBTORS AND PREPAYMENTS

	31 March 2012 £000	2011 £000 Restated
Amounts falling due in one year		
Government Departments	1,728	*2,311*
Other Local Authorities	2,232	*1,961*
Council Tax arrears	244	*252*
Housing Rent arrears	279	*289*
Sundry debtors	1,690	*1,324*
Prepayments	508	*453*
Others	1	*1*
Total Debtors	**6,682**	**6,591**

Council Tax arrears shown above and the related bad debt provision relate only to the Council's proportion of the total debt. The remainder is shown as part of the amount due from major preceptors on the basis that the Council has paid over more in precepts than it has actually received from Council tax payers, the figure itself is net of prepayments. National non-domestic rates arrears are shown as being due from central government as the Council merely acts as an agent collecting the amounts due, this amount is also shown net of prepayments.

20. CASH AND CASH EQUIVALENTS

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

	31 March 2012 £000	2011 £000
Cash	4	*4*
Bank current accounts	3,804	*724*
Short-term deposits with money market funds	10,009	*4,002*
Total Cash and Cash Equivalents	**13,817**	***4,730***

The 'Short-term deposits with money market funds' relate to £10m made to two Money Market Fund and interest accrued (£9,000). This has been included within the cash equivalents as funds can be drawn down and used on the day of request. The fund has a constant net asset value, this means that each £1 you put in buys 1 unit, which is re-priced back to £1 at the end of each day.

21. CREDITORS

	31 March 2012 £000	*2011 £000*
Government Departments and Other Local Authorities	1,318	*1,527*
Council Tax	140	*178*
Housing rents	217	*211*
Sundry creditors	2,617	*2,729*
Accruals and deferred income	2,954	*4,059*
Total Creditors	**7,246**	***8,704***

Included within creditors is £3,000 (£3,000 in 2010/11) relating to Waltham Abbey Tourist Information Centre. This falls within the definition of a related party.
Council tax prepayments shown above relate to the Council's proportion of prepayments, the remainder is shown as part of the net amount owed by preceptors which forms part of the debtors figure, the same arrangement applies to non-domestic rates.

22. USABLE AND UNUSABLE RESERVES

Movements in Usable Reserves are shown in detail on the Movement in Reserves Statement.

	31 March 2012 £000	*2011 £000 Restated*
Revaluation Reserve	8,060	*8,031*
Capital Adjustment Account	360,870	*547,524*
Pensions Reserve	(65,625)	*(46,324)*
Deferred Capital Receipts Reserve	1,372	*1,319*
Collection Fund Adjustment Account	(99)	*(85)*
Accumulated Absences Account	(127)	*(104)*
Total Unusable Reserves	**304,451**	***510,361***

Revaluation Reserve

The revaluation reserve contains the gains made by the Council arising from increases in the value of 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 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 reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	31 March	
	2012	***2011***
	£000	***£000***
Balance as at 1 April	8,031	*23,110*
Revaluations during the year	10	*(15,079)*
Restatement	19	*-*
Balance as at 31 March	**8,060**	***8,031***

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 provision. 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 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 and gains recognised as donated assets 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 6 details the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2012 £000	2012 £000	2011 £000 Restated
Balance at 1 April		547,524	*632,461*
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement			
Charges for depreciation and impairment of non-current assets	(12,249)		*(14,926)*
Self Financing Payment for Housing Revenue Account Properties	(185,456)		*-*
Revaluation losses on Property, Plant and Equipment	(78)		*(79,673)*
Amortisation of intangible assets	(246)		*(165)*
Revenue expenditure funded from capital under statute	(1,074)		*(1,094)*
Amounts for non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(749)	(199,852)	*(627)*
Adjusting Amounts written out of the Revaluation Reserve			
		347,672	*535,976*
Net written out amount of the cost of non-current assets consumed in the year	278		*62*
Capital financing applied in the year			
Reversal of previous impairments	1,355		*-*
Use of the Capital Receipts Reserve to finance new capital expenditure	3,206		*2,680*
Use of the Major Repairs Reserve to finance new capital expenditure	3,277		*4,033*
Capital grants credited to the CIES that have been applied to capital financing	1,012		*874*
Application of grants to capital financing from the Capital Grants Unapplied Account	8		*125*
Capital expenditure charged against the General Fund and HRA balances	2,106	11,242	*2,210*
Movement in the market value of Investment Properties debited or credited to the CIES		1,956	*1,564*
Balance at 31 March		**360,870**	***547,524***

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) was established under Financial Reporting Standards 25, 26 and 29 when Financial Instruments were adopted into the then SORP (2007), now superseded by the Code. The FIAA balance at the end of the financial year represents the amount that should have been charged to income and expenditure in accordance with proper accounting practices under the Code, but which Statutory Provisions allow or require to be deferred over future years.

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank at that time. The Council decided to recognise an impairment based on recovering 85p in the £, in line with Administrators views. The Government had allowed authorities to postpone the impairment until 2010/11 which the Council did. Therefore, the impairment on the principal and on the interest for the year was accounted for within the Comprehensive Income and Expenditure Statement, this has resulted in the FIAA being nil as at 31 March 2011.

	31 March 2012 £000	2011 £000
Balance as at 1 April	**-**	***(466)***
Impairment on loan	-	*404*
Impaired Interest for the year	-	*62*
Balance as at 31 March	**-**	**-**

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 CIES 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 employers contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance of the Pension Reserve therefore shows a substantial shortfall in the benefits earned by the past and current employees and the resources the Council have set aside to meet them. The statutory arrangements ensure the funding will have been set aside by the time the benefits come to be paid.

	2012 £000	2011 £000
Balance at 1 April	(46,324)	*(56,493)*
Actuarial gains or losses on pensions assets and liabilities	(19,222)	*3,711*
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(3,804)	*2,561*
Employers pensions contributions and direct payments to pensioners payable in the year	3,725	*3,897*
Balance at 31 March	**(65,625)**	***(46,324)***

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 useable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement deferred cash eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2012 £000	2011 £000
Balance at 1 April	1,319	*1,336*
Repayment of Mortgages	(8)	*(17)*
Rents to Mortgages	61	-
Balance at 31 March	**1,372**	***1,319***

Collection Fund Adjustment Account

The collection fund manages the differences arising from the recognition of council tax income in the CIES as it falls due from Council Tax Payers compared with the statutory arrangements for paying across amounts to General Fund from the Collection Fund.

	2012 £000	*2011* *£000*
Balance at 1 April	(85)	*(64)*
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(14)	*(21)*
Balance at 31 March	**(99)**	***(85)***

Accumulated Absences Account

The Accumulated Absences Account absorbs the difference 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 is neutralised by transfers to or from the Account.

	2012 £000		*2011* *£000*
Balance at 1 April		(104)	*(150)*
Reversal of prior year accrual	104		
Amounts accrued at the end of the current year	(127)		
Amount by which the officer remuneration charges to the CIES is different from remuneration chargeable		(23)	*46*
Balance at 31 March		**(127)**	***(104)***

23. CASH FLOW STATEMENT - OPERATING ACTIVITIES

Adjust net surplus or deficit on the provision of services for non cash movements

	2012 £000	*2011* *£000*
Depreciation	12,249	*14,926*
Amortisiation	246	*165*
Impairment and downward valuations	(1,277)	*79,673*
Material Impairment losses on Investment debited to surplus or deficit on the provision of services in year	(61)	*406*
Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss a/c	(35)	*(466)*
Increase / (Decrease) in Interest Creditors	61	
Increase / (Decrease) in Creditors	(938)	*2,270*
Increase / (Decrease) in Interest and Dividend Debtors	36	*493*
Increase / (Decrease) in Debtors	503	*3,752*
Increase / (Decrease) in Inventories	42	*(35)*
Pension Liability	79	*(6,458)*
Contributions to / (from) Provisions	(11)	*(17)*
Carrying amount of non-current assets sold	472	*565*
Movement in Investment Property Values	(1,956)	*(1,564)*
Total	**9,410**	***93,710***

Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities

	2012 £000	*2011 £000*
Capital Grants credited to surplus or deficit on the provision of services	(970)	*(854)*
Proceeds from the sale of property and equipment, investment property and intangible assets	(1,080)	*(1,010)*
Total	**(2,050)**	***(1,864)***

Operating activities within the cashflow statement include the following cash flows relating to interest and other operating activities

	2012 £000	*2011 £000*
Interest received	729	*1,146*
Interest charge for the year	(61)	*-*
Other operating activities	(181,144)	*9,572*
Total	**(180,476)**	***10,718***

Other operating activities in 2011/12 include the HRA self financing payment of £185,456,000.

24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2012 £000	*2011 £000*
Purchase of property, plant and equipment, investment property and intangible assets	(9,070)	*(8,409)*
Purchase of short-term and long-term investments	(84,000)	*(102,000)*
Other payments for Investing Activities	(20)	*-*
Proceeds from sale of property, plant and equipment, investment property and intangible assets	975	*1,012*
Proceeds from short-term and long term investments	95,447	*96,380*
Other receipts from investing activities	1,392	*1,265*
Net cash flows from investing activities	**4,724**	***(11,752)***

25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2012 £000	*2011 £000*
Cash receipts of short and long term borrowing	185,456	*-*
Other receipts from financing activities	(617)	*1,626*
Net cash flows from financing activities	**184,839**	***1,626***

26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

2011/12

	Corporate Support Services £000	Deputy Chief Executive £000	Environmental & Street Scene £000	Finance & ICT £000	Housing £000	Office of the Chief Executive £000	Planning & Economic Development £000	Housing Revenue Account £000	Total £000
Fees, charges & other service income	3,679	643	5,880	446	451	219	552	30,338	**42,208**
Government Grants			2	45,289	544			449	**46,284**
Total Income	**3,679**	**643**	**5,882**	**45,735**	**995**	**219**	**552**	**30,787**	**88,492**
Employee Expenses	597	824	1,508	1,846	678	219	1,270	2,649	**9,591**
Other Service Expenses	715	489	10,389	433	1,166	917	324	19,741	**34,174**
Support Service Recharges	518	599	2,105	1,142	434	1,688	1,207	842	**8,535**
Depreciation	26	75	1,448	52			267	10,180	**12,048**
Impairment Charges									**0**
Benefit Payments				43,866					**43,866**
Total Operating Expenditure	**1,856**	**1,987**	**15,450**	**47,339**	**2,278**	**2,824**	**3,068**	**33,412**	**108,214**
Net Cost Of Services	**(1,823)**	**1,344**	**9,568**	**1,604**	**1,283**	**2,605**	**2,516**	**2,625**	**19,722**

2010/11

	Corporate Support Services £000	*Deputy Chief Executive £000*	*Environmental & Street Scene £000*	*Finance & ICT £000*	*Housing £000*	*Office of the Chief Executive £000*	*Planning & Economic Development £000*	*Housing Revenue Account £000*	*Total £000*
Fees, charges & other service income	*1,830*	*557*	*5,383*	*437*	*471*	*64*	*537*	*29,484*	***38,763***
Government Grants	*34*	*-*	*9*	*43,927*	*639*	*-*	*21*	*552*	***45,182***
Total Income	***1,864***	***557***	***5,392***	***44,364***	***1,110***	***64***	***558***	***30,036***	***83,945***
Employee Expenses	*571*	*854*	*1,516*	*1,944*	*773*	*226*	*1,435*	*2,790*	***10,109***
Other Service Expenses	*546*	*578*	*10,243*	*1,339*	*1,196*	*807*	*401*	*18,161*	***33,271***
Support Service Recharges	*327*	*596*	*2,163*	*1,414*	*363*	*1,820*	*1,241*	*2,515*	***10,439***
Depreciation	*25*	*50*	*1,512*	*52*	*-*	*3*	*215*	*12,862*	***14,719***
Impairment	*-*	*-*	*2,230*	*-*	*-*	*-*	*-*	*77,443*	***79,673***
Benefit Payments	*-*	*-*	*-*	*42,199*	*-*	*-*	*-*	*-*	***42,199***
Total Operating Expenditure	***1,469***	***2,078***	***17,664***	***46,948***	***2,332***	***2,856***	***3,292***	***113,771***	***190,410***
Net Cost Of Services	***(395)***	***1,521***	***12,272***	***2,584***	***1,222***	***2,792***	***2,734***	***83,735***	***106,465***

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

	2011/12 £000	*2010/11 £000*
Net Expenditure in the Directorate Analysis	(19,722)	*(106,465)*
Services and Support Services not in analysis	68	*(10)*
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in	102	*8,530*
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(188,493)	*(1,390)*
Cost of Services in Comprehensive Income and Expenditure Statement	**(208,045)**	***(99,335)***

Reconciliation to Subjective Analysis 2011/12

	Directorate Analysis *£000*	Services and Support Services not in analysis *£000*	Amounts not reported to management for decision making *£000*	Amounts not included in CIES *£000*	Cost of Services *£000*	Corporate Amounts *£000*	Total *£000*
Fees, charges & other service income	42,208	1,112	376	(4,667)	**39,029**	4,667	**43,696**
Interest and Investment Income					**-**	6,353	**6,353**
Income from Council Tax					**-**	11,215	**11,215**
Government Grants and Contributions	46,284				**46,284**	7,961	**54,245**
Total Income	**88,492**	**1,112**	**376**	**(4,667)**	**85,313**	**30,196**	**115,509**
Employee Expenses	9,591	223		(621)	**9,193**	7,753	**16,946**
Other Service Expenses	78,040	495	274	(697)	**78,112**	697	**78,809**
Support Service Recharges	8,535	324		(286)	**8,573**	286	**8,859**
Depreciation, Amortisation and Impairment	12,048	2		(26)	**12,024**	(2,011)	**10,013**
Interest Payments					**-**	91	**91**
Precepts and Levies					**-**	3,107	**3,107**
Payments to Housing Capital Receipts Pool					**-**	673	**673**
Gain/Loss on Disposal of Fixed Assets					**-**	(548)	**(548)**
HRA Self Financing				185,456	**185,456**	-	**185,456**
Rents to mortages valuation increase						(61)	**(61)**
Total Expenditure	**108,214**	**1,044**	**274**	**183,826**	**293,358**	**9,987**	**303,345**
Surplus/(Deficit) on the provision of services	**(19,722)**	**68**	**102**	**(188,493)**	**(208,046)**	**20,209**	**(187,836)**

Reconciliation to Subjective Analysis

	2010/11						
	Directorate Analysis	***Services and Support Services not in analysis***	***Amounts not reported to management for decision making***	***Amounts not included in CIES***	***Cost of Services***	***Corporate Amounts***	***Total***
Fees, charges & other service income	*38,763*	*1,067*	*8,530*	*(2,930)*	***45,430***	*2,930*	***48,360***
Surplus or deficit on associates and joint ventures	-	-	-		**-**	-	**-**
Interest and Investment Income	-	-	-		**-**	*5,744*	***5,744***
Income from Council Tax	-	-	-		**-**	*11,120*	***11,120***
Government Grants and Contributions	*45,182*	-	-		***45,182***	*9,532*	***54,714***
Total Income	***83,945***	***1,067***	***8,530***	***(2,930)***	***90,612***	***29,326***	***119,938***
Employee Expenses	*10,109*	*244*	-	*(628)*	***9,725***	*8,376*	***18,101***
Other Service Expenses	*75,470*	*449*	-	*(614)*	***75,305***	*614*	***75,919***
Support Service Recharges	*10,439*	*381*	-	*(298)*	***10,522***	*298*	***10,820***
Depreciation, Amortisation and Impairment	*94,392*	*3*	-	-	***94,395***	*(1,562)*	***92,833***
Interest Payments	-	-	-		**-**	*26*	***26***
Precepts and Levies	-	-	-		**-**	*3,068*	***3,068***
Payments to Housing Capital Receipts Pool	-	-	-		**-**	*744*	***744***
Gain/Loss on Disposal of Fixed Assets	-	-	-		**-**	*(445)*	***(445)***
Total Expenditure	***190,410***	***1,077***	**-**	***(1,540)***	***189,947***	***11,119***	***201,066***
Surplus/(Deficit) on the provision of services	***(106,465)***	***(10)***	***8,530***	***(1,390)***	***(99,335)***	***18,207***	***(81,128)***

27. TRADING OPERATIONS

The following gross income and expenditure figures are included on the face of the Income and Expenditure Account.

	2011/12	*2010/11*
Industrial Estates & Other	**£000**	***£000***
Income	3,185	*1,330*
Expenditure	726	*370*
(Deficit)/Surplus	**2,459**	***960***
North Weald Centre		
Income	1,484	*1,389*
Expenditure	906	*959*
(Deficit)/Surplus	**578**	***430***
Total (Deficit)/Surplus	**3,037**	***1,390***

28. AGENCY SERVICES

An agreement exists with Sainsbury's supermarket whereby the Council's car parking management contractor manages two car parks on their behalf. In 2011/12 Income from the car parks of £344,000 (2010/11 £339,000) was received, of which £307,000 (2010/11 £303,000), was paid over after allowing for an administration charge.

29. POOLED BUDGETS

Epping Forest Community Safety Partnership (CSP)

The Council is a participant in a partnership with other public bodies involving the pooling of government grants to finance work towards jointly agreed objectives for local public services. The purpose of the partnership is:

• To form an agreement between the Essex County Council, Essex's Health Organisations, Fire and Police Services, District Councils and other local partners including the Community and Voluntary Sector to achieve mutually agreed outcomes that are regarded as being key to making Essex a better place to live and work.

• To agree specific outcomes and targets that will be achieved each year for the three years of the agreement.

• To improve the effectiveness and efficiency of public services in Essex by pooling and aligning funding streams.

At the County level the members consist of :-

County and District Councils in Essex
Local Strategic Partnerships
Community Protection Authorities
Health Bodies
Voluntary Organisations
Other Organisations

All members of the Partnership have one voting right and as such no one party has more control over the operation of the partnership than any other member.

Essex County Council acts as the accountable body for the Home Office Community Safety Fund. This means that they are responsible for the distribution of the grant to the partners involved.

The Epping Forest CSP received grant funding of £45,038. The Council acts as an agent of the partnership ensuring that grant monies are used in accordance with the wishes of the CSP as a whole. The Council employs a Safer Communities Manager who manages the funds according to the wishes of the CSP.

Local Strategic Partnership (LSP)

One Epping Forest is the Local Strategic Partnership (LSP) for Epping Forest District. It brings together public, private and voluntary sector agencies responsible for the provision of services. The partnership annual running costs are funded from a pooled budget established by Epping Forest District Council, West Essex Primary Care Trust, Essex Police and Essex County Council of £45,000, of this Epping Forest contributes £10,000.

The funding is used to support the costs of the LSP Manager, based at Epping Forest.

30. MEMBER ALLOWANCES

Member allowances and expenses are shown below. Further details of these allowances are available on page 73.

	2011/12 £000	*2010/11 £000*
Allowances	289	*291*
Expenses	22	*23*
Total	**311**	***314***

31. OFFICER REMUNERATION

The number of employees whose remuneration, including benefits in kind, but excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were (there were no officers in bands between £115,000 - £149,999).

Remuneration Band	**2011/12**		***2010/11***	
	Number of Employees	**Left in Year**	***Number of Employees***	***Left in Year***
£50,000 - £54,999	12		*12*	
£55,000 - £59,999	4		*4*	
£60,000 - £64,999	1		*1*	
£65,000 - £69,999	0		*0*	
£70,000 - £74,999	0		*1*	
£75,000 - £79,999	2		*1*	
£80,000 - £84,999	4		*4*	
£85,000 - £89,999	0		*0*	
£90,000 - £94,999	0		*0*	
£95,000 - £104,999	0		*0*	
£105,000 - £109,999	0		*1*	
£110,000 - £114,999	1		*0*	
£115,000- £149,999	0		*0*	*1*
Total	**24**	**0**	***24***	***1***

Senior Officers where emoluments - salary is £150,000 or more per year.

No Senior Officer fell under this category in 2011/12.

2010/11:

	Salary (Including fees & Allowances, and Compensation for loss of employment)	**Benefits in Kind**	**Total Remuneration excluding pension contributions 2010/11**	**Pension Contributions**	**Total Remuneration including pension contributions 2010/11**
Chief Executive - Peter Haywood	162,904	1,816	164,720	5,940	170,660

Senior Officers where emoluments - salary is between £50,000 & £150,000 per year.

2011/12

Post Title	Salary (Including fees & Allowances)	Benefits in Kind	Total Remuneration excluding pension contributions 2011/12	Pension Contributions	Total Remuneration including pension contributions 2011/12
	£	£	£	£	£
Acting Chief Executive	110,000	4,249	114,249	14,300	128,549
Director of Housing	78,803	4,526	83,329	10,226	93,555
Director of Planning & Economic Development	78,827	5,232	84,059	10,248	94,307
Director of Finance & ICT	79,301	3,160	82,461	10,303	92,764
Director of Environment & Street Scene	79,369	1,294	80,663	10,318	90,981
Director of Corporate Support Services	76,838	1,239	78,077	9,988	88,065
Assistant to the Chief Executive	75,558	1,239	76,797	9,680	86,477

There were no payments relating to bonuses in the year. The emoluments above include all taxable employee payments. Pension Contributions relate to Employer's contributions of 13.0%.

2010/11

Post Title	*Salary (Including fees & Allowances)*	*Benefits in Kind*	*Total Remuneration excluding pension contributions 2010/11*	*Pension Contributions*	*Total Remuneration including pension contributions 2010/11*
	£	*£*	*£*	*£*	*£*
Acting Chief Executive	*105,066*	*3,989*	*109,055*	*13,764*	*122,819*
Director of Planning & Economic Development	*78,589*	*4,918*	*83,507*	*10,295*	*93,802*
Director of Environment & Street Scene	*78,834*	*3,318*	*82,152*	*10,327*	*92,479*
Director of Housing	*79,472*	*4,314*	*83,786*	*10,381*	*94,167*
Director of Finance & ICT	*79,101*	*3,314*	*82,415*	*10,361*	*92,776*
Director of Corporate Support Services	*77,768*	*1,239*	*79,007*	*10,188*	*89,195*
Assistant to the Chief Executive	*73,704*	*1,239*	*74,943*	*9,526*	*84,469*

Senior Officers where emoluments - salary is £150,000 or more per year.

Termination Benefits

In 2011/12 the Authority terminated three part time posts on 31 March 2012 relating to one employee who was an activities coach. A redundancy payment of £2,116 was made to the employee.
In 2010/11 the Chief Executive left the Authority on 20 July 2010, by mutual consent. This involved a payment of £73,764 as compensation for loss of office.

32. EXTERNAL AUDIT FEES

The following external audit fees have been paid to the Audit Commission and PKF (UK) LLP.

	2011/12 £000	*2010/11 £000*
External audit services in accordance with section 5 of the Audit Commission Act 1998	153	*150*
Certification of grant claims and returns under section 28 of the Audit Commission Act 1998	59	*74*
Rebate of fees from Audit Commission for IFRS	(11)	*(10)*
Fees paid in respect of other services	-	*2*
Total	**201**	***216***

The figures above include costs charged to 2011/12 relating to 2010/11 of £11,000.

33. GRANT INCOME

The Council credited the following grants and contributions to the CIES in 2011/12:

Credited to Taxation and Non-Specific Grant Income	2011/12 £000	*2010/11 £000*
Non domestic rates	5,643	*8,221*
Revenue Support Grant	1,744	*1,194*
New Homes Bonus	295	-
Council Tax Freeze grant	203	-
Second Homes Discount Allowance	75	*76*
Area Based Grant	-	*41*
Total	**7,960**	***9,532***

Credited to Services	2011/12 £000	*2010/11 £000*
Department for Work and Pensions	45,115	*43,648*
Department for Communities and Local Government	646	*849*
Essex County Council	333	*590*
Department for Environment, Food and Rural Affairs	-	*136*
Department for Transport	-	*99*
Big Lottery Fund	-	*74*
Hughmark Continental	20	*52*
Colchester Borough Council	30	*44*
British Gas	24	*28*
Regional Improvement and Efficiency Partnership	150	-
Contributions to Affordable Housing	131	-
Other grants and contributions received	38	*32*
Total	**46,487**	***45,552***

The Council has received some grants and contributions that have yet to be recognised as income as they have conditions attached to them that if they are not met will require monies to be returned to the giver. The balances at the year end are as follows:

Capital Grants received in Advance	2011/12 £000	*2010/11 £000*
Affordable Housing Contributions	704	*435*
Department for Communities and Local Government	125	*118*
Grange Farm Development	38	37
Department for work and Pensions	-	27
Hughmark Continental	70	17
Parish Councils	7	*6*
Choice Based Lettings	-	*6*
Total	**944**	*646*

34. RELATED PARTY DECLARATIONS

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

Central Government

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis on Note 25 on reporting for resource allocation decisions.

Members
Members of the Council have direct control over the council's financial and operating policies. The total of members allowances paid in 2011/12 is shown in Note 30. During 2011/12 expenditure totalling £346,330 (£492,859 in 2010/11) was paid to, and income totalling £57,516 (£122,245 in 2010/11) was received from, organisations in which 29 members (24 in 2010/11) had connections. Included in the expenditure amount is a creditor of £3,000 (£3,000 in 2010/11). The nature of the expenditure was primarily grants to organisations of £321,622 and subscriptions and rent of £24,708 with which members had declared interests, with varying levels of involvement.

Officers

There were no transactions during the year with organisations in which any officer had declared an interest.

35. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it.

	2011/12 £000	***2010/11 £000***
Opening Capital Financing Requirement	(784)	*(784)*
Capital Investment		
Self Financing Payment	185,456	-
Property, Plant and Equipment	8,298	*8,644*
Intangible Assets	191	*192*
Sources of Finance		
Capital Receipts	(2,759)	*(2,319)*
Government grants and other contributions	(347)	*(274)*
Direct revenue contributions	(5,383)	*(6,243)*
Closing Capital Financing Requirement	**184,672**	***(784)***

36. LEASES

Leasing rentals are charged to service revenue accounts.

The Council has entered various leasing agreements relating to cars, operational vehicles, printing equipment and vending equipment. All of the leases are categorised as operating leases. The arrangements provide for charges to be made evenly throughout the period of the lease. The total lease payment in 2011/12 is £212,000.

The total of future minimum lease payments due within 1 year are:	**2011/12 £000**	***2010/11 £000***
Cars	98	*209*
Operational Vehicles	-	*23*
Vending Equipment	5	*5*
Total	**103**	***237***

Vehicles & Equipment

	2011/12 £000	***2010/11 £000***
Payments due;		
Not later than one year	103	*237*
Later than one year and not later than five years	14	*116*
Total	**117**	***353***

The Council also has leases with third parties under operating leases with rental income from the lease being credited to trading operations, or in the case of shops, the Housing Revenue Account.

Assets Leased to Third Parties The total of future minimum lease payments due within 1 year are:	**2011/12** **£000**	***2010/11*** ***£000***
Land & Buildings		
Shops	1,542	*1,622*
Industrial & Commercial	919	*823*
Other	1,196	*203*
Total Rental Receivable	**3,657**	***2,648***

The timing of total future minimum lease payments are:

	31 March 2012		***31 March 2011***	
	Receipts due between 2 and 5 years £000	**Total receipts due thereafter £000**	***Receipts due between 2 and 5 years £000***	***Total receipts due thereafter £000***
Land & Buildings				
Shops	4,522	4,348	*4,183*	*3,416*
Industrial & Commercial	2,934	46,595	*3,171*	*46,760*
Other	4,431	7,671	*813*	*6,505*
Total	**11,887**	**58,614**	***8,167***	***56,681***

Gross Amount of Assets held for use in operating leases.

	2011/12 **£000**	***2010/11*** ***£000***
Land & Buildings		
Shops	16,666	*16,666*
Industrial & Commercial	12,255	*11,293*
Other	12,620	*11,607*
Total Assets	**41,541**	***39,566***

There are no accumulated depreciation charges on the assets held for use in operating leases.

37. PENSIONS

Employees of Epping Forest District Council are admitted to the Essex County Council Pension Fund ("the Fund"), which is administered by Essex County Council under the Regulations governing the Local Government Pension Scheme (LGPS), a defined benefit scheme.

The Essex County Council Pension Fund is a funded scheme meaning that the authority and employees pay contributions into a fund calculated at a level intended to balance the pensions liabilities with investment assets.

As part of the terms and conditions of employment of the Council's officers the authority 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 employees earn their future entitlement.

The figures disclosed below have been derived from a re-assessment of the assets and liabilities as a result of an interim actuarial valuation of the Fund carried out by the Fund's Actuary, Barnett Waddington Public Sector Consulting, as at 31 March 2012. The approach to calculating the IAS19 figures in between full actuarial valuations is approximate in nature. Broadly the approach by the Actuaries assumes that the experience of the Fund will be in line with the actuarial assumptions used for IAS19 purposes. The approach adopted by the Actuary follows IAS 19 - Calculation Guide for Local Authorities".

The Council recognises 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 made against Council Tax is based on contributions payable to the fund in respect of 2011/12 so the real cost of retirement benefits is reversed out of the Income and Expenditure Account after Net Operating Expenditure.

The transactions below have been made in the Comprehensive Income and Expenditure Account during the year.

The Council has adopted the amendment to IAS19, Retirement Benefits, resulting in quoted securities held as assets in the defined pension scheme being valued at bid price rather than mid-market value.

		2011/12 £000	*2010/11* *£000*
Comprehensive Income and Expenditure Statement			
Net Cost of Services			
Current Service Cost		(2,332)	*(2,633)*
Past Service Gain	General Fund	-	*5,345*
	Housing Revenue Account	-	*2,506*
Net Operating Expenditure			
Interest Cost		(7,132)	*(7,748)*
Expected Return on Assets		5,660	*5,091*
Net charge made to the Comprehensive Income & Expenditure Statement		**(3,804)**	***2,561***

	2011/12 £000	*2010/11* *£000*
Adjustments between accounting basis and funding basis under regulations		
Net charges made for retirement benefits in accordance with FRS17/IAS19	(3,804)	*2,561*
Employers contributions payable to the pension fund	3,725	*3,897*
Less Capital directions received	-	*(662)*
Less DDF /HRA Revenue contributions	-	*(258)*
Net charge	**(79)**	***5,538***

In 2010/11 there was a Past Service Gain on the fund. This was attributable to the move from using the Retail Prices Index to the Consumer Prices Index and is therefore of a one-off nature.

The employer's contributions certified by the Actuary to the Fund in respect of the period 1 April 2011 to 31 March 2014 is 13%. (Employees contributions range from 5.5% to 7.5% depending on salary). The average employee contribution rates in respect of the new LGPS benefit structure are based on projected levels of pay as at 1 April 2011. In addition to these contributions lump sum payments are also required to address the deficit funding level. These are £1.651m for 2011/2012, £1.725m for 2012/2013 and £1.803m for 2013/2014. There were no creditors relating to pension fund contributions at year end.

In 2011/12 the Council paid an employer's normal contribution of £3.725m representing 27.80% of employee's pensionable pay into Essex County Council's Pension Fund, which provides members with defined benefits related to pay and service. The contribution rate is determined by the Fund's Actuary based on a triennial actuarial valuation. The results of the 2010 review as at 31 March 2010 were implemented with effect from 1 April 2011. The Actuary advised that the scheme was still under funded and that deficiency contributions mentioned above were required from all participating authorities. The sum required from this Council, included in the above contributions, was £1,651,000 for 2011/12 (£1,743,241 for 2010/11).

Contributions paid by employees into the Essex County Council Pension Fund in 2011/12 amounted to £892,000 representing 6.66% of employee's pensionable pay.

In addition, the Council is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2011/12 these amounted to £327,000 representing 2.44% of pensionable pay. Additional early retirement costs due to redundancy amounted to £0 representing 0.00% of pensionable pay.

During the year pensions paid from the fund net of transfers in were £3,845,000, (£4,969,000 2010/11)

Assets and Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities

	Unfunded Liabilities		All Funded/Unfunded Liabilities: Local Government Pension Scheme	
	2012 £000	***2011 £000***	**2012 £000**	***2011 £000***
Net pensions liability at 1 April 2011	(3,791)	*(4,499)*	(46,324)	*(56,493)*
Movements in the current year				
Current service cost	-	-	(2,332)	*(2,633)*
Employers' contributions payable to scheme	327	*325*	3,725	*3,897*
Settlement and curtailment loss	-	-	-	-
Past service gain	-	*209*	-	*7,851*
Interest cost	(200)	*(243)*	(7,132)	*(7,748)*
Expected return on assets in the scheme	-	-	5,660	*5,091*
Actuarial gain/(loss)	(846)	*417*	(19,222)	*3,711*
Net pensions liability at 31 March 2012	**(4,510)**	***(3,791)***	**(65,625)**	***(46,324)***

	31 March	
	2012 £000	***2011 £000***
The bid value of the above assets related to this Council was	85,198	*83,812*
The value placed on the liabilities related to this Council was	(150,823)	*(130,136)*
Consequently, at 31 March, the deficiency related to this Council was	(65,625)	(46,324)

Reconciliation of fair value of the scheme assets:

	2012 £000	***2011 £000***
Fair Value of the plan assets at 1 April	83,812	*82,726*
Expected Rate of Return	5,660	*5,091*
Actuarial gains and losses	(4,719)	*(3,554)*
Employer contributions	3,725	*3,897*
Contributions by scheme participants	892	*946*
Benefits paid	(4,172)	*(5,294)*
Fair value of the plan assets at 31 March	**85,198**	**83,812**

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 £5,660,000 (£5,091,000 for 2010/11).

Scheme History

	2011/12 £000	**2010/11 £000**	**2009/10 £000**	**2008/09 £000**	**2007/08 £000**
Present Value of Liabilities	(150,823)	(130,136)	(139,219)	(102,295)	(120,356)
Fair Value of Assets	85,198	83,812	82,726	60,748	76,853
Surplus/(deficit) in the scheme	(65,625)	(46,324)	(56,493)	(41,547)	(43,503)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £65,625,000 in the balance sheet has reduced the reported net worth of the Council by 18.69% (8.31% 2010/11).

As a result the overall amount to be met from the General Fund Balance has remained unchanged, but the costs disclosed for individual services are 0.67% (0.32% 2010/11) lower after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 0.67% (0.31% 2010/11) lower than it would otherwise have been.

However statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be gradually eliminated by increased contributions over the remaining working life of employees, as assessed by the scheme Actuary.

The total employer contributions expected to be made to the scheme by the council in the year to 31 March 2013 is £3,472,000. The Current Service Cost is expected to be £2,910,000,for the year to 31 march 2013, which is based on an estimated payroll of £13,440,000.

The projected finance cost items for the year to 31 March 2013 are Interest on pension liabilities of £6,937,000, and Expected return on assets of £4,987,000, giving a net finance cost of £1,950,000.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, and inflation rates. The District Council fund liabilities have been assessed by Barnett Waddington a firm of actuaries who provide the service for the Essex County Council Pension Fund, being based on the full Actuarial Valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

	2011/12 %	***2010/11 %***
Long term expected rate of return on assets in the scheme:		
Equity investments	6.40	*7.50*
Government Bonds	3.30	*4.40*
Other Bonds	4.60	*5.10*
Property	5.40	*6.50*
Cash/Liquidity	0.50	*0.50*
Mortality Assumptions		
Longevity at 65 for current pensioners:		
Men	22.70	*22.60*
Women	25.30	*25.20*
Longevity at 65 for future pensioners:		
Men	24.10	*24.00*
Women	26.80	*26.80*
Rate of Inflation RPI	3.30%	*3.40%*
Rate of Inflation CPI	2.50%	*2.90%*
Rate of Increase in Salaries	4.30%	*4.40%*
Rate of Increase in pensions	2.50%	*2.90%*
Rate for discounting scheme liabilities	4.60%	*5.50%*
Take-up of option to convert annual pension into maximum retirement lump sum	50.00%	*50.00%*

The Scheme's assets consist of the following categories, by proportion of the total assets held.

	As at 31 March 2012		*As at 31 March 2011*	
	£000	%	*£000*	*%*
Equities	59,638	70.00	*58,250*	*69.50*
Government Bonds	3,408	4.00	*5,615*	*6.70*
Other Bonds	8,520	10.00	*7,962*	*9.50*
Property	11,928	14.00	*9,387*	*11.20*
Cash/Liquidity	1,704	2.00	*2,598*	*3.10*
Total	**85,198**	**100**	***83,812***	***100***

There is no provision for unitising the assets of a Fund under the LGPS. The above assets as a whole are allocated to participating bodies on a consistent and reasonable basis.

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2012.

	2011/12 %	2010/11 %	2009/10 %	2008/09 %	2007/08 %
Difference between the expected and actual return on assets	5.54	*4.20*	*21.10*	*35.50*	*11.50*
Experience gains and losses on liabilities	(0.45)	*4.90*	*0.00*	*0.00*	*1.60*

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

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

The primary cause of the change from an estimated net pension liability of £46,324m at 31 March 2011 to an estimated net pension liability of £65,625m at 31 March 2012 has been caused by a reduction in the investment return from the Actuary's expectation of 6.3% to 1.1% for the 12 months ended 31 March 2012. Also the value of liabilities at 31 March 2012 is calculated by discounting future outgoing cash flows, where the discount rate used last year was 5.5% and has dropped to 4.6% for 2011/12.This has been the main factor in increasing IAS19 liabilities for Essex local Authorities by between 13% and 25%.

The £65,625m net liability represents the difference between the value of the Council's pension fund assets at 31 March 2012 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1 April 2012 would also have an impact on the capital value of the pension fund assets.

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities was considered by the actuaries in the 2010 actuarial review of the Pension Fund. The anticipated shortfall in the funding of the scheme has determined the future level of pension contributions which will be due in between triennial valuations.

Changes to the Local Government Pension Scheme.

In order to continue to fund the increased employers contributions as a result of the 2007 and 2010 triennial valuations, a capitalisation direction was applied for in 2011/12 to capitalise a value of £828,000 (General Fund £563,702, HRA £264,298). (£920,241 General Fund £626,500, HRA £293,741 for 2010/11). The application is made for the full amount of the deficit (£1,651,000 in 2011/12)although the capitalisation required is for the net amount after deduction of the sum already provided for pre 2005/06 of £823,000. The application was rejected for 2011/12 by the department for Communities and Local Government and has been funded in full from the General Fund and HRA. For 2010/11 the Department for Communities and Local Government approved £662,431 (General Fund £450,983 , HRA £211,448) which was 71.98% of the amount requested. The remaining General fund element (£175,517) was funded from DDF revenue appropriated to the Pensions reserve. The remaining HRA element (£82,293) was funded from HRA revenue sums appropriated to the Pensions Reserve.

The 2010 Actuarial Valuation has produced new funding levels for the years 2011/12, 2012/13 and 2013/14. The deficit contributions will be £1,651,000 for 2011/12, £1,725,295 for 2012/13, and £1,802,933 for 2013/14.The ongoing contribution level will be 13.0% for the three years 2011/12 to 2013/14. This represents a stepped increase option over 27 years instead of the existing 20 years. The ongoing contribution for 2010/11 of 13.1% will reduce to 13.0% for 2011/12 and the deficit contribution of £1,743,241 in 2010/11 will reduce to £1,651,000 in 2011/12. The reductions reflect an improved level of performance of the Fund's investments since 1 April 2007.

Sensitivity Analysis as at 31 March 2012	**Sensitivity 1**	**Sensitivity 2**	**Sensitivity 3**
The table sets out the impact of a small change in the discount rates on the defined benefit obligation and projected service cost along with a plus/minus year age rating adjustment to the mortality assumption.	**+0.1% p.a. discount rate as at 31 March 2012**	**0.0% p.a. discount rate as at 31 March 2012**	**-0.1% p.a. discount rate as at 31 March 2012**
	£000s	**£000s**	**£000s**
Present Value of Total Obligation	147,832	150,823	153,882
Projected Service Cost	2,809	2,910	3,013
Adjustment to mortality age rating assumption	**+1year**	**none**	**-1year**
Present Value of Total Obligation	145,436	150,823	156,261
Projected Service Cost	2,776	2,910	3,045

38. CONTINGENT ASSETS

The Council has a claim for VAT with HM Revenue and Customs relating to off street parking charges resulting from the Isle of Wight tribunal case where it was concluded that off street car parking activities are within article 4.5 and in principle excluded from charges of VAT. The claim amounts to £467,762, with a further claim of £1,588,791 going back to January 1990, making a total claim of £2,056,553. A stand over application is currently with the VAT and Duties Tribunal pending judgement of the European Court of Justice in the case of the Isle of Wight Council and others.

39. CONTINGENT LIABILITIES

There is a conflict between the Environmental Information Regulations and the Local Land Charge Fee Regulations over the application of charges for some information provided as part of the land search. The issue remains unresolved and at the time of preparing the accounts, it is not known whether any of the charges previously levied may have to be challenged. It is not possible to quantify any costs which might have to be met from the Council's General Fund Balance.

There has for sometime been a possibility that the Council might become liable for the settlement of claims relating to Mesothelioma. There have been court proceedings in an attempt to ascertain whether liability to settle any claims rests with the Council's current insurers or the insurers at the time of employees exposure to the risk. On 28 March 2012 judgement was passed that liability rests with the insurers at the time of potential exposure. The insurers at the time are no longer trading as such and it is unlikely that there are sufficient assets to meet the totality of any claims, which will therefore mean some liability if not all will fall on the scheme creditors of which this Council is one. The potential value of the liability is currently unquantifiable.

40. NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with The Prudential Code of Capital Finance for Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy (for 2011/12 this was agreed at Full Council on 22 February 2011). The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLG Investment Guidance for local authorities. This guidance emphasis that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities expose it to a variety of financial risks, the key risks are:

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

Credit Risk

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

Investments

The risk is minimised through the Annual Investment Strategy, which requires that deposits are made with Debt Management Office, other local authorities, AAA rated money market funds or Banks and Building Societies having sufficiently high credit worthiness as set out in the Treasury Management Strategy. It must also be noted that although credit ratings remain a key source of information, the Council recognises that they have limitations and investment decisions are based on a range of market intelligence. A limit of £10m is placed on the amount of money that can be invested with a single counterparty. The Council also sets a total group investment limit (£10m) for institutions that are part of the same banking group.

Until November 2011 the minimum credit rating criteria for new investments in 2011/12 was a long term rating of A+ (Fitch) or equivalent. Following downgrades to a number of systemically important financial institutions in Autumn 2011, a lower minimum credit rating criteria of A- (Fitch) or equivalent was adopted by the authority once the revised Treasury Strategy was approved by Full Council.

The table below summaries the nominal value of the Council's investment portfolio at 31 March 2012, and confirms that all investments were made in line with the Council's approved rating criteria when investment placed:

Since the investments have been made, the credit rating on a number of counterparties has fallen below the approved rating criteria.

The amounts below include the money market fund which is included in cash and cash equivalents.

		Balance invested as at 31 March 2012					
	Credit rating criteria met on 31 March 2012	**Up to 1 month £000**	**Between 1 and 3 months £000**	**Between 4 and 6 months £000**	**Between 7 and 12 months £000**	**Greater than 12 months £000**	**Total £000**
Banks UK	YES	10,000	10,000	5,000	0	0	25,000
Banks UK	NO	95	0	86	168	137	486
Banks non-UK	NO	4,000	0	0	0	0	4,000
Total Banks		**14,095**	**10,000**	**5,086**	**168**	**137**	**29,486**
Building Societies	YES	0	0	3,000	0	0	3,000
Money Market Funds	YES	10,000	0	0	0	0	10,000
Total		**24,095**	**10,000**	**8,086**	**168**	**137**	**42,486**

In October 2008 the Icelandic banking sector defaulted on its obligations. The Council had £2.5m invested in Heritable bank at that time. The latest report issued by the administrators Ernst and Young, dated 2 May 2012 did not suggest any change from a return to creditors of 86p to 90p in the £ by April 2013. In line with CIPFA's LAAP bulletin Update No 6, the Council is estimating a recoverable amount of 88p in the £ based on the mid point of the base case return. During the year the Council have received dividends of 17.8% (£447,207). Projected future timing of recoveries is as follows:

	£
During 2012/13 - 14.29%	349,147
During 2013/13 - 5.81%	136,613

Debtors

The following analysis summaries the Council's potential maximum exposure to credit risk, based on the experience gathered over the last five financial years on the level of default on trade debtors, adjusted for market conditions.

	Amount at 31 March 2012 £000	Default risk judged as at 31 March 2012 %	Bad debt provision for 2011/12 £000
Sundry debtors	4,448	37.99	1,690
Housing arrears	912	69.3	632
Total	**5,360**		**2,322**

The credit risk in relation to counterparty investments is relatively small as the likelihood of default is also small. With regard to sundry debtors, housing and taxation debtors, a risk arises by virtue of the fact that they represent amounts owed to the Council and there will always be a level of default inherent in such debts. A provision for non payment of debts is provided within the overall debtors figure stated in the accounts.

Liquidity Risk

The Council has access to borrowing facilities via the Public Works Loan Board, commercial banks, bond issues and other local authorities. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the nominal value of the Council's debt at 31 March 2012 was as follows:

		31 March 2012 £000	% of total debt portfolio
Short Term Borrowing	**Less than 1 Year**	**0**	**0**
Long Term Borrowing	Over 1 but not over 2	0	0.00
	Over 2 but not over 5	0	0.00
	Over 5 but not over 10	31,800	17.15
	Over 10 but not over 15	0	0.00
	Over 15 but not over 20	0	0.00
	Over 20 but not over 25	0	0.00
	Over 25 but not over 30	153,656	82.85
Long Term Borrowing		**185,456**	**100.00**

Market Risk

Interest Rate Risk - The Council is exposed to risks arising from movements in interest rates. The Treasury Strategy aims to mitigate these risks by setting an upper limit of 25% on external debt that can be subject to variable rates. At 31 March 2012, 83% of the debt portfolio was held in fixed rate instruments and 17% in variable rate instruments.

If all 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 borrowing	3
Increase in interest receivable on variable rate investments	(130)
Impact on Surplus or Deficit on the Provision of Services	**(127)**
Share of overall impact debited/credited to HRA	**(127)**

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Fair Value disclosure note.

Price risk - The Council does not invest in equity holdings or in financial instruments whose capital value is subject to market fluctuations. It therefore has no exposure to losses arising through price variations.

Foreign exchange risk - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

HOUSING REVENUE ACCOUNT INCOME & EXPENDITURE STATEMENT

	Note	2011/12 £000	*2010/11 £000*
INCOME			
Dwelling Rents (Gross)	3	27,538	*25,676*
Non Dwelling Rents		890	*2,219*
Charges for Services and Facilities		1,545	*1,830*
Leaseholder Contributions		185	*174*
Revaluation of Fixed Assets	1	1,355	*-*
Past Service Gain	6	-	*2,506*
TOTAL INCOME		31,513	*32,405*
EXPENDITURE			
Repairs and maintenance	4	5,406	*5,636*
Supervision and Management		6,024	*6,605*
Rents, Rates, Taxes and Insurance		496	*435*
Housing Revenue Account Subsidy Payable	5	11,304	*9,728*
Revenue Expenditure funded from Capital under Statute	11	185	*174*
Depreciation	2/9/10	10,032	*12,860*
Revaluation of Fixed Assets	1	57	*77,443*
Debt Management		141	*46*
Provision for Bad / Doubtful Debts		90	*64*
HRA Self-Financing	14	185,456	
TOTAL EXPENDITURE		219,191	*112,991*
NET COST OF SERVICES AS INCLUDED IN THE COMPREHENSIVE INCOME & EXPENDITURE STATEMENT		187,678	*80,586*
HRA services share of Corporate & Democratic Core		572	*635*
HRA share of other services		36	*45*
NET COST (INCOME) OF HRA SERVICES		188,286	*81,266*
HRA SHARE OF THE INCOME AND EXPENDITURE INCLUDED IN THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT		188,286	*81,266*
Gain on sale of HRA non-current assets		(545)	*(439)*
Interest Payable and Similar Charges		61	
Interest and Investment Income		(638)	*(497)*
Changes in Fair Value on Investment Properties		-	*(921)*
Valuation increase Rent to Mortgages		(61)	*-*
Pensions Interest/Return on Assets		470	*848*
(SURPLUS)/DEFICIT FOR THE YEAR ON HRA SERVICES		187,573	*80,257*

MOVEMENT ON HOUSING REVENUE ACCOUNT STATEMENT

The Housing Revenue Income and Expenditure Statement shows the Councils' actual financial performance for the year in managing its housing stock, measured in terms of the resources consumed and generated over the last twelve months. However the Council is required to account for its total Housing Revenue Account (HRA) spend on a different basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is treated as a loss in the Income and Expenditure Account, but is met from the usable capital receipts balance rather than from council tax.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits earned.

The Housing Revenue Account Statement compares the Council's spending against the Income that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for the future.

This reconciliation statement summarises the differences between the outturn in the Housing Revenue Income and Expenditure Statement and the Housing Revenue Account balance.

	Note	2011/12 £000	*2010/11 £000*
INCREASE/DECREASE IN THE HOUSING REVENUE ACCOUNT BALANCE			
(Surplus)/Deficit for the year on the Housing Revenue Account Income and Expenditure Statement		**187,573**	***80,257***
Adjustments between accounting basis and funding basis under statute (including to or from reserves)	**12**	**(186,181)**	***(80,054)***
(Increase) or decrease in the Housing Revenue Account balance		**1,392**	***203***
Housing Revenue Account surplus brought forward		**(5,886)**	***(6,089)***
Housing Revenue Account surplus carried forward		**(4,494)**	***(5,886)***

1. HOUSING REVENUE ACCOUNT ASSET VALUATION

The valuation of the Council's housing stock and other Housing Revenue Account assets is as follows:

	OPERATIONAL ASSETS						NON-OPERATIONAL ASSETS	
	Land £000	Dwellings £000	Garages £000	Equipment £000	Vehicles £000	Other £000	Investment Properties £000	Total £000
Gross Book Value								
31 March 2011	151,189	304,480	3,870	6,353	499	1,620	143	468,154
Revalued	(1,841)	3,062	128	-	-	(56)	-	1,293
Restated	-	(12,529)	(129)	-	-	15	-	(12,643)
Reclassified	-	1,781	-	(1,949)	-	147	-	(21)
1 April 2011	149,348	296,794	3,869	4,404	499	1,726	143	456,783
Revalued in year	-	-	-	-	-	-		
Additions	-	4,882	-	210	-	332	-	5,424
Disposals	-	(430)	-	-	-	-	-	(430)
Reclassified in year	-	-	-	-	-	-	-	-
Gross Book Value 31 March 2011	149,348	301,246	3,869	4,614	499	2,058	143	461,777
Depreciation 1 April 2011	-	(12,529)	(129)	(2,726)	(303)	(127)	-	(15,814)
Accumulated Depreciation Written Off		12,529	129	-	-	-	-	12,658
Depreciation in Year	-	(9,661)	(133)	(196)	(49)	(38)	-	(10,077)
Depreciation on Assets Sold	-	9	-	-	-	-	-	9
Depreciation 31 March 2012	-	(9,652)	(133)	(2,922)	(352)	(165)	-	(13,224)
Net Book Value 31 March 2012	**149,348**	**291,594**	**3,736**	**1,692**	**147**	**1,893**	**143**	**448,553**
Net Book Value 31 March 2011	***151,189***	***291,951***	***3,741***	***3,627***	***196***	***1,493***	***143***	***452,340***

The dwelling valuation shown in the balance sheet represents the value of the housing stock to the Council in its existing use as social housing occupied on the basis of secured tenancies. The corresponding value of those dwellings if sold on the open market without tenants, i.e. vacant possession, is £1,135,102,000. The difference between the two values represents the economic cost of providing council housing at less than open market rents.

Notes to the Housing Revenue Income and Expenditure Account

2. HOUSING STOCK

The Council was responsible for managing on average 6,573 (6,580 in 2010/11) dwellings during 2011/12. Changes in the stock are summarised below. The figures include 49 units for the homeless at Norway House, North Weald, and 5 wardens' and caretakers' dwellings.

		2011/12	2010/11
Stock as at 1 April		6,576	6,584
Less	Sales	(7)	*(9)*
	Stock Transfers / Conversions	-	-
Add	New / Reinstated Properties	1	*1*
Stock as at 31 March		6,570	*6,576*
Number of:			
Houses and Bungalows		3,521	*3,527*
Flats and Maisonettes		3,039	*3,039*
Other		10	*10*

3. GROSS DWELLING RENT INCOME

During 2011/12 0.91% (0.97% in 2010/11) of all lettable dwellings were vacant. Average rents were £82.19 per week, an increase of £5.53 or 7.2% over the previous year. 54% (55% in 2010/11) of all Council tenants received some help through rent rebates in 2011/12. Rent arrears increased to £911,651 (£901,734 in 2010/11), which represents 3.4% (3.5% in 2010/11) of gross dwelling rent income. The provision for bad and doubtful debts on these arrears amounted to £632,421 (£613,373 in 2010/11). Amounts written off during the year totalled £71,231 (£51,808 in 2010/11). Dwelling rents are shown after allowing for voids.

4. HOUSING REPAIRS FUND

The Council maintains a Housing Repairs Fund that evens out the annual cost to tenants of a cyclical repairs programme. The movement on the Fund is as follows:

	2011/12		*2010/11*	
	£000	£000	*£000*	*£000*
Balance as at 1 April		(4,121)		*(4,157)*
Contribution from the HRA	(5,200)		*(5,600)*	
Other Income	(105)		*(102)*	
Total Income		(5,305)		(5,702)
Responsive & Void Repairs	3,038		*3,065*	
Planned Maintenance	2,333		*2,422*	
Other	140		*251*	
Total Expenditure		5,511		*5,738*
Balance as at 31 March		**(3,915)**		***(4,121)***

In accordance with the accounting changes introduced for the 2006/07 accounts, the amount shown on the face of the Housing Revenue Income and Expenditure Statement is the actual net expenditure on repairs and maintenance rather than the contribution to the repairs fund. The difference between the two figures forms part of the adjustments between accounting basis and funding basis under regulations (note 6 page 17).

5. SUBSIDY ENTITLEMENT

Housing Revenue Account Subsidy for any year is calculated by constructing a Notional Housing Revenue Account, where all amounts are calculated in accordance with the Housing Revenue Account Subsidy Determinations (2011/12).

	2011/12		***2010/11***	
	£000	**£000**	***£000***	***£000***
Management and Maintenance Allowance		10,994		*10,724*
Major Repairs Allowance		4,978		*4,844*
Less				
Notional Rents	(27,167)		*(25,379)*	
Interest on Receipts	(95)		*(106)*	
		(27,262)		*(25,485)*
Adjustment relating to previous year		(14)		*189*
Total (Payable)		**(11,304)**		**(9,728)**

6. PENSIONS

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 made against the Housing Revenue Account is based on the contributions payable to the fund in respect of 2011/12; the real cost of retirement benefits is therefore reversed out of the Housing Revenue Account after Net Operating Expenditure.

In order to continue to fund the increased employers contributions as a result of the 2007 and 2010 triennial valuations, a capitalisation direction was applied for in 2011/12 to the value of £828,000. The Housing Revenue Account share of this contribution was £264,298, representing 31.92% of the total. The application was rejected for 2011/2012 by the Department for Communities and Local Government and the necessary funding has been made in full by the HRA.

The 2010 Actuarial Valuation has produced new funding levels for the years 2011/12, 2012/13 and 2013/14. The deficit contributions in total for the Council will be £1,651,000 for 2011/12, £1,725,295 for 2012/13, and £1,802,933 for 2013/14, with the HRA share being 31.92%. The ongoing contribution level will be 13.0% for the three years 2011/12 to 2013/14. This represents a stepped increase option over 27 years instead of the existing 20 years. The ongoing contribution for 2010/11 of 13.1% will reduce to 13.0% for 2011/12.

Due to a change in the scheme benefits there was a Past Service Gain of £7,851,000 in 2010/11, this was apportioned as General Fund £5,345,000 and HRA £2,506,000.

7. HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

The Council received £1,008,000 in respect of Housing Revenue Account capital receipts during 2011/12. This arose as a result of the sale of council houses (£917,000), sale of lease (£83,000) and principal repayments on mortgages (£8,000). Of this the Council used £33,000 for the administration of the sales which left £306,000 to fund capital projects and had to pay the central government pool an amount of £673,000, which includes an adjustment of £4,000 relating to 2010/11.

8. CAPITAL EXPENDITURE

The Housing Revenue Account incurred the following capital expenditure.

Capital Expenditure on:	£000	Financed by:	£000
Council Dwellings	4,479	Revenue	2,050
Disabled Adaptations	427	Major Repairs Reserve	3,277
Plant and Equipment	210	Other Contributions	25
Environmental Works	283	Capital Reciepts	83
Intangibles	11		
Other	25		
	5,435		**5,435**

9. MAJOR REPAIRS RESERVE

With effect from 1 April 2001 the Council is required to maintain a Major Repairs Reserve, to account for money received from the Government used to fund major, capital repairs to the Housing Stock. The Housing Revenue Account receives funding via its Housing Subsidy (see note 5, page 58), which is then transferred into the Major Repairs Reserve via a depreciation charge. This income can then be used to fund repairs of a capital nature. The Council is allowed to transfer certain sums back to its Housing Revenue Account, namely any excess of depreciation charged over and above the level of the Major Repairs Allowance received. The movement on the reserve is as follows:

	2011/12		***2010/11***	
	£000	**£000**	***£000***	***£000***
Balance as at 1 April		(6,540)		*(5,730)*
Depreciation transferred from the HRA		(10,032)		*(12,859)*
Used to fund Capital Expenditure on Council Dwellings	3,277		*4,033*	
Transferred to the HRA	5,054		*8,016*	
Total Expenditure		8,331		*12,049*
Balance as at 31 March		**(8,241)**		**(6,540)**

10. DEPRECIATION

Depreciation is charged on Housing Revenue Account assets in accordance with IAS 16. Depreciation is now charged with reference to balance sheet values and the average life remaining on the housing stock. No depreciation is chargeable on the Housing Revenue Account investment assets. (See also note 1, page 56)

11. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

A charge of £185,000 (£174,000 in 2010/11) was made in respect of revenue expenditure funded from capital under statute. This related to recharges to leaseholders for repairs.

12. NOTE OF RECONCILING ITEMS FOR THE STATEMENT OF MOVEMENT ON HRA BALANCE

		2011/12 £000			2010/11 £000	
AMOUNTS TO BE EXCLUDED						
Transfer from Major Repairs Reserve and other depreciation reversals and impairments		**(3,805)**			***(85,502)***	
HRA Self-Financing		**(185,456)**			***0***	
Revenue expenditure funded from Capital under statute		**(185)**			***(174)***	
Movement in fair value on investment properties		**0**			***921***	
Valuation changes Rents to Mortgages		**61**			***0***	
Gain/(loss) on disposal of HRA fixed assets		**545**			***439***	
Flexi / Leave Accruals		**(19)**			***9***	
Transfer to Housing Repairs Fund		**(206)**			***(36)***	
HRA share of contributions to/ (from) pensions reserve		**(1,214)**			***818***	
			(190,279)			***(83,525)***
AMOUNTS TO BE INCLUDED						
Leaseholder Contributions		**185**			***174***	
Employers contributions payable to the pension fund	**1,189**			***1,244***		
Less Capital direction received	**0**			***(294)***		
		1,189			***950***	
Pension Deficit		**0**			***82***	
Capital Contributions Applied		**24**			***102***	
Transfer to Insurance Fund		**650**				
Capital expenditure funded by the HRA		**2,050**			***2,163***	
			4,098			***3,471***
TOTAL			**(186,181)**			***(80,054)***

13. TRANSFER OF COMMERCIAL PROPERTIES TO THE GENERAL FUND

The Council resolved at the Council meeting on 2 November 2010 to transfer commercial properties accounted for within the Housing Revenue Account to the General Fund. In total 143 leases were transferred on the 31 March 2011 with a valuation of £16,522,950. Of the 143 leases transferred, the Council received consent from the Secretary of State for Communities and Local Government under section 19 of the Housing Act 1985 for 33 leases where approval was required as the leases included dwellings.

14. SETTLEMENT PAYMENTS DETERMINATION 2012 (HRA SELF-FINANCING)

On 28 March the Council borrowed £185,456,000 from the Public Works Loan Board in order to pay an equivalent amount over to the Department for Communities and Local Government. This payment was the amount prescribed as payable on the cessation of the Housing Revenue Account Subsidy regime on 31 March 2012. The payment is of a Capital nature but as it neither creates or improves an existing asset the payment is written off to the Comprehensive Income and Expenditure Stetment in the year of payment. This item is of course reversed out within the Adjustments Between Accounting Basis and Funding Basis under Regulation as it is not funded from revenue resources.

The Council is planning on using this new financial freedom to maintain properties to a higher standard from April 2012. This will mean some components, such as bathrooms and kitchens, will be replaced more frequently and have sjorter useful economic useful lives. The reduction in the useful economic lives will increase the annual depreciation charge in 2012/13 and subsequent periods.

The change to the self-financing will also see the annual subsidy payment of £11.3 million replaced with an interest charge and borrowing repayments of £5.5 million. The full borrowing of £185 million will be repaid over the life of the 30 year business plan.

15. TRANSFER TO INSURANCE FUND

There has for sometime been a possibility that the Council might become liable for the settlement of claims relating to Mesothelioma. There have been court proceeding in an attempt to ascertain whether liability to settle any claims rests with the Councils current insurers or the insurers at the time of employees exposure to the risk. On 28 March 2012 judgement was passed that liability rests with the insurers at the time of potential exposure. The insurers at the time are no longer trading as such and it is unlikely that there are sufficient assets to meet the totality of any claims, which will therefore mean some liability if not all will fall on the scheme creditors of which this Council is one. The potential value of the liability is unquantifiable.

THE COLLECTION FUND

INCOME AND EXPENDITURE ACCOUNT

INCOME	Note	2011/12 £000	2010/11 £000
Council Tax	1	81,590	81,413
Non Domestic Rates	2	30,835	27,650
TOTAL INCOME		**112,425**	**109,063**
EXPENDITURE			
Precepts and Demands:			
Essex County Council		59,347	59,087
Essex Police		7,215	7,183
Essex Fire Authority		3,627	3,611
Epping Forest District Council		11,231	11,158
Distribution of Estimated Collection Fund Surplus/(Deficit).	3		
Essex County Council		(8)	(81)
Essex Police		(1)	(10)
Essex Fire Authority		(1)	(5)
Epping Forest District Council		(2)	(15)
Non Domestic Rate			
Payment to National Pool		30,662	27,478
Cost of Collection Allowance		173	172
Provision for Non Payment of Council Tax		45	194
Council Tax Write Offs		242	445
TOTAL EXPENDITURE		**112,530**	**109,217**
DEFICIT / (SURPLUS) FOR YEAR		**105**	**154**
BALANCE BROUGHT FORWARD		**615**	**461**
BALANCE CARRIED FORWARD		**720**	**615**

Notes to the Collection Fund

1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into eight valuation bands, estimating 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Essex County Council, Essex Police, Essex Fire Authority and this Council for the forthcoming year and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted discounts: (54,369.8 for 2010/11). The basic amount of Council Tax for a Band D property (£1,490.95 for 2011/12, £1,434.06 for 2010/11) is multiplied by the proportion specified for the particular band to give an individual amount due.

	Chargeable Dwellings	Chargeable Dwellings after Discount, Exemptions and Disabled Relief	Ratio to Band D	Band D Equivalents
Band A Disabled	-	3	0.56	1
Band A	1,577	1,315	0.67	877
Band B	4,732	3,864	0.78	3,005
Band C	11,043	9,709	0.89	8,630
Band D	13,428	12,366	1.00	12,366
Band E	9,071	8,446	1.22	10,322
Band F	6,542	6,122	1.44	8,842
Band G	5,698	5,432	1.67	9,053
Band H	1,106	1,032	2.00	2,065
Total Band D				55,161
Less Adjustment for Collection Rate				552
Council Tax Base				54,609

The income of £81,589,884 for 2011/12 (£81,412,787 for 2010/11) is receivable from the following sources.

	2011/12 £000	***2010/11 £000***
Billed to Council tax payers	72,558	***72,116***
Council Tax Benefits	9,032	***9,297***
	81,590	***81,413***

Notes to the Collection Fund

2. NATIONAL NON DOMESTIC RATES

Non Domestic Rates are organised on a national basis. The Government specifies an amount, 42.6p (small business) and 43.3p (others) in 2011/12, (40.7p (small business) 41.4p (others) in 2010/11) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount.

The Council is responsible for collecting rates due from the ratepayers in its area but pays the proceeds into a NNDR pool administered by the Government. The Government redistributes the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

The total non-domestic rateable value at the year-end was £87,790,574 (£88,073,069 in 2010/11). The increase in rateable values between the two years is due to the revaluation process that takes place every five years and changes in the businesses on the rateable list.

3. CONTRIBUTIONS TO COLLECTION FUND SURPLUSES AND DEFICITS

The surplus or deficit on the Collection Fund arising from council tax transactions relates to this Council's portion only. The elements relating to Essex County Council, Essex Police and Essex Fire form part of the Distribution of estimated collection fund surplus/deficit. In 2011/12 a total deficit of £12,000 was recovered, of which this Council's share was £2,000.

Annual Governance Statement

1 Scope of Responsibility

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

1.2 In addition, the Council has a key role with respect to Community Leadership, exercising its powers under the Community Wellbeing Act 2000, facilitating effective engagement and collaborative working through the auspices of One Epping Forest.

1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

1.4 The Council has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at www.eppingforest.gov.uk. This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2006, in relation to the publication of a Statement on Internal Control.

1.5 The Council's Code of Governance recognises that effective governance is achieved through the following core principles:

(i) focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;

(ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles;

(iii) promoting values for the Council and demonstrating good governance through upholding high standards of conduct and behaviour;

(iv) taking informed and transparent decisions which are subject to effective scrutiny and management of risk;

(v) developing the capacity and capability of Members and officers to be effective;

(vi) engaging with local people and other stakeholders to ensure robust public accountability.

2 The Purpose of the Governance Framework

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

2.2 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to fully achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks and the impact should they occur and to manage them efficiently, effectively and economically.

2.3 A governance framework has been in place at the Council for a number of years and has been effective for the year ended 31 March 2012 and up to the date of approval of the Statement of Accounts.

3 The Governance Framework

3.1 The Council has an established Council Plan setting out its objectives, and includes how the Council will monitor and report on its performance against the plan.

3.2 The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios. There are Standing Scrutiny Panels to cover key policy areas, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee. An Audit and Governance Committee provides independent assurance to the Council on risk management and internal control and the effectiveness of the arrangements the Council has for these matters, this committee consistsof three councillors and two independant members who provide an objective opinion.

3.3 The Council has continued to review and improve its internal control environment through the introduction of new and updated policies and procedures, to ensure compliance with laws and regulations. A comprehensive corporate induction programme is in place and information regarding policies and procedures are held on the intranet, which continues to be enhanced and developed. The Council's Internal Audit function has continued to provide assurance in the financial processes and procedures of the Council and there are well established protocols for working with External Audit.

3.4 The Council's risk management arrangements are subject to regular review. Leadership to the risk management process is provided by the Director of Finance and ICT and the Portfolio Holder for Finance and Economic Development, who are the Officer and Member leads for risk management, respectively. The Council has approached embedding of risk management in accordance with best practice guidance, with a Corporate Risk Register supported by Directorate, Sectional risk registers and further planned training to ensure all staff are risk aware.

3.5 Financial management in the Council and the reporting of financial standing is undertaken through a General Ledger Financial Information System, eFinancials supplied by Advanced Business Solutions**,** which integrates the general ledger function with those of budgetary control. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way and corrective action is initiated.

3.6 The Council has adopted the Corporate Plan for 2011/12 to 2014/15. The Corporate Plan is the Council's key strategic planning document, setting out service delivery priorities over the four-year period, with strategic themes reflecting those of the Sustainable Community Strategy for the district. The Corporate Plan is an important element of the Council's Performance Management Framework and its corporate business planning processes, and informs the content of annual Business Plans to illustrate the work that Directorates and Services perform that directly contributes towards the achievement of the Council's corporate objectives. The Corporate Plan also provides the emerging policy foundation for the Medium-Term Financial Strategy.

3.7 As part of the duty to secure continuous improvement, new Medium-Term Aims have also been adopted for 2011/12 to 2014/15. The identification of the Council's service delivery priorities over the four-year period of the Corporate Plan, and the annual adoption of key objectives for each year of the Plan, provides an opportunity for the Council to focus specific attention on how areas for improvement will be addressed, opportunities exploited and better outcomes delivered for local people. A range of Key Performance Indicators (KPI) relevant to the Council's services and key objectives are also adopted each year. A number of the KPIs are used as performance measures for the key objectives, and relevant performance management processes are in place to review and monitor performance against the key objectives and KPIs, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of under performance.

4 Financial Management and Reporting

4.1 The Council's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.* This statement contains five principles and the arrangements in place fully meet the requirements of each principle.

4.2 Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Director of Finance & ICT. The systems of internal financial control provide reasonable but not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be promptly detected.

4.3 Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.

4.4.1. The External Auditor (PKF) had, on 30 September 2011, presented their Annual Governance Report for 2010/11, which summarised the key issues arising from their work during the year. In respect of the Council's financial statements, some presentational misstatements of a material nature had been identified and subsequently corrected, but none of these had affected the Council's reported outturn. The restatement of balances for the previous financial year, as required for the implementation of International Financial Reporting Standards, had been dealt with appropriately by the Council. Consequently, the report gave an unqualified opinion on the Council's financial statements, along with an unqualified Value for Money Conclusion.

4.4.2 The key findings of the report were that the Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, however some significant control weaknesses had been identified in the Housing and Council Tax Benefits system. This has also been reported by our Internal Audit function.

4.4.3 The External Auditors also stated that "We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls".

4.4.4 The External Auditor had reviewed the Annual Governance Statement and the supporting review of effectiveness that had been undertaken and was satisfied that the Statement was not inconsistent with the evidence provided in the review of effectiveness and their knowledge of the Council.

5 Standards Committee

5.1 During 2011/12, the Standards Committee has dealt with 11 complaints against Councillors. At the time of writing, there is one case (2 separate complaints) awaiting adjudication /under investigation.

5.2 The Committee continues to give advice and training on ethical governance issues and investigates/adjudicates on complaints against elected members. It is also available to assist with interpretation of Council protocols.

5.3 The ethical framework and standards regime for elected members is currently in a transitional stage. The Localism Act 2011 has radically altered the arrangements which operated under previous legislation, removing many statutory provisions in favour of much greater local discretion. Codes of Conduct and complaints procedures are still a statutory requirement but the form these take is largely (but not completely) to be determined on a local basis. Standards Committees are now optional for any of the specified local authorities involved. Standards for England has been abolished as the regulatory body for England.

5.4 The Act introduces a new statutory requirement for the declaration of "Disclosable Pecuniary Interests" which replace the present personal and prejudicial interests. These have yet to be defined but government regulations to that effect are expected. Wilful failure to declare any participation in relevant decisions involving such interests is potentially a criminal offence. Where Councils opt to have a Standards Committee, these will no longer have voting independent members as part of their constitutions. These positions are replaced by new "independent persons" who have been given a role in advising and assisting the Monitoring Officer, Councillors and Standards Committees on these matters.

5.5 A further review of the Planning Protocol is pending but is awaiting the full introduction of the new standards arrangements from July 2012. This review will take account of new provisions in the Act regarding pre-disposition, predetermination and bias in local authority decision-making. Planning and Legal Officers, planning agents and Town and Parish Councils have already made submissions concerning the protocol.

5.6 Considerable work has been undertaken by the Public Law Partnership (PLP) on the new standards arrangements so as to insure that common processes can apply in all Councils and across different areas. Officers of this Council have also held discussions with Parish & Town Councils in the Epping Forest District to determine whether a joint Parish standards Committee would be a workable arrangement.

5.7 Epping Forest District Council has agreed in principle to adopting the proposals of the PLP and to having its own Standards Committee. Final decisions on the new arrangements will be submitted to a Council meeting in June 2012.

6 Review of effectiveness

6.1 The Council has responsibility for conducting an annual audit review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the Corporate Governance Group, the Chief Internal Auditor's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.

6.2 The Council contributes to the delivery of the Sustainable Community Strategy for the District through active participation on One Epping Forest, formerly the Local Strategic Partnership, and the alignment of the Key Themes of the Corporate Plan 2011/15 with the Community Strategy. This is supported by a planning framework which includes the Corporate Plan and Directorate/Service Plans. The Council, through the Finance and Performance Management Scrutiny Panel, monitors and reports on progress so that Members can see how issues are being tackled.

6.3 Directorate and Sectional business plans contain a variety of performance indicators and targets that are regularly reviewed.

6.4 The Council's Constitution, which includes Financial Regulations, Contract Standing Orders and Delegated Authorities, is required to be reviewed annually and this is carried out by a nominated group of officers led by the Deputy Monitoring Officer. This annual programme of reviews of Contract Standing Orders, Financial Regulations and Delegated Authorities continued as in previous years.

6.5 The Council has three statutory posts as
• Head of Paid Service - Chief Executive
• Chief Financial Officer - Director of Finance and ICT
• Monitoring Officer – Director of Corporate Support Services / Solicitor to the Council.

6.5.1 These officers, with the Deputy Chief Executive, Deputy Monitoring Officer and Chief Internal Auditor form the Corporate Governance Group who meet monthly. The group's terms of reference are available on the Council's web site.

6.6 The Council continues to assess how its overall corporate governance responsibilities are discharged. As referred to earlier the Council has adopted the CIPFA/SOLACE guidance and adopted a revised local Code of Governance in 2008.

6.7 The Council is required to maintain an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations. The Internal Audit function is managed by the Chief Internal Auditor and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
The annual Internal Audit work plan is discussed with senior officers and approved by the Audit and Governance Committee in consultation with the Finance and Performance Management Cabinet Committee.

6.7.1 All internal audit reports include an assessment of the adequacy of internal control and result in prioritised action plans to address any areas needing improvement.

6.7.2 These are submitted to Service Directors, and an executive summary is provided to the Acting Chief Executive and the relevant Portfolio Holder.

6.8 The review of governance incorporates the system of internal control. In previous years the Council's review of the effectiveness of the system of internal control has been supported by:

• Directorate assurance based on management information, performance information and Director assurance statements;

• The work undertaken by Internal Audit during the year;

• The work undertaken by the External Auditor reported in their annual audit and inspection letter and other review reports;

• Other work undertaken by independent inspection bodies.

7 Governance – Service Issues and Improvements

7.1. Service Directors have reviewed the governance arrangements operating within their Service Areas using a detailed checklist, and have provided assurance statements confirming their belief that appropriate controls were in place during 2011/12. Significant areas where governance arrangements have been strengthened are detailed below.

7.1.1. Office of the Chief Executive

The electronic transfer of electoral roll data to the Audit Commission and other organisations and individuals entitled to the information has been under review and a significant risk has been identified of a breach in the Data Protection Act requirements attached to the electronic transfer of this data in unencrypted format.

In conjunction with the security officers of the Finance and ICT Directorate, this issue has been addressed and the measures designed to reduce that risk have been put in place.

7.1.2. Office of the Deputy Chief Executive

No significant weaknesses in internal control have been identified.

7.1.3. Corporate Support Services

Within Corporate Support Services no significant weaknesses have been identified by the review, internal /external audits or otherwise.

7.1.4. Environment and Street Scene

A number of Internal Audit reports were issued during 2011/12 which required actions by the Directorate. Those reports requiring specific action by the Directorate included:

North Weald Airfield
Waste Management
Leisure Management Contract
Licensing Enforcement Follow Up

Action plans have been agreed between Internal Audit and the Directorate Management and steps have been taken to deal with the issues raised and ensure compliance.

7.1.5. Finance and ICT

During the year one Audit was reported with limited assurance. This was the Housing Benefits systems audit which identified that insufficient checking was being carried out on benefit calculations. Procedures have now been put in place to ensure that the correct percentage of checking is now part of the process.

Last year the Governance Statement mentioned that a firm of bailiffs used by the Council had been placed in administration. Legal action has been pursued against the two directors of the company. A financial settlement was agreed with one of the directors and a charge has been obtained over the house of the other director. Ultimately, a full recovery of all money owed should be achieved. The procurement exercise for new bailiffs has been concluded and appointments made. Controls on the external bailiffs and the system of monitoring and reporting have been strengthened.

7.1.6. Housing

A number of Internal Audit Reports issued since the Housing Directorate took over responsibility for the former Building Maintenance Works Unit have highlighted internal control deficiencies within that section (now known as the Housing Repairs Service) with regard to procedures relating to the Stores.
Although, in monetary terms, discrepancies between actual and recorded stock are relatively small, the number of discrepancies is outside of an acceptable tolerance. The main problem is that the Council's IT system does not provide sufficient control measures.

Since taking over the Stores, the Asst. Director (Property) has taken a number of steps to improve the position in the short term. However, improvement has been hampered by the limitations of the legacy IT system.

It had been hoped that these weaknesses could be addressed through the appointment of the Private Repairs Management Contractor (Mears) in May 2011. However, it has been established that this activity is not within the scope of the specification of the contract with Mears.
Therefore, a separate competitive tender is underway – in accordance with EU Procurement Regulations – to appoint a company to provide a material supply chain, with adequate control measures being a key component of the specification.

7.1.7. Planning and Economic Development

There has been recognition that a flow chart to ensure compliance with Contract Standing Orders is necessary, in part because of their complexity and, in part to ensure that the most up to date Orders are being applied. The flow chart will be a helpful tool.

The various financial systems do not allow for the highlighting of accumulated consultancy work, which would exceed contract standing orders to be avoided.

A review of procedures concerning consultancy work in respect of the St John's area of Epping revealed a number of issues which are being reported to Cabinet.

7.2. Governance – Internal Control Issues

Other areas have been highlighted in the review of the Council's systems of internal control and are listed below. In each case the Directors responsible have identified the risk involved and prepared plans to contain the risks and deliver the necessary improvements:

7.2.1. During the annual stock take at the Housing Repairs Service store Internal Audit had reported that the stock database records could not be relied upon as there were a significant number of discrepancies identified. Management has already taken action to address this issue. Please see 7.1.6.above.

7.2.2. Development Control income reconciliations are completed, and errors identified are recorded. However, whilst there has been some improvement since the last audit the reconciliation is not sufficient as it is between the general ledger and the Development Control paying in spreadsheet rather than the Planning system.

7.2.3. Some progress has been made as Development Control recognise the importance of performing monthly reconciliations and priority has been given to address the agreed actions from the previous audit. A partial reconciliation has been developed but has yet to be concluded and efforts have been made to produce reporting data from the Planning system to enable a full reconciliation to the general ledger.

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

Signed ……………………………	Signed ……………………………
Derek Macnab Acting Chief Executive	Councillor Chris Whitbread Leader of the Council

Members Allowances

The allowances of £310,502 listed below include the connect scheme, travel and subsistence and employers national insurance and pension costs. The figures also include allowances paid to lay members of the Audit & Governance Committee and the Standards Committee.

		£		£
R.H.MORGAN		4,316	**D.P.DODEJA**	3,614
P.SMITH		10,516	**J.PHILIP**	9,646
D.J.STALLAN		6,642	**W.J.PRYOR**	3,400
D.J.JACOBS		5,646	**J.M.SUTCLIFFE**	3,400
A.G.GRIGG		4,570	**D.J.WIXLEY**	3,988
S.W.MURRAY		5,300	**M.A.PEDDLE(Nee Rickman)**	500
J.M.WHITEHOUSE		3,400	**S.A.LYE**	500
M.A.MCEWEN		11,218	**R.THOMPSON**	500
J.KNAPMAN		9,039	**D.JACKMAN**	500
C.L.WHITBREAD		4,331	**A.LION**	3,400
J.H.WHITEHOUSE		3,400	**C.EDWARDS**	610
P.C.BROOKS		322	**W.S.BREARE-HALL**	3,810
U.M.GADSBY		9,428	**T.O.COCHRANE**	3,540
P.GODE		3,400	**J.HART**	3,570
M.SARTIN		7,028	**B.JUDD**	378
J.M.HART		5,762	**Y.R.KNIGHT**	3,400
D.M.COLLINS		5,519	**S.I.WATSON**	3,650
J.LEA		3,599	**L.T.LEONARD**	3,400
P.RICHARDSON		3,465	**D.JOHNSON**	3,400
A.G.GREEN		562	**R.COHEN**	3,510
J.A.MARKHAM		3,160	**S.JONES**	3,400
C.P.POND		3,511	**C.W.FINN**	3,150
B.P.SANDLER		5,762	**R.KELLY**	500
S.A.STAVROU		4,727	**J.GUTH**	500
K.ANGOLD-STEPHENS	Chairman	11,746	**K.AVEY**	2,828
K.S.CHANA		3,967	**P.KESKA**	2,918
G.MOHINDRA		9,383	**A.MITCHELL**	3,328
P.J.SPENCER		3,529	**S.PACKFORD**	2,078
L.A.WAGLAND	Leader	17,734	**G.WALLER**	3,584
J.A.WYATT		12,214		
B.A.ROLFE	Vice-Chairman	7,824		
R.BASSETT		7,866		
A.WATTS		5,200		
H.ULKUN		5,200		
E.A.WEBSTER(SPINKS)		3,464		
M.WRIGHT		500		
R.E.BROOKES		3,412		
R.BARRETT		3,150		
A.L.BOYCE		6,288		
J.F.COLLIER		3,400		
Total		229,500	Total	81,002
			GRAND TOTAL	**310,502**

Glossary of Terms

For the purposes of this Statement of Accounts, the following definitions have been adopted:

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

BALANCE SHEET

This statement sets out an authority's financial position at the year-end. It shows the balances and reserves at an authority's disposal and its long-term indebtedness and the fixed and net current assets employed in its operations together with summarised information on the fixed assets held.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset or expenditure that adds to and not merely maintains the value of an existing asset.

CAPITAL ADJUSTMENT ACCOUNT

This account records the accumulated amount of set aside receipts and minimum revenue provision together with capital expenditure financed by way of capital receipts and revenue contributions. Set against these amounts are adjustments to the revenue account for depreciation and capital expenditure written off to revenue during the year. This, therefore, ensures that only actual expenses are charged to revenue in year. This account was formerly known as the Capital Financing Account.

CAPITAL FINANCING REQUIREMENT

This measures the change in and the underlying need for the council to borrow to finance Capital expenditure. Where all capital expenditure is financed by resources generated by the council the Capital Financing Requirement will remain unchanged.

CASH FLOW STATEMENT

This statement summarises the cash flows of the authority for capital and revenue spending as well as the cash flows used to finance these activities.

COLLECTION FUND

This account reflects the statutory requirement for billing authorities to maintain a separate collection fund which shows the transactions of the billing authority in relation to non-domestic rates and the council tax and illustrates the way in which these have been distributed to preceptors and the general fund.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity that have no determinable useful life and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

Glossary of Terms

CONSISTENCY

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

CONTINGENCY

A condition that exists at the balance sheet date where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CONTINGENT LIABILITIES

A contingent liability is either:

(i) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the authority's control; or

(ii) a present (current) obligation arising from past events where it is not probable (but not impossible) that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

It is considered that a contingent liability below £50,000 need not be disclosed, as any such amounts would not be significant.

CONTINGENT GAINS

A contingent gain (or asset) is a possible economic gain arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose nominated bodies managing the same services.

INTANGIBLE ASSETS

Expenditure which may properly be defined as being capital expenditure, but which does not result in a physical asset being created. For expenditure to be recognised as an intangible asset it must yield future economic benefits to the council.

REVENUE EXPENDITURE CHARGED TO CAPITAL UNDER STATUTE

Expenditure of a capital nature that does not result in a fixed asset being created. An example of such an item would be expenditure on a former HRA property held on a long lease by a third party. The expenditure is written off in the year that it is incurred.

Glossary of Terms

DEPRECIATION

The measure of the wearing out, consumption or other reduction in the useful economic life of a fixed asset whether arising from use, passage of time or obsolescence through technological or other changes. The useful life is the period over which the local authority will derive benefit from the use of a fixed asset.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXTRAORDINARY ITEMS

Material items that derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arms length transaction less, where applicable, any grants receivable towards the purchase or use of the assets.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

FIXED ASSETS

Tangible assets that yield benefits to the local authority and the services it provides for a period of more than one year.

GENERAL FUND

This statement records the information of all the authority's activities, excluding those in relation to the Housing Revenue Account and Local Council precepts.

GOING CONCERN

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

Glossary of Terms

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

HOUSING REVENUE ACCOUNT

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

IMPAIRMENT

An impairment occurs when a fixed asset suffers a loss in value either due to a fall in market values generally, or as a result of use of the asset other than normal wear and tear.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INVESTMENTS

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. 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 that do not meet the above criteria should be classified as current assets.

INVESTMENT PROPERTIES

Interest in land and / or buildings:

(i) in respect of which construction work and development have been completed; and

(ii) which is held for its investment potential, any rental income being negotiated at arms length.

LONG-TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

Glossary of Terms

MINIMUM REVENUE PROVISION (MRP)

Local authorities are required by statute to set aside a minimum revenue provision for the redemption of external debt. The method of calculation is defined by statute and does not relate to actual external debt outstanding. Statute requires MRP of 2% of the housing credit ceiling and 4% of the non-housing credit ceiling, offset by an adjustment for debts commuted in relation to old improvement grants.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET REALISABLE VALUE

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-OPERATIONAL ASSETS

Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets that are surplus to requirements pending sale or redevelopment and assets under development or construction.

OPERATING LEASES

Leases other than a finance lease.

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility. Operational assets comprise Council dwellings, other land and buildings, vehicles plant and equipment, infrastructure and community assets.

POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

PRIOR YEAR ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Glossary of Terms

PROVISIONS

Provisions are required for any liabilities of uncertain timing or amount that have been incurred. Provisions are required to be recognised when:

(i) the local authority has a present obligation (legal or constructive) as a result of a past event;

(ii) it is probable that a transfer of economic benefits will be required to settle the obligation; and

(iii) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision should be recognised.

A constructive obligation is an obligation that derives from an authority's actions where;

(i) by an established pattern of past practice, published policies or sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities; and

(ii) as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets the ultimate cash realisation of which can be assessed with reasonable certainty.

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

(i) one party has direct or indirect control of the other party; or
(ii) the parties are subject to common control from the same source; or
(iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
(iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

(i) central government;
(ii) local authorities and other bodies precepting or levying demands on the Council Tax;
(iii) its subsidiary and associated companies;
(iv) its joint ventures and joint venture partners;
(v) its members;
(vi) its chief officers; and
(vii) its pension fund.

Examples of related parties of a pension fund include its:

(i) administering authority and its related parties;
(ii) scheduled bodies and their related parties; and
(iii) trustees and advisers.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

(i) members of the close family or the same household; and
(ii) partnerships, companies, trusts or other entities in which the individual or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTION

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. Examples of related party transactions include:

(i) the purchase, sale, lease, rental or hire of assets between related parties;
(ii) the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
(iii) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
(iv) the provision of services to a related party, including the provision of pension fund administration services;

(v) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority but also in relation to its related party.

REVALUATION RESERVE

This account was created on 31 March 2007. The purpose of which is to hold all revaluations occurring to fixed assets subsequent to that date.

STOCKS

Comprise the following categories:

(i) Goods or other assets purchased for resale;
(ii) consumable stores;
(iii) raw materials and components purchased for incorporation into products for sale;
(iv) products and services in intermediate stages of completion;
(v) long-term contract balances; and
(vi) finished goods.

UNAPPORTIONABLE CENTRAL OVERHEADS

These are overheads for which no user now benefits and should not be apportioned to services.

Glossary of Pension Related Terms

ACTUARIAL GAINS AND LOSSES

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

(i) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or

(ii) the actuarial assumptions have changed

CURRENT SERVICE COST

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

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:

(i) termination of employees' services earlier than expected, for example as a result of closing a factory or discontinuing a segment of a business, and

(ii) 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.

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).

DEFINED CONTRIBUTION SCHEME

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

DISCRETIONARY BENEFITS

Retirement benefits that the employer has no legal, contractual or constructive obligations to award and which are awarded under the authority's discretionary powers, such as the Local Government (Discretionary Payments) regulations 1996.

EXPECTED RATE OF RETURN ON PENSION 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.

EXTRAORDINARY ITEMS

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority, and which are not expected to recur. They do not include exceptional items nor do they include prior year items merely because they relate to a prior period.

IAS19

International Accounting Standard 19 (IAS19) ensures that organisations account for employee retirement benefits when they are committed to pay them, even if the actual payment may be years into the future.

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 an investment that is intended to be held for use on a continuing basis in the activities of the authority. 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 pensions fund, which do not meet the above criteria should be classified as current assets.

INVESTMENTS (PENSIONS FUND)

The investments of the Pensions Fund will be accounted for in the statements of the fund. However authorities (other than town and community councils) are also required to disclose, as part of the transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

PAST SERVICE COST

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PROJECTED UNIT METHOD

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(i) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and

(ii) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

(i) an employer's decision to terminate an employee's employment before the normal retirement date, or

(ii) an employee's decision to accept redundancy in exchange for those benefits,

because these are not given in exchange for services rendered by employees.

SCHEME LIABILITIES

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

SETTLEMENT

An irrecoverable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

(i) a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits

(ii) the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and

(iii) the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

VESTED RIGHTS

In relation to a defined benefit scheme, these are:

(i) for active members, benefits to which they would unconditionally be entitled on leaving the scheme;

(ii) for deferred pensioners, their preserved benefits, and

(iii) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependents.