

# A G E N D A

## Statutory Accounts Committee

Date: **Monday, 2nd August, 2004**

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Time: **12.00 noon**

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Place: **The Council Chamber,  
Brockington, 35 Hafod Road,  
Hereford**

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Notes: Please note the **time, date** and **venue** of the meeting.

*For any further information please contact:*

*Christine Dyer, Members' Services  
Manager and Executive Officer*

*Tel: 01432 260222; Fax 01432 260249; e-mail [cdyer@herefordshire.gov.uk](mailto:cdyer@herefordshire.gov.uk)*

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**County of Herefordshire  
District Council**



# AGENDA

## for the Meeting of the Statutory Accounts Committee

To: Councillors Mrs. P.A. Andrews, G.V. Hyde, T.M. James, R.J. Phillips and D.B. Wilcox

	<b>Pages</b>
<b>1. CHAIRMAN</b>	
To elect a Chairman of the Committee.	
<b>2. APOLOGIES</b>	
To receive any apologies for absence.	
<b>3. NAMED SUBSTITUTES (IF ANY)</b>	
To receive details any details of Members nominated to attend the meeting in place of a Member of the Committee.	
<b>4. DECLARATIONS OF INTEREST</b>	
To receive any declarations of interest by Members in respect of items on this agenda	
<b>5. STATEMENT OF ACCOUNTS 2003/04</b>	1 - 68
To approve the Council's Accounts for 2003/04 as presented in the Statement of Accounts.	



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- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
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- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
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## **COUNTY OF HEREFORDSHIRE DISTRICT COUNCIL**

**BROCKINGTON, 35 HAFOD ROAD, HEREFORD.**

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**STATEMENT OF ACCOUNTS 2003/04****Report By: County Treasurer****Wards Affected**

County-wide

**Purpose**

1. To approve the Council's accounts for 2003/04 as presented in the Statement of Accounts attached (Appendix 1).

**Considerations**

1. It is a statutory requirement that the Council's 2003/04 Statement of Accounts is formally approved by 31st August 2004. This date will be brought forward each year during the next two years so that the approval deadline for the 2005/06 Statement will be 30th June.
2. Reports on Final Revenue and Capital Outturn figures 2003/04 were presented to Cabinet on 1st and 15th July. Formal approval of the Council's accounts is now required, as specified in the Accounts and Audit Regulations 2003.
3. The Statement of Accounts is a technical document prepared with the compliance with Accounting Codes of Practice as a prime requirement. The Codes of Practice are heavily influenced by external standards (e.g. Financial Reporting Standards) primarily directed at the private sector. Consistency across all sectors is important but undoubtedly certain elements have less relevance to local authorities.
4. This year's Statements of Accounts does show some significant changes compared with last year including:
  - (a) The addition of a formal Statement of Internal Control to be signed by the Chief Executive and Leader of the Council. In the 2002/03 Accounts, a more limited Statement of Internal Financial Control was included under the requirements of the relevant code of practice.
  - (b) An annual review and updating of the Statement of Accounting Policies.
  - (c) The new partnership arrangements with Jarvis and Owen Williams are reflected in the accounts.
  - (d) The formal closure of the Housing Revenue Account on 31st March 2004.
  - (e) FRS17 (Financial Reporting Standard 17 – pension costs) is reflected in the actual accounts. Previously we only had to show notes to the accounts.
  - (f) Various other changes to the Accounting Codes of Practice have again required a number of additional notes and comments. The Statement is each year taking an increasing amount of time and effort to produce to the high

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Further information on the subject of this report is available from Heather Foster, Principal Accountancy Manager on (01432) 260284

standard required. Failure to produce the statement to the required standard could result in the Council's accounts being qualified by the auditors. In addition the quality of the Council's Statement of Accounts is assessed as part of the Audit Commissions Auditors Comprehensive Performance Assessment (CPA).

5 Some brief comments on the main points reflected in the statement are as follows:

- (a) Council Revenue balances amount in total to some £9,847,000, which is an increase of £3,797,000 compared to the previous year. Within this sum is the Council's minimum prudent reserve of £3,000,000. The programme area underspendings carried forward of £3,532,000 is also part of the balance. A large part of the remaining balance reflects sums approved for capital projects not spent as at 31st March 2004. Any unallocated funds remaining will be retained for potential commitments including Job Evaluation.
- (b) The amount held in earmarked reserves has increased by £2,424,000 to £9,407,000. The main variation is the increase to school balances in hand which increased by £2,141,000 to £6,845,000. Included in this balance is £1,141,000 of devolved capital allocations. Schools have a statutory right to carry forward any unspent balances
- (c) Provisions made in the accounts decreased during the year from £1,858,000 to £1,434,000. During 2003/04, the provisions held in the accounts were reviewed in full. The number of the provisions being held in the accounts has been significantly reduced. By far the biggest element of this sum remaining is the insurance provision of £1,088,000, which is held to cover the cost of policy excesses in relation to expected property and liability claims.
- (d) With regard to capital spending some £32,000,000 was incurred compared with the original forecast investment of £35,000,000. The main variation was the adjustment to the timing of costs relation to the Housing Large Scale Voluntary Transfer, some of which were budgeted for in 2003/04 but actually charged in 2002/03. No conditional funding resources have been lost and the Council has maximised the use of its resources available.
- (e) Credit approvals including BCAs and SCAs totalling £17,900,000 have been used in financing the Council's Capital expenditure in 2003/04. Usable Capital Receipts of £4,200,000 and grants and contributions of £10,900,000 have been utilised in a similar way.
- (f) The value of the Council's fixed assets shown in the Balance Sheet is £257,000,000 which compares favourably with the Council's long term borrowing as at 31st March 2004 of £41,700,000.
- (g) The valuation of the Council's fixed assets is reviewed on a five year rolling programme by the Council's Property Valuers in accordance with proper practice.
- (h) The value of the Council's short-term debtors fell slightly from £19,544,000 to £19,503,000 during the year. The largest amount included is £4,500,000 in the right to buy receipts due from Herefordshire Housing which has since been paid.

- (i) The level of our creditors also fell during 2003/04 with the total at 31st March, 2004 being £1,712,000 lower at £22,262,000. Included in this sum is approximately £9,000,000 of invoices and salaries and wages paid in April 2004 but charged back into the old years accounts.
- (j) The Council's long-term debtors fell from £1,769,000 at 31st March 2003 to £732,000 at the year-end; a decrease of £1,037,000. The main reason is that the £854,000 LSVT right to buy share of capital receipts was transferred to short term debtors and has since been paid over to the Council. In future, amounts due for right to buy capital receipts will feature in the Council's short term debtors. The amounts due in respect of traditional long-term debtors, such as staff car loans and housing mortgages, have also reduced.
- (k) The Local Government Pension scheme actuaries have assessed that at 31st March, 2004, the difference between the underlying assets and liabilities for retirement benefit attributable to the authority was a deficit of £58,300,000. This is a reduction in the deficit of £21,370,000 during the year. The deficit will have to be made good by increased contributions over future years as assessed by the actuary.
- (l) The total of the short term investments held by the Council was at £20,633,000 on 31st March 2004, some £19,548,000 less than the previous year. This is owing to the overall management of the Council's cashflow rather than one specific reason.

#### **Formal Signing of the Statement of Accounts**

- 6. Once again as required under the Accounts and Audit Regulation 2003, the Statement will, once approved by the Committee, be signed and dated by the Chairman of this Committee.

#### **Publication of the Statement of Accounts**

- 7. In order to make the published Statement of Accounts more widely available, copies of the audited statement will be sent to INFO centres and Libraries. The statement will also be included in full on the Council's website, once the external audit is complete.

#### **External Audit**

- 8. The external audit of the accounts will commence in earnest during September, with the accounts on public inspection from 27th August, 2004 and the formal appointed day for the Audit is expected to be Monday 27th September, 2004. The accounts will formally be on display for 20 working days.
- 9. A further report giving information on the outcome of the audit and recommendations made by the auditors may be presented to this Committee at the end of the audit. Such a report will only be required if significant errors are found in the Statement of Accounts during the audit. A provisional meeting date has been set for 10th November, 2004 at 2.00 p.m.

#### **Redundancies and Early Retirements**

- 10. Whilst reporting on the final accounts, the opportunity has been taken, in accordance with good practice recommended by the Audit Commission, to report on the position

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Further information on the subject of this report is available from Heather Foster, Principal Accountancy Manager on (01432) 260284

with regard to redundancies and early retirements during 2002/03. Members will note that the number of posts and therefore the cost involved was significantly lower during 2003/04 than in the previous year. (see Appendix 2).

### **Bank Accounts**

11. A report on the changes to the Council's Bank Accounts during 2003/04 is also being reported to this Committee. (See Appendix 3).

### **Audit of 2002/03**

12. Since this Committee last met in September 2003, the Council's external auditors have issued an unqualified opinion in respect of these Accounts.

### **Finally**

13. I should like to record my thanks to all staff involved, across Directorates, in the 2003/04 closedown process.

## **RECOMMENDATION**

- THAT (a) the Statement of Accounts including the final Revenue and Capital Outturn for 2003/04 be approved;**
- (b) the formal signing of the Statement of Accounts by the Chairman of the Committee on behalf of the Council be approved;**
- (c) the information in respect of redundancies and early retirements (Appendix 2) be noted; and**
- (d) the information in respect of Bank Accounts (Appendix 3) be noted.**

### **BACKGROUND PAPERS**

- None identified.



HEREFORDSHIRE  
COUNCIL

# HEREFORDSHIRE COUNCIL

## STATEMENT OF ACCOUNTS

**2003 - 2004**



# CONTENTS

	<b>Page No.</b>
EXPLANATORY FOREWORD	3
STATEMENT OF RESPONSIBILITIES	9
STATEMENT OF INTERNAL CONTROL	10
STATEMENT OF ACCOUNTING POLICIES	15
CONSOLIDATED REVENUE ACCOUNT	20
NOTES TO THE CONSOLIDATED REVENUE ACCOUNT	21
HOUSING REVENUE ACCOUNT	32
THE COLLECTION FUND	33
CONSOLIDATED BALANCE SHEET	36
NOTES TO CONSOLIDATED BALANCE SHEET	37
CAPITAL EXPENDITURE & FINANCING	48
STATEMENT OF MOVEMENT IN RESERVES	50
CASH FLOW STATEMENT	51
TRUST FUNDS	54





# EXPLANATORY FOREWORD

## Introduction

The following Statement of Accounts for Herefordshire Council present the overall financial position for the Authority for the year ended 31<sup>st</sup> March 2004 and have been produced in accordance with the Code of Practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Revenue Expenditure and Income

The 2003/04 accounts show an underspend for the year of £6.7 million on net revenue expenditure. This resulted in a transfer to revenue balances of £3.8 million compared with a net anticipated transfer from balances of £2.9 million (including £983,000 relating to 2002/03 Programme Area underspends). The additional £6.7 million is attributable to the following:

	£000
Service area underspends	3,532
Addition to insurance provision	(125)
Commercial Services trading accounts	(140)
Treasury management including interest received	1,007
Revenue contribution to capital	1,604
Transfer to/from earmarked reserves	984
Residual Housing Revenue Account costs	(157)
Other changes	34
Total underspend	<u>6,739</u>

## Carry Forward arrangements

The Council's Financial Standing Orders permit overspends and underspends by Programme areas to be carried forward into the following financial year. Overspends carried forward are limited to 2% of the annual revenue budget for individual Programme areas subject to an overall limit of 1% of the budget for the Council as a whole. Underspends carried forward are unlimited except where limits are imposed by the Council.

## Summary Position in relation to Programme Areas

The net underspend for the Council's programme areas of £3,532,000 was made up as follows:

	£000
Education (excluding schools)	1,415
Environment	414
Planning	437
Strategic Housing	60
Social Care	(245)
Policy and Finance (including corporate and support services)	1,692
Property	(517)
Economic Development	365
Social Development	(89)
Total underspend	<u>3,532</u>

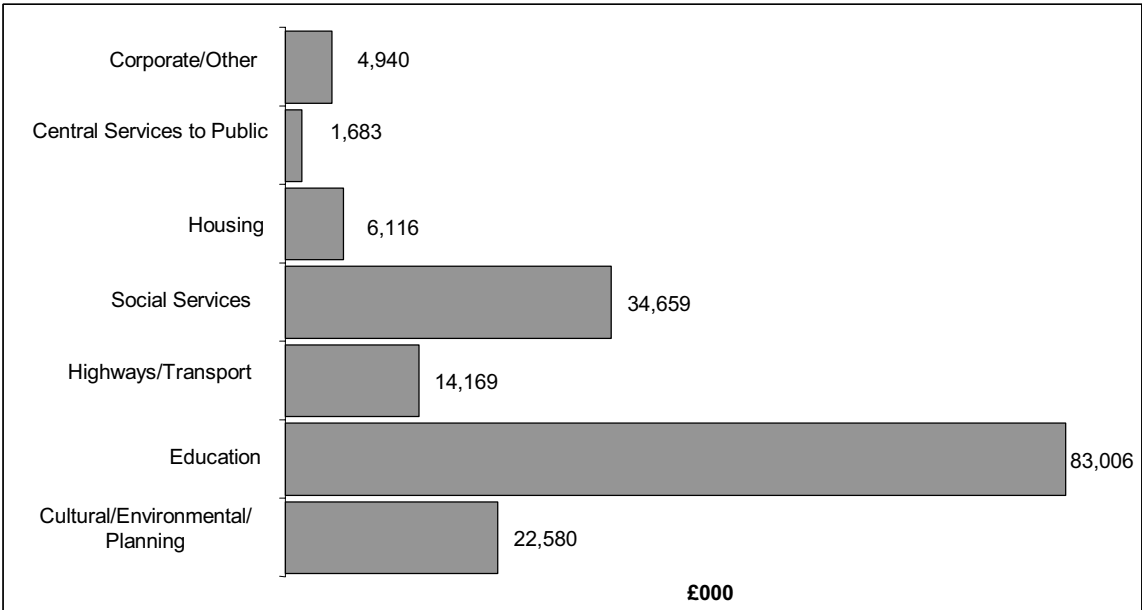
The net underspending during the year was £3,532,000 but after taking into account amounts charged to General Reserves of £11,000 the net underspending carried forward into 2004/05 rose to £3,543,000. Although this sum, which represents just over 2% of the Council's net budget, is reasonably healthy at least £2 million is committed for use in 2004/05 and future years.

An achievement during the year was the way in which the two Programme Areas which carried forward overspendings into 2003/04 were able to reduce the deficits being carried forward into 2004/05. The Social Care overspending fell by £337,000 in the year leaving £245,000 to be carried forward into 2004/05. Similarly, the Property overspending carried forward was reduced by £91,000 to £433,000, after the application of reserves amounting to £84,000. Measures continue to be taken in 2004/05 to reduce or eliminate these overspendings.

All the other Programme Areas carried forward underspendings, which were not unreasonably high when the level of genuine commitments is taken into account.

**Analysis of Revenue Expenditure and Income**

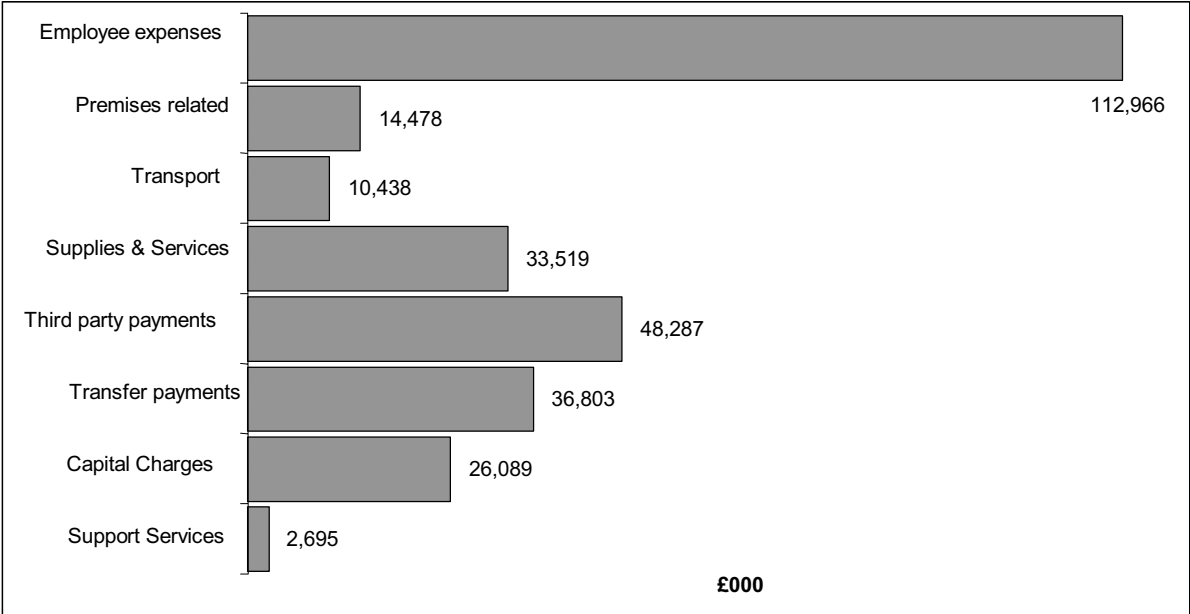
The net cost of services within the Consolidated Revenue Account is £167 million, made up as follows:



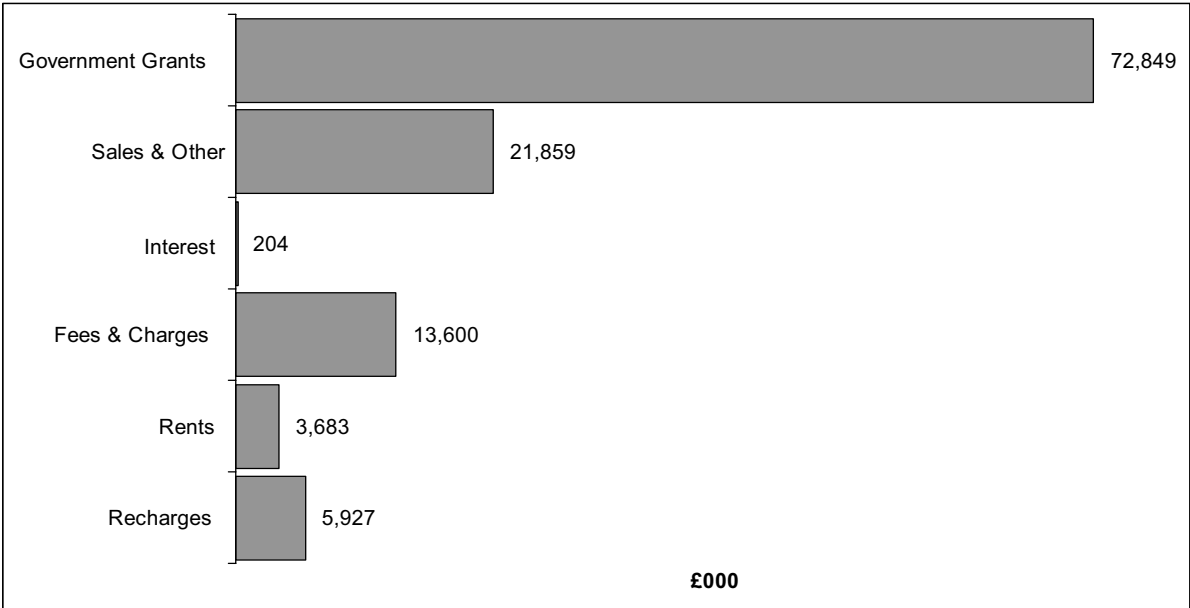
In addition to the income and expenditure allocated to services there are number of items shown on the Consolidated Revenue Account below the net cost of services. These include precepts and levies from other bodies, debt charges, investment income, and appropriations to and from reserves.

After taking all the non-service related items into account, the amount to be financed by Government grants and local taxation in 2003/04 was £165,467,000 compared to the amount raised from these sources of £169,264,000. This resulted in an overall surplus for the year of £3,797,000.

The Consolidated Revenue Account shows the gross cost of services as £285 million, which comprises the following categories of expenditure:



The gross income for the year from services was £118 million analysed as follows:



The figure for Government grants includes £31 million in respect of the administration and payment of Housing and Council tax benefits. In addition to the grants shown within services, the Council received £53.5 million of Revenue Support Grant and £52.9 million from the Non-Domestic Rate Pool (Business Rates).

## Capital Programme

With regard to capital spending some £32 million was incurred compared with the original forecast investment in the Council's assets of £35 million. The main reason for this decrease is the adjustment to the timing of costs relating to the Large Scale Voluntary Transfer, some of which were budgeted to be incurred in 2003/04 but were actually charged in 2002/03. No conditional funding resources have been lost and the Council has maximised the use of resources available.

### Summary of Capital Expenditure

	£000
Housing Association Grants	1,639
Renovation Grants	1,857
Education new build and refurbishment	4,027
Improvements to existing schools	1,632
School ICT Equipment	2,096
Highways and Bridges	12,989
Economic Development	1,913
Hillside Capital Scheme	1,229
EModernisation	824
Info centre in Bromyard	700
Other schemes	2,960
	<u>31,866</u>

## The Council's Borrowing

The Council had a total of £52.9 million outstanding loan debt at 31<sup>st</sup> March of which £11.1 million was repayable within 12 months.

## The Council's Reserves

The Council continues to retain £3 million as a prudent reserve as a contingency against unforeseen emergencies and events. The Council's overall revenue balances of £9,847,000 reflect this sum, together with underspendings previously referred to and funds reserved for approved capital projects. Any unallocated funds over and above the prudent reserve of £3 million will be retained for potential commitments such as Job Evaluation.

## Housing Revenue Account and Housing Stock transfer

The Housing Revenue Account (HRA) includes all expenditure and income relating to the provision of Council housing. In November 2002 the Council transferred its Council dwellings to the newly formed Herefordshire Housing Limited and consequently no longer needs to maintain an HRA. The Office of the Deputy Prime Minister granted permission for the Council to close the HRA on 31<sup>st</sup> March 2004. Some residual costs relating the provision of Council Housing were incurred during 2003/04.

A final deficit of £475,000 on the HRA was transferred to the General Fund working balance.

## Pensions

In accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17), Note 10 to the Balance Sheet sets out the Council's assets and liabilities in respect of the Local Government Superannuation scheme. For the first time FRS 17 adjustments have actually been made to the accounts. Previously the information was only disclosed in the notes to the accounts. The net deficit shown as at 31<sup>st</sup> March 2004 is £58.3 million, which is approximately

40% of the market value of the assets. Whilst this deficit does not have to be met immediately from the Council's reserves, action must be taken over a period of years to eliminate it.

It is anticipated that there will be an increase in the employers' superannuation rate from 1<sup>st</sup> April 2005 based on the fund revaluation as at 1<sup>st</sup> April 2004. The extent of the increase required will be determined by external factors such as the stock market performance, the assumptions made by the actuaries and the period over which the deficit is to be eliminated.

### **Herefordshire Jarvis Services**

On 1<sup>st</sup> September 2003 the Council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over the next 10 years. The contract involved establishing a joint venture company named Herefordshire Jarvis Services with the transfer of Herefordshire Commercial services staff to the new company.

Payments under the contract totalled £7.5 million in the 2003/04 accounts, including highways maintenance and improvements, property maintenance, street cleaning, grounds maintenance, street lighting, printing and catering.

### **Owen Williams**

On 1<sup>st</sup> September 2003 the Council also entered into a contract with Owen Williams for the delivery of technical consultancy services, with an estimated value of £1 million per annum over the next 10 years. The new contract replaced previous contract arrangements, which ended on 31<sup>st</sup> August 2004.

### **Implementing Electronic Government**

The Council is pursuing a programme of e-modernisation designed to utilise new technologies to deliver better quality and more accessible services to its customers. The programme will, for example, facilitate the delivery of services electronically whilst working towards the government's e-government targets.

### **Waste Management PFI**

The Council's Private Finance Initiative (PFI) contract in partnership with Worcestershire County Council is in the process of being renegotiated. No agreement is expected until Autumn 2004 at the earliest. It is not envisaged that the new set up and additional associated costs will begin to be felt until 2005/06 because of the requirement to obtain planning permission and complete building works.

### **Magistrates Court PFI**

Since February 2000 the Council has been working in partnership with Worcestershire County Council for the provision of Magistrates Courts within the two counties. It has been announced that the Magistrates Court service will migrate to a new Government Agency from 1<sup>st</sup> April 2005 and the Council will cease to have any role in the PFI contract from this date. In review of this change, the reserve set up in previous years from the PFI credit and the 2003/04 net income (£1,351,000 in total) has been added to general balances.

### **Whitecross School PFI**

The Council is close to finalising a 25 year Private Finance Initiative contract with a consortium for the provision of a replacement High School in the Whitecross area of Hereford. The school is due to open in April 2006. As the risk is being transferred to the private sector the school will not be shown on the Council's balance sheet, however after 25 years the school will fully transfer to the Council's ownership.

# The 2003/2004 Statement of Accounts

The Council's accounts are detailed in the following pages and comprise:

## 1 The Consolidated Revenue Account

As the name suggests this account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2003/04.

## 2 The Housing revenue Account

All income and expenditure relating to the provision of Council Housing is required to be maintained in a separate account. Although the Council's housing stock transferred to Herefordshire Housing Limited in 2002/03 there were a number of residual transactions in 2003/04 and the HRA was formally closed on 31<sup>st</sup> March 2004.

## 3 The Collection Fund

This statement shows all income collected from Council Taxpayers and Business Ratepayers (NDR). Expenditure includes precept payments to the West Mercia Police Authority, representing income collected from Council Taxpayers on their behalf and NDR contributions payable to Central Government.

## 4 The Consolidated Balance Sheet

This shows the Authority's financial position as at 31<sup>st</sup> March 2004 i.e. the end of the financial year 2003/04, and represents the value of all assets and liabilities.

## 5 Summary of Capital Expenditure and Financing

The summary details capital expenditure incurred across all services, relating to the acquisition and improvement of land, buildings, plant, machinery and equipment, together with capital grants. The sources of finance used to fund this expenditure, such as loans and capital receipts from the disposal of assets, are also shown.

## 6 The Statement of Movement in Reserves

This statement brings together all contributions to, and application of, reserves during the financial year.

## 7 Cash Flow Statement

This represents a summary of all cash flowing in and out of the Authority arising from transactions with third parties. All internal transactions between the various accounts maintained by the Authority are excluded.

## 8 Trust Funds

This shows a summary of the accounts maintained by the Authority on behalf of various Charitable Trusts.

Further information about the Council's finances is available from the County Treasurer, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

Finally, I would wish to record my gratitude to all colleagues involved in the preparation of the Council's final accounts for 2003/04.

**IAN HYSON**  
**COUNTY TREASURER**  
**July 2004**

# STATEMENT OF RESPONSIBILITIES

## The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the County Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

## The County Treasurer's Responsibilities

The County Treasurer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts is required to set out fairly the Authority's financial position as at 31<sup>st</sup> March 2004 and its income and expenditure for the financial year.

In preparing this statement of accounts, the County Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice.

The County Treasurer has also:

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

**IAN HYSON  
COUNTY TREASURER  
2004**

# STATEMENT OF INTERNAL CONTROL

## 1. Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, 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.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

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

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on *an ongoing process* designed to *support the Council's operation and* manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved.

3. The system of internal control has been in place at the Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

## 4. The Internal Control Environment

The key elements of control are described below:

- (a) The Council sets out its objectives through a series of Plans; the Best Value Performance Plan, the Corporate Plan, the Herefordshire Plan and Service Plans, together with Action Plans arising from Best Value Reviews and External Inspection reports, and Revenue and Capital Budgets.
- (b) The Council's policy and decision - making process is set out in the Council's Constitution which explains and regulates how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

The Constitution is supplemented by a range of policies and processes to support the operation of the Council, including schemes of delegation to officers, standing orders relating to the business of the Council, and codes of conduct for members and officers.

- (c) The financial management of the Council is integrated with and influenced by many of the above processes. It includes processes for forward planning of expenditure and resources, budget consultation, setting and monitoring, and completion of final accounts, all aimed to be accurate, informative and timely. The Council also has in place financial regulations designed to support sound financial management policies and procedures, and adherence thereto, and also to reflect the Council's current political and management structure and business activities.



- (d) In order to ensure compliance with policies, procedures and statutory requirements, the Council has a range of controls and processes in place, as set out below. These processes also assist the authority in ensuring the economical, effective and efficient use of resources, in securing continuous improvement in exercising its functions, and provide for an effective performance management and reporting process.

## 5. Review of Effectiveness of Internal Controls

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

<b>Control</b>	<b>Review of Effectiveness</b>
Statutory roles of Head of Paid Service, Council's Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing.	Council, Cabinet, Committees, Directors and Heads of Service have a full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The External Auditor is satisfied with the Council's arrangements (Annual Audit Letter 2002/03).
Internal Audit provides an independent and objective assurance across the whole range of the authority's activities.	The External Auditor is able to place reliance on the work of the Section (Annual Audit Letter 2002/03). The Section continues to develop its Annual Plan on a systematic assessment of the risks facing the Council in carrying out its functions. Cabinet approved the Internal Audit Plan for 2003/4 and a mid term Assurance report was presented to Cabinet on 18 <sup>th</sup> December 2003. The Audit plan for 2003/4 and mid-term Assurance report was also presented to the Strategic Monitoring Committee. The end of year Assurance report is being progressed. For 2004/5 Audit Services has developed a fraud prevention and detection specific programme of work within the Audit Plan. In addition to the fundamental systems the Audit Plan will focus this year on the financial and managerial control arrangements within the Herefordshire Jarvis contract.
External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to their statutory functions and codes of practice.	The External Auditor is satisfied with the Council's arrangements (Annual Audit Letter 2002/03).
Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are	During the year a fully developed Risk Management process was not in operation and there was no corporate risk register in place. However Cabinet has now approved the

<b>Control</b>	<b>Review of Effectiveness</b>
evaluated, regularly reviewed and mitigation strategies developed, and these arrangements are approved and reviewed by Cabinet.	Council's Risk Management Strategy. Service Plans for 2004/5 have to be developed taking into account risk. Staff training is currently in progress with the objective of ensuring risk management and awareness is embedded across the Council. The risk register is currently being compiled.
Provision of effective, efficient and responsive systems of financial management.	Audit Services has carried out two fundamental reviews, one on Financial Reporting and Control and the other on Budget Creation and Monitoring. Both were given Satisfactory Audit Opinions. Revised Financial Regulations were operational from 25 <sup>th</sup> July 2003.
Codes of practice are issued by external bodies in respect of Council services and processes, with which the Council is expected to comply.	<p>The Council has complied with the 2003 CIPFA Code relating to Capital Finance &amp; Treasury Management and a report presented to Cabinet on 19<sup>th</sup> February 2004.</p> <p>The Council's accounts have been prepared in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom</p>
Ensuring the economical, effective and efficient use of resources	As part of the CPA process, the Council received the top rating of 4 for its policies and procedures, in relation to use of resources.
The Council's Overview and Scrutiny Arrangements	The Council has appointed a Strategic Monitoring Committee and five Scrutiny Committees to discharge the functions conferred by Section 21 of the Local Government Act 2000. During 2003/4 these Committees met thirty times. There is also the Statutory Accounts Committee with the term of reference to approve the Council's accounts each year.
Performance monitoring processes are in place to measure progress against objectives and to provide for remedial action where appropriate.	<p>The Council has in place a performance management framework, which it continues to develop. The Head of Performance Management is in post, and Performance Leads and Co-ordinators have been appointed for each Directorate/Department to help ensure that performance management is embedded across the Council. Performance is regularly reported to the relevant Scrutiny Committee and Cabinet.</p> <p>The performance management process continues to improve. However, there is a need to speed up the development of the data verification process, in particular around the key corporate performance indicators.</p>
Continued implementation of Best Value reviews and related improvement plans.	Following the Council's categorisation as a good authority in its Comprehensive Performance Assessment in 2002, it has sought to adopt a proportionate approach to its review programme and to focus on areas that present

Control	Review of Effectiveness
	the biggest opportunities for service improvement. Reviews and service improvement programmes have been incorporated within the Council's Improvement Plan, which has been developed in consultation with the Audit Commission.
Reports received from external agencies and inspectorates.	The Council has been classified as 'Good' under CPA. The Audit Commission Inspection of Supporting People Programme in Herefordshire identified 'a good service that has uncertain prospects for improvement'. There have been external inspections of the Older People's Services and Fostering Services within the Social Care and Strategic Housing Directorate. The Final reports are due shortly. With regards to the Education Directorate the last Ofsted Inspection report was published on 16 <sup>th</sup> January 2001 the overall view was that 'Herefordshire is an effective local education authority which deservedly has the overwhelming support of its schools. The Director of Education and senior staff have given good leadership during the transition from the previous authority, and the quality of services to schools has improved'
Delivery of services by trained, skilled and experienced personnel.	The Council has demonstrated its commitment to staff through the Staff Review and Development process. There is a commitment to IIP accreditation within some Directorates and Departments. The Council has it's own Management Development training for it's managers.

We have been advised on the implications of the results of the review of the effectiveness and the system of internal control by the Authority, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## 6. Significant Internal Control Issues

The requirement for The Statement of Internal Control came into force on 1<sup>st</sup> April 2003. Currently the Council is not fully compliant particularly with regards to identifying and evaluating all significant risks associated with planning and delivering services. Action will be taken during 2004/05 to deal with what are considered by the Council to be significant internal control issues and these specifically are in the following areas:

	Internal Control Issue	Action Plan
6.1	The full operation of the Risk Management Strategy across the council	<ul style="list-style-type: none"> <li>• Principal statutory obligations and organisational objectives are being developed.</li> <li>• The risk register is being compiled to ensure that principal risks have been recorded and appropriate action taken.</li> </ul>

	<b>Internal Control Issue</b>	<b>Action Plan</b>
		<ul style="list-style-type: none"> <li>• Service Plans for 2004/5 have taken account of risk.</li> <li>• Risk Management review by Audit Services during 2004/5.</li> </ul>
6.2	Process for the verification of performance data.	<ul style="list-style-type: none"> <li>• Specific training for staff involved in compiling performance data.</li> <li>• Written procedures are being developed for all performance indicator procedures.</li> <li>• Quarterly verification of key Corporate Performance by Audit Services.</li> <li>• Performance Co-ordinators in place with responsibility for a rolling programme of data verification.</li> <li>• The Performance Management Framework will be reviewed to give more emphasis on the ongoing verification process.</li> </ul>
6.3	The review of certain contract arrangements and processes relating to the overall control and monitoring of the Herefordshire Jarvis contract.	<ul style="list-style-type: none"> <li>• Audit Services has recommended improvements in relation to clarity of the contract, and in management and monitoring arrangements.</li> </ul>
6.4	Prevention and detection of fraud and corruption	<ul style="list-style-type: none"> <li>• Audit Services has carried out a risk assessment and resources have been made available in the 2004/5 Audit Plan.</li> </ul>

**N. Pringle**  
**Chief Executive**

**CLLR R. Phillips**  
**Leader of the Council**

# STATEMENT OF ACCOUNTING POLICIES

## 1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2003, which is recognised by statute as representing proper accounting practices.

## 2. Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis. Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for in the year to which it relates. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

## 3. Reserves and Provisions

The Council maintains a number of provisions and earmarked reserves to cover future expenditure. Provisions are included in the cost of services, whereas movements on reserves are treated as appropriations after service expenditure has been calculated. During 2003/04 the provisions maintained by the Council were carefully reviewed. The largest and by far the most material provision remaining is an insurance provision, which has been subject to an independent evaluation.

## 4. Fixed Assets

### (a) Categories

The Fixed Assets are categorised into the groupings required by the Code of Practice on Local Authority Accounting as follows:

#### Operational assets

- Other land and buildings
- Vehicles, plant and equipment
- Infrastructure assets
- Community assets

#### Non-operational assets

### (b) Recognition

Expenditure on the acquisition, creation and enhancement of a fixed asset is capitalised on an accruals basis. To be capitalised, the expenditure must be for assets yielding benefits to the Council for more than one year.

### (c) Measurement

In accordance with Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institute of Chartered Surveyors (RICS), fixed assets are included in the balance sheet on the following basis:

Operational land, properties and other operational assets	lower of net current replacement cost or net realisable value in existing use (net of depreciation where appropriate)
Infrastructure and community assets	historical cost, less depreciation
Non-operational land, properties and other non-operational assets	lower of net current replacement cost or net realisable value

**(d) Revaluations**

When an asset is included in the balance sheet at current value, it is formally revalued at intervals of not more than five years and the revised amount is included in the balance sheet. The difference between the value and the amount at which the asset was included in the balance sheet immediately prior to the latest revaluation is credited or debited to the fixed asset restatement reserve, except in some cases of impairment. Where an impairment loss on a fixed asset occurs and it is a loss caused by a clear consumption of economic benefits, the loss is credited to the asset management revenue account and debited to the service revenue account.

**(e) Disposals**

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where the Government requires that a proportion of the receipt is reserved for repayment of external loans this is credited to a capital finance reserve. Upon disposal, the net book value of the asset disposed of is written off against the fixed asset restatement reserve

**(f) Depreciation**

Depreciation is charged on all fixed assets excluding freehold land and non-operational investment properties. The Council depreciates its fixed assets on a straight-line basis over the estimated expected useful life after allowing for any residual value of the asset. Land and buildings are valued separately to enable depreciation to be charged on buildings only. New assets are not subject to a depreciation charge in the year of acquisition.

**(g) Charges for the use of Fixed Assets**

General fund service revenue accounts, central support services and statutory trading accounts, including DSOs, are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. The notional interest is 3.5% for assets carried at current value and 4.625% for assets carried at historical cost. No charges are made for freehold land, and non-operational investment properties, including assets under construction. Interest payable and provision for depreciation are charged to an asset management revenue account.

However, in order to disclose the authority's corporate net operating expenditure, capital charges to services need to be reversed out and replaced by depreciation and external interest payable for financing. This reconciliation is performed in the Asset Management Revenue Account.

Net operating expenditure contains accounting entries that are not revenue-based and should not have an impact on Council Tax. Consequently, after the disclosure of net operating expenditure, a reconciliation is needed to reverse out non-revenue items (depreciation and amortised grants deferred) and to replace them with the Minimum Revenue Provision. This is accomplished in the Consolidated Revenue Account in the line 'Appropriation to/from Capital Financing Reserve'.

**(h) Deferred charges**

Deferred charges refer to expenditure which qualifies as capital for control purposes but does not result in the acquisition, creation or enhancement of a tangible fixed asset.

- (i) Capital expenditure which does not result in the acquisition, creation or enhancement of a Council asset is written off to the service revenue account in the year in which the expenditure is incurred, on the basis that no long term benefit accrues directly to the authority from the expenditure.

(ii) Capital expenditure which does result in the acquisition of an intangible fixed asset (e.g. software) is written off to the service revenue account over the assets expected useful life, where determinable.

A reconciliation is needed, after the disclosure of net operating expenditure, to reverse out capital financed deferred charges. This is done by an adjustment in the Capital Financing Reserve.

## **5. Capital Receipts**

A significant proportion of the capital receipts earned during 2003/04, with the exception of appropriate set asides, were used to finance capital expenditure in the year. Unapplied receipts will be carried forward and used in future years. The set aside on receipts relates to capital receipts in the form of mortgage payments relating to historical housing disposals and is 75%.

Since the sale of the housing stock to Herefordshire Housing the Council has received a share of preserved Right To Buy receipts of £3.9 million.

## **6. Capital Accruals**

The capital programme for 2003/04 has been funded on a cash basis (with regard to year-end creditors in relation to Credit Approval funded schemes) as required by capital regulations.

## **7. Grants**

Revenue and Capital grants are accounted for on an accruals basis, with revenue grants credited to the appropriate revenue account and capital grants to the Capital Contributions Deferred account. Amounts are released from the contributions deferred account to the asset management revenue account, in line with depreciation on assets to which the grant relates.

## **8. Basis for Redemption of Debt**

In accordance with the Local Government and Housing Act 1989 a Minimum Revenue Provision was made to provide for the repayment of borrowing, representing 4% of the General Fund Credit Ceiling.

## **9. Investments**

All internal investments are shown in the Consolidated Balance Sheet at original cost. The investments managed externally by Investec Asset Management Ltd are shown at the market value as at 31<sup>st</sup> March 2004.

## **10. Leases**

Rentals for operating leases are charged to revenue on an accruals basis.

## **11. Stocks and Work-in-Progress**

Stock has been included in the accounts at current cost.

## **12. Allocation of Central Support Costs**

The accounts follow the principles of total absorption costing in accordance with the 'Best Value Accounting Code of Practice', which means that the outturn for services includes all direct, indirect and overhead costs incurred in providing the service. This is known as the principle of 'total cost'.

Central Support costs include the range of services provided by internal support divisions, including Treasurers, Legal, Committees, Administration, and Personnel. The costs have been recharged to services on the following basis;

Legal, Committees and Administration	Estimated time spent
Personnel	Estimated time spent and pro-rata to the number of staff in Directorates.
Treasurers	A combination of estimated time spent and numbers of transactions.

The cost of the Council's administrative buildings was reallocated to services based on staff numbers.

I.T. charges are also made to services based on an annual subscription charge plus additional charges for development work at an hourly rate.

Certain central costs including corporate policy, PR, research and e-modernisation are also recharged to services at the year-end.

Further allocations are made to services in respect of Service Strategy and Regulation costs within Programme areas, such as Social Care and Housing, Planning, Environment and Education.

### **13. Pensions**

The cost of providing pensions for employees is charged to the accounts in accordance with Financial Reporting Standard 17 'Retirement Benefits'. This accounting policy represents a change to that applied in previous years as 2003/04 is the first year in which full implementation of FRS 17 has been required in the accounts. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund, or payments for which the Council was directly responsible fell due to a pensioner. The new policy reflects the requirement to account for retirement benefits when it is committed to give them even if the payment is many years in the future.

Prior period adjustments have been made to the Consolidated Revenue Account and Balance Sheet.

### **14. Private Finance Initiative**

Under FRS 5, assets employed in the provision of services under Private Finance Initiatives (PFI) contracts are recorded on either the balance sheet of the Authority or the service provider, depending on which party has access to the benefits and risks associated with the assets.

As explained in Note 20 of the Consolidated Revenue Accounts notes, the Council, in partnership with Worcestershire County Council, has PFI contracts for the provision of waste management services and the provision of Magistrates Courts.

The assets employed in the provision of services under these contracts are deemed to be the service operator's assets under the provisions of FRS 5. Accordingly they are not recorded in the Council's balance sheet. The accounting treatment is consistent with that adopted by Worcestershire County Council.

### **15. Car and Computer Loans**

The Council operates a car loan scheme in order to assist staff to purchase cars for use during their work. The interest rate is designed to produce a break-even position for the Council.

In addition the Council offers interest free loans to allow staff to purchase computers to assist them to improve their I.T. skills at work.



## **16. Car Leasing**

The Council operates a car leasing scheme as an option for staff requiring cars for business use. This is at no additional costs to the Council in comparison to the cost of mileage allowances for staff using their own cars.

## **17. Herefordshire Jarvis Services**

In accordance with the accounting treatment set out in FRS 9 'Associates and Joint Ventures' no group accounts are required for the partnership with Herefordshire Jarvis Services. This is conducted as a contractual arrangement with the transactions included in the consolidated revenue account and capital accounts.

## **18. Exceptional/Extraordinary Items**

There are no exceptional or extraordinary items to report in the accounts.

## **19. Estimation Techniques**

Where precise amounts are not known at the year-end, figures are included in the accounts on an estimated basis using the best information available at that time. In particular, the Housing Benefit Subsidy and Housing Subsidy figures are included in the accounts on the basis of estimated claim forms, as the claims are completed and audited at a later date. There are no estimates in the 2003/04 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

## CONSOLIDATED REVENUE ACCOUNT

2002/03 Net £000	2003/04 Expenditure £000	2003/04 Income £000	2003/04 Net £000
1,719 Central services	10,774	9,091	1,683
(826) Court services	927	1,113	(186)
23,406 Cultural, environmental and planning services	41,267	18,687	22,580
79,983 Education services	113,004	29,998	83,006
13,185 Highways, roads and transport services	20,163	5,994	14,169
4,766 Housing services	36,743	30,784	5,959
31,630 Social services	52,905	18,246	34,659
3,098 Corporate and democratic core	3,724	339	3,385
458 Non-distributed costs	181	1,521	(1,340)
2,841 Other services	5,382	2,301	3,081
160,260	285,070	118,074	166,996
0 Discontinued operations - HRA	205	48	157
160,260 <b>Net Cost of Services</b>	285,275	118,122	167,153
10,096 Precepts and Levies			9,262
(476) (Surplus)/Deficit from DSOs			49
7,161 Deferred charges written off			114
(11,297) Return on Pension assets			(8,195)
11,113 Pensions interest			11,983
(9,169) Asset Management Revenue Account			(6,854)
262 Gains and losses on repurchase of borrowing			2,814
(1,164) Interest and Investment Income			(1,254)
166,786 <b>Net Operating Expenditure</b>			175,072
(1,110) Transfer to(from) HRA balances			0
2,272 Pensions appropriation			18
(21,132) Appropriations to/(from) Capital Financing Reserve			(12,047)
1,939 Transfer to/(from) Major Repairs Reserve			0
1,045 Transfer to/(from) Reserves			2,424
149,800 <b>Amounts to be met from Government Grants and Local Taxation</b>			165,467
<b>Sources of Finance</b>			
(54,037) Council Tax			(62,336)
(500) Transfer from Collection Fund			(400)
(45,298) Revenue Support Grant			(53,559)
(52,086) Contribution from Non-Domestic Rates			(52,969)
(151,921)			(169,264)
(2,121) Net (Surplus)/Deficit for the year			(3,797)
(4,247) Balance on General Fund brought forward			(6,368)
0 Adjustment for prior year HRA deficit balance			318
(6,368) General Fund Revenue Balance 31st March			(9,847)

# NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## 1. Prior period adjustments

Full implementation of FRS 17 'Retirement benefits' in the 2003/04 accounts is a significant change in accounting policy and therefore the 2002/03 comparative figures have been restated to reflect this. The change has had the following effects on the results of the prior and current periods:

- The overall amount to be met from Government grants and local taxation has remained unchanged
- The net cost of services after the replacement of employer's contributions by current service costs is 1% lower in 2002/03 and 2.2% in 2003/04.
- Net operating expenditure is 1.3% lower than previously stated for 2002/03, but almost the same as it would have been in 2003/04 (a difference of only £18,000).

## 2. Discontinued Operations

In November 2002 the Council transferred its dwellings to Herefordshire Housing Limited but the HRA remained open until 31<sup>st</sup> March 2004, when the Office of the Deputy Prime Minister granted permission to close the account. In 2003/04 there were a number of residual transactions in relation to the HRA

## 3. Precepts and levies

The following precepts and levies were charged to the Consolidated Revenue Account;

2002/03	2003/04
£000	£000
1,639 Parish Councils	1,720
1,298 River Authorities	1,750
5,156 Fire Authority	5,469
302 Magistrates Court	304
1,701 Former HWCC debt financing	19
<u>10,096</u>	<u>9,262</u>

## 4. The Asset Management Revenue Account

The Asset Management Revenue Account reverses out the capital charges made to services under the capital accounting system and replaces them with depreciation (net of government grants and contributions deferred) and real interest charges paid by the Council

The transactions on the Asset Management Revenue Account for the year to 31<sup>st</sup> March 2004 are as follows:

2002/03		2003/04
£000		£000      £000
	Income	
(20,921)	Capital Charges	(13,779)
(353)	Release of grants and contributions deferred	(2,109)
<u>(21,274)</u>		<u>(15,888)</u>
	Expenditure	
5,863	Provision for Depreciation	5,782
2,918	Provision for Impairment	83
3,324	External Interest charges	3,169
<u>12,105</u>		<u>9,034</u>
<u>(9,169)</u>	Balance transferred to the Consolidated Revenue Account	<u>(6,854)</u>

## 5. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires the council to set aside an amount from revenue, the minimum revenue provision (MRP), to meet its liabilities in respect of capital expenditure financed by external borrowing.

This is calculated by applying specified percentage rates to the authority's credit ceiling. The Code of Practice requires that for the purposes of compliance with these statutory requirements the provision for depreciation (net of the contribution from grants and contributions deferred), impairments and the net write-down of deferred charges, to be regarded as part of the MRP, with the difference being treated as a transfer to/from the capital financing reserve.

This will ensure that amounts included in net operating expenditure relating to capital investment (depreciation and deferred charges) do not have an impact on the amount to be raised from the Council Tax and are replaced instead by the statutory charges (MRP).

2002/03 £000		2003/04 £000
1,960	Non-Housing Amount (4% of Credit Ceiling)	3,130
<u>177</u>	Housing Amount (2% of Credit Ceiling)	<u>0</u>
2,137	Minimum Revenue Provision before adjustments	3,130
<u>(583)</u>	Less: Commutation Adjustment	<u>(283)</u>
<u>1,554</u>	Total Minimum Revenue Provision	<u>2,847</u>
5,863	Less: Provision for depreciation	5,782
(353)	Release of grant and Contributions deferred	(2,109)
2,918	Provision for impairment	83
13,885	Deferred Charges write-off	8,089
<u>373</u>	PWLB Premium charged to PCL	<u>3,049</u>
22,686		14,894
<u>(21,132)</u>	Transfer from Capital Financing Reserve to Consolidated Revenue Account	<u>(12,047)</u>

## 6. Provision for Credit Liabilities (PCL)

In accordance with statutory requirements the Council is required to set aside sums as a provision to repay external loans and finance leases and for other limited purposes. The Council does not keep an account within the accounting records for the PCL as there is no need to do so but it has to maintain a memorandum account that is set out below.

The Local Government and Housing Act 1989 s64 (1) sets out the ways in which PCL may be formally applied in an authority with outstanding debt. Firstly, it may be used to repay borrowing, secondly, it may be used for capital expenditure under the authorisation of a credit approval (as an alternative to fresh borrowing) and thirdly, to meet liabilities under credit arrangements. During the year Herefordshire Council has applied its maximum PCL to repay borrowing and for capital expenditure authorised by credit approvals (i.e. foregoing a liability for borrowing that would otherwise have arisen).

2002/03 £000		2003/04 £000	2003/04 £000
	5,093		13,217
	Transactions in the year:		
	Amount set aside for Minimum Revenue Provision		
	2,137		3,130
	(583)		(283)
	24,892		297
	1,521		0
	(2,534)		0
	(373)		95
	30,153		13,312
	16,936		13,312
	Less: Amounts applied to repay loans and for use of credit approval without borrowing		
	13,217		0
	Balance carried forward at 31st March		

## 7. Pensions

Herefordshire Council participates in two pension schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. Both schemes provide employees with defined benefits related to pay and service, but for the purposes of FRS17 the Teachers' Pension scheme is treated as if it was a defined contribution scheme.

### (a) Teachers' Pensions scheme

This is an unfunded scheme administered by the Department for Education and Skills. It provides teachers with defined benefits on their retirement, and the authority contributes towards the costs by making contributions based on a percentage of pensionable salaries. The contribution rates for employees and employers are set on the basis of a notional fund.

In 2003/04 the Council paid £5.56 million in respect of teachers' pension costs, which represented 13.5% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2003/04 these amounted to £113,284, representing 0.28% of pensionable pay.

### (b) Local Government Pension Scheme

Other employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. This is a funded scheme, which means that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Although the benefits will not actually be payable until employees retire, the authority has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. Under FRS 17 the cost of retirement benefits is included in the Net Cost of Services when they are earned by employees, rather than when they are paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure.

The following transactions have been made in the Consolidated Revenue Account during the year, with a prior year adjustment for 2002/03:

2002/03 £000		2003/04 £000
	<b>Net Cost of services</b>	
5,286	Current Service cost	5,218
277	Past service cost	7
127	Curtailment cost	102
0	Settlement gain	(1,521)
	<b>Net Operating Expenditure</b>	
11,113	Interest cost	11,983
(11,297)	Expected return on assets in the scheme	(8,195)
	<b>Appropriations</b>	
<u>2,272</u>	Movement on Pensions Reserve	<u>18</u>
<u>7,778</u>		<u>7,612</u>
	<b>Amount charged against Council Tax</b>	
<u>7,778</u>	Employer's contribution payable to the scheme	<u>7,612</u>

Note 10 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. The note to the Statement of Total Movements in Reserves details the movement in the pensions liability due to the revision of previous estimated figures (i.e. expected return on investments)

## 8. Operating leases

The Council's expenditure in the year on operating leases and the future liabilities in respect of those leases is as follows:

	2003/04 Actual £000	2004/05 Committed £000	2005/06 onwards Committed £000
Vehicles	417	339	867
Officers' leased cars	216	256	199
Properties	730	671	10,267
Other	64	21	49

During 2003/04 a significant value of vehicles and other equipment leased by the Council were used by a third party. Although the Council will remain the primary lessee being responsible for rental payments to the lessor, these will be recovered from the third party.

## 9. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2003/04 the total was £1,077,000 split as set out below;

2002/03 £000		2003/04 £000
502	Recruitment advertising	562
29	Other advertising	6
463	Other publicity	509
<u>994</u>		<u>1,077</u>

## 10. Trading Operations

The Council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from other parts of the authority or external customers.

The largest of these, Herefordshire Commercial Services (HCS), transferred to Herefordshire Jarvis Services, a joint venture company, on 1<sup>st</sup> September 2003.

Significant trading accounts are summarised as follows:

	2003/04 £000	2003/04 £000
<b>Markets</b> The Council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls.	Turnover 669 Expenditure 373 Surplus <hr/> 296 [Deficit 2002/03 320]	296
<b>Industrial &amp; Commercial Estates</b> The Council owns and manages a number of industrial and commercial estates in the County.	Turnover 1,174 Expenditure 321 Surplus <hr/> 853 [Surplus 2002/03 1,297]	853
<b>IT Services</b> Information Technology services are provided to all Council Directorates. Prior to 2003/04 this was part of Commercial Services. Most of the 2003/04 surplus was redistributed back to services in compliance with Best Value Accounting Code of Practice. However an IT reserve was created for the same amount	Turnover 4,723 Expenditure 3,886 Surplus <hr/> 837	837
<b>HCS</b> Operational services provided building and toilet cleaning, catering, highways and grounds maintenance, street cleansing and building maintenance to a variety of in-house and external customers until 1 <sup>st</sup> September 2003.	Turnover 5,448 Expenditure 5,532 Deficit <hr/> 84 [Surplus 2002/03 including IT 88]	84

## 11. Section 137 of the Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds and not-for-profit bodies. The expenditure is limited to £3.80 per head of population. The Council was permitted to spend £670,000 under this power in 2003/04 and its actual expenditure was £161,000.

## 12. Building Regulations Charging Account 2003/04

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

Total Building Control 2002/03 £000	Chargeable 2003/04 £000	Non- Chargeable 2003/04 £000	Total Building Control 2003/04 £000
<b>Expenditure</b>			
461 Employee Expenses	323	108	431
43 Transport	29	9	38
28 Supplies & Services	24	7	31
95 Central Support Service Charges	168	19	187
<u>627</u> Total Expenditure	<u>544</u>	<u>143</u>	<u>687</u>
<b>Income</b>			
(693) Building Regulation Charging	(690)	0	(690)
(1) Miscellaneous Income	0	0	0
<u>(694)</u> Total Income	<u>(690)</u>	<u>0</u>	<u>(690)</u>
<u>(67)</u> (Surplus)/Deficit for the Year	<u>(146)</u>	<u>143</u>	<u>(3)</u>

## 13. Members Allowances

Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2003/04 members were paid a total of £565,569 under these regulations. This was made up of £329,652 Basic allowances, £188,873 Special responsibility allowances, £1,283 for dependent carers and co-optees' allowances and £45,761 for travelling and subsistence.

## 14. External Audit Fees

The Audit Commission has been the Council's external auditors since the Council came into being in 1998. The annual audit of the accounts is carried out in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards.

Audit fees charged to the revenue account in 2003/04 amounted to £433,965 comprising £246,599 for the Core Audit, £55,519 for Inspection fees and £131,847 for the audit of returns and grant claims.

## 15. Employees remuneration

The Accounts and Audit Regulations 2003 require authorities to disclose the number of employees whose remuneration in the year was £50,000 and above, shown in bands of £10,000 as set out below. Remuneration is defined as all amounts paid to or receivable by an employee, including taxable expense allowances and the money value of benefits.



Remuneration band	No. of Employees
£50,000 - £59,999	18
£60,000 - £69,999	6
£70,000 - £79,999	0
£80,000 - £89,999	5
£90,000 - £99,999	0
£100,000 - £109,999	1

Employee and Employer pension contributions are not included

### 16. The Local Authority (Goods and Services Act) 1970

The Act empowers Local Authorities to provide goods and services to other public bodies. In 2003/04 a significant level of services were provided to the following organisations:

Organisation	Service provided	£000
Halo Leisure Trust	County Treasurer's services	68
	INFO in Herefordshire	14
	IT services	90
	Legal services	11
	Personnel services	<u>58</u>
		241
Hereford and Worcester Fire Brigade	Clerk to the Fire Authority	5
	Committee services	11
	Legal services	65
	Property services	<u>12</u>
		93
Herefordshire Housing Ltd	County Treasurer's services	147
	INFO in Herefordshire	30
	IT services	180
	Legal services	111
	Personnel services	26
	Property services	26
	Vehicle maintenance	37
Street lighting	<u>21</u>	
		578
Worcestershire County Council	Building cleaning (schools)	195
	Social services placements	<u>18</u>
		213
Cheshire County Council	Fostering	14
Wolverhampton Council	Fostering	17
	Social services placements	<u>4</u>
		21
Wandsworth Borough Council	Social services placements	15
Dudley MBC	Social services placements	18
Stoke on Trent Council	Social services placements	5
		<u>1,198</u>

## 17. Section 31, Health Act 1999 – Pooled Budget Arrangements

Five pooled budget agreements between Herefordshire Council and Herefordshire Primary Care Trust were in place during 2003/04. These agreements provided services in respect of mental health, learning disabilities, intermediate care and residential care. A Partnership Board was set up to operate each of these agreements.

### The agreements hosted by the Primary Care Trust were as follows:

#### Mental Health

To improve the services for users through closer working between the National Health Service and Local Government and which is pursuant to the obligations for the Partners to co-operate with each other in providing the Services as referred to in Section 27 of the Act.

Financial contributions as detailed on the Memorandum Account are as below:

	£000
Gross Funding	
Herefordshire PCT	12,349
Herefordshire Council	<u>4,080</u>
Total Funding	16,429
Expenditure	
Herefordshire PCT	12,349
Herefordshire Council	<u>4,080</u>
Total Expenditure	16,429
Net over/underspend	0

The outturn position compared to the PCT's contribution to the pool resulted in an overspend of £246,186, which has been absorbed as part of the overall financial position achieved by the PCT in 2003/04. This overspend was largely as a result of increased commissioning costs in the year

#### Hillside Intermediate Care

This intermediate care facility opened in November 2003 and the table below shows the partners' actual contributions and expenditure for the five months of the financial year, 2003/04.

	£000
Gross Funding	
Herefordshire PCT	337
Herefordshire Council	<u>132</u>
Total Funding	469
Expenditure	
Herefordshire PCT	337
Herefordshire Council	<u>132</u>
Total Expenditure	469
Net over/underspend	0

The outturn position compared to the PCT's contribution to the pool resulted in an overspend of £49,737, which has been absorbed as part of the overall financial position

achieved by the PCT in 2003/04. This overspend was largely as a result of agency staff usage.

### **Blanchworth Contract, Kington**

The report for this pooled fund comprises the contributions from the two parties and a largely block payment to Blanchworth Care for the provision of the service. The facility had a phased opening between Mid-May and Mid-June and the statement below shows the financial position to the end of March.

	£000
Gross Funding	
Herefordshire PCT	343
Herefordshire Council	<u>237</u>
Total Funding	580
Expenditure	
Herefordshire PCT	343
Herefordshire Council	<u>237</u>
Total Expenditure	580
Net over/underspend	0

The outturn compared to the PCT's contribution to the pool resulted in an underspend of £16,329, which has been absorbed as part of the overall financial position achieved by the PCT in 2003/04. This underspend is as a result of the phased opening of services in the year.

### **The agreement hosted by Herefordshire Council was as follows:-**

#### **Learning Disabilities**

To improve the services for users through closer working between the National Health Service and Local Government and which is pursuant to the obligations for the Partners to co-operate with each other in providing the Services as referred to in Section 27 of the Act

Financial contributions as detailed on the Memorandum Account are as below:

		Budget £000	Expenditure £000
Primary Care Trust			
Commissioning	Gross	1,326	1,326
Southbank	Gross	1,166	1,257
Southbank Income			(32)
PCT contribution to Health staff	Gross	<u>243</u>	<u>243</u>
Net		2,735	2,794
Herefordshire Council			
Gross		8,221	10,803
Income		<u>(1,970)</u>	<u>(4,334)</u>
Net		6,251	6,469
Net Budget/Expenditure		<u>8,986</u>	<u>9,263</u>
Net overspend			<u>277</u>

The outturn position for the pool resulted in an overspend of £276,655, which has been absorbed as part of the overall financial position achieved by Social Care in 2003/04.

## 18. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. During the year significant transactions with related parties arose as follows;

2002/2003		2003/2004	
Receipts	Payments	Receipts	Payments
£000	£000	£000	£000
Government departments and agencies			
55,579	- Office of the Deputy Prime Minister	63,848	
25,247	- Department for Works and Pensions	34,230	
16,167	- Department of Education and Skills	17,450	12
6,965	- Department of Health	7,358	
293	- Department for Environment, Food & Rural Affairs	103	
1,036	- Department for Transport	1,720	
1,812	- Advantage West Midlands	3,336	16
2,047	- Government Office for West Midlands	2,997	
193	- Home Office	241	
63	- Cabinet Office	70	
1,063	- Lottery	1,330	
480	- Countryside Agency	694	
67	- Legal Services Commission	59	
159	- Foot and Mouth Recovery fund		
1,963	- Learning and Skills Council	2,695	2
3	- Arts Council		
	- Basic Skills Agency	8	
	5,277 - Teachers pension scheme		8,079
Worcestershire County Council			
	10,066 Worcestershire pension scheme		9,685
	2,226 Other	62	2,928
1,042	4,803 Herefordshire Primary Care Trust	1,309	5,423
	4,287 Mercia Waste	5	5,099
	7,057 West Mercia Police Authority	119	7,933
	339 Courtyard Trust	37	340
	Herefordshire Jarvis Service	378	7,390

The amounts shown above are the actual cash transactions with related parties.

In addition, there are a number of Councillors who serve on outside bodies either as a representative of the Council or as a private individual. Details of these interests are recorded in the Register of Members interests, which is updated annually and open to public inspection.

An examination of the Register indicates that the Council's financial transactions with these bodies in 2003/04 are not material, with the exception of grants and other payments to local charities, which total £298,912. The relevant members did not take part in the Council's decision to allocate these grants.

### **19. Local Public Service Agreement (LPSA)**

Herefordshire Council has entered into an LPSA with the Government, in which the Council has pledged to improve a wide range of services as measured by a number of targets.

To assist the Council in achieving the targets set out in the LPSA, the Government paid over a pump-priming grant of £920,000 in 2002/03. This was intended as a contribution towards expenditure of an 'invest to save' or 'invest to improve' nature.

In 2003/04 £240,098 was used to meet the cost of planned expenditure, which in addition to the £551,799 spent in 2002/03 leaves £128,103 to be carried forward. This balance can be spent at any time during the period of the agreement, which runs until 31<sup>st</sup> March 2005.

### **20. Private Finance Initiative**

Expenditure and grant income under the Private Finance Initiative (PFI) contracts for waste disposal and Magistrates Courts is included in the net cost of services in the Consolidated Revenue Account.

In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Ltd for the provision of an integrated waste management system using the Private Finance Initiative. Under the contract the Authorities are required to ensure that all waste for disposal is delivered to the Contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost over the life of the contract is approximately £500 million, of which around 25% relates to Herefordshire Council.

As at 31<sup>st</sup> March 2004 the waste disposal PFI contract was subject to a standstill agreement, which temporarily suspends aspects of the contract pending a full renegotiation of the contract arrangements. It is expected that a new contract involving significantly different arrangements for waste disposal will be signed towards the end of 2004. Whilst the revised arrangements are expected to involve increased costs, because of the need to obtain planning permission and to complete building works, any additional costs or service improvements will not arise until 2005/06 at the earliest.

In February 2000 the Council, again in partnership with Worcestershire County Council, entered into a 25 year contract with H&W Courts Ltd for the provision of Magistrates Courts at Worcester, Hereford and Kidderminster, and for the refurbishment of the existing courthouse at Redditch. Hereford and Kidderminster courts became operational in 2001, Worcester and Redditch in 2002. In total the estimated cost over the life of the contract is approximately £100 million, of which around 25% relates to Herefordshire Council.

As the Magistrates Court Service is expected to migrate to a new government agency from 1<sup>st</sup> April 2005 it is anticipated that the Council will cease to have any role in this PFI contract from that date.

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) reflects a statutory obligation to account separately for local authority housing provision, as defined by the Local Government and Housing Act 1989. On 26th November 2002 the Council transferred its council houses to Herefordshire Housing Ltd and therefore for 2003/04 there are only a few residual entries. The HRA formal remains open until the Office of the Deputy Prime Minister grants permission to close it. This was granted and the account was formally closed on 31<sup>st</sup> March 2004.

<b>2002/03</b>		<b>2003/04</b>
<b>£000</b>	<b><u>Income</u></b>	<b>£000</b>
	(8,429) Dwelling Rents (Gross)	0
	(401) Non-dwelling rents (Gross)	0
	(428) Charges for services and facilities	0
	(88) Contributions towards expenditure	(21)
	(2,239) HRA Subsidy receivable	91
	(29) Housing Benefit Transfers	0
	<u>(11,614)</u>	<u>70</u>
	<b><u>Expenditure</u></b>	
	3,151 Repairs and Maintenance	12
	2,584 Supervision and Management	50
	20 Rents, Rates, Taxes and Other Charges	6
	4,861 Rent Rebates	0
	94 Increased Provision for Bad or Doubtful Debts	46
	20 Debt Management Costs	0
	<u>10,730</u>	<u>114</u>
	<b>(884) NET COST OF SERVICES</b>	<b>184</b>
	(17) Net HRA Income or Expenditure on AMRA	0
	(105) HRA Investment Income	(27)
	<b>(1,006) NET OPERATING EXPENDITURE</b>	<b>157</b>
	177 HRA Contribution to MRP	0
	1,939 Transfer to / from MRR	0
	<b><u>1,110 TOTAL (Surplus) / Deficit for Year</u></b>	<b><u>157</u></b>
	792 Balance Brought Forward 1st April	(318)
	Transferred to General Fund revenue balance	318
	(318) Balance Carried Forward 31st March	0

The 2003/04 deficit of £157,000 has been funded by the General Fund in the year and the brought forward deficit of £318,000 has been transferred to the General Fund revenue balance.

## THE COLLECTION FUND

This account reflects the statutory requirement for council tax billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and Non-Domestic Rates (NNDR). The Collection Fund balances are consolidated with the Consolidated Balance Sheet.

<b>2002/03</b>	<b>Note</b>	<b>2003/04</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>
<b>Income</b>			
Council Tax:			
55,131	1	63,225	
6,249		7,436	
<u>61,380</u>			70,661
32,998	2		33,648
<u>94,378</u>			<u>104,309</u>
<b>Total Income</b>			
 <b>Expenditure</b>			
6,784			7,852
54,037			62,336
121			108
56			0
0			(9)
 <b>Non Domestic Rates</b>			
32,712	2		33,360
286			288
<u>93,996</u>			<u>103,935</u>
<b>Total Expenditure</b>			
382	3		374
<b>Surplus/(Deficit) for the year</b>			
465	3		398
<b>Balance brought forward</b>			
847	3		772
<b>Balance carried forward</b>			

## Notes to the Collection Fund

### Note 1

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1<sup>st</sup> April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the Council and West Mercia Police Authority and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). This amount of council tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due. The average council tax for a Band D property in 2003/04 was £1,070.93 with a range between £1,044.69 to £1,109.64. The council tax base used for setting the council tax in 2003/04 was 65,538.

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,004.90
B	£40,001 to £52,000	7/9	12,041.20
C	£52,001 to £68,000	8/9	12,047.80
D	£68,001 to £88,000	9/9	10,945.80
E	£88,001 to £120,000	11/9	11,572.90
F	£120,001 to £160,000	13/9	7,755.20
G	£160,001 to £320,000	15/9	4,888.80
H	Over £320,000	18/9	298.00
Crown			202.20
			<hr/> 65,756.80
	Other adjustments		(218.80)
			<hr/> 65,538.00
<b>Council Taxpayer Income</b>		£000	£000
Council tax debit @ 1 <sup>st</sup> April			79,772
<b>Add:</b>			
Redebits		16,959	
Valuation Change		886	17,845
<b>Less:</b>			
Discounts		6,596	
Exemptions		619	
Benefits – Statutory		7,404	
Benefits – Non Statutory		32	
Disablement Relief		113	
Transitional Reductions		(1)	
Void Assessments		2,363	
Empty Assessments		16,853	
Banding Reductions		413	34,392
<b>Income due from Council taxpayers</b>			<hr/> 63,225



**Note 2**

The council collects non-domestic rates from ratepayers in the area and this amount, after the deduction of a cost of collection allowance is paid into a national pool.

Business rateable value as at 31<sup>st</sup> March 2004 £ 86,858,507

Business rate multiplier 44.4 p

<b>Non-domestic Ratepayers Income</b>	£000	£000
Non-domestic debit @ 1 <sup>st</sup> April		38,649
<b>Add:</b>		
Redebits	4,325	
Valuation Change	2,051	6,376
<b>Less:</b>		
Empty Allowances	4,056	
Transitional Relief	(409)	
Discretionary Relief	199	
Mandatory Relief	1,530	
Write-offs	79	
Reduced Assessments	3,265	
Voids	2,589	
Interest on Refunds	68	11,377
<b>Income due from non-domestic ratepayers</b>		<u>33,648</u>

**Note 3****Contributions to Collection Fund Surpluses**

<b>Council Tax</b>	£000	£000
Surplus at 31.3.03		847
<b>Less: Payments</b>		
West Mercia Police Authority	50	
Herefordshire Council	399	449
		<u>398</u>
Surplus balance brought forward		398
Surplus financial year 2003/04		374
Surplus balance carried forward		772

# CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2004

31.3.03 £000		Note	31.3.04 £000	31.3.04 £000
	<b>Fixed Assets</b>	2		
	Operational Assets			
165,454	- Other land and buildings		173,194	
1,312	- Vehicles, plant, furniture and equipment		1,446	
36,984	- Infrastructure assets		45,024	
2,191	- Community Assets		1,906	
34,524	Non-operational Assets		35,385	
240,465				256,955
1,393	Deferred charges	3		1,241
1,769	Long-term debtors	4		732
14	Long-term investments	5		14
243,641	<b>Total Long-term Assets</b>			258,942
	<b>Current Assets</b>			
356	Stocks and work-in-progress	6	184	
19,544	Debtors		19,503	
40,181	Short-term Investments	7	20,633	
2,780	Cash and bank		2,234	
62,861				42,554
	<b>Current Liabilities</b>			
23,974	Creditors		22,262	
10,288	Short term borrowing	8	12,030	
4,055	Cash overdrawn		4,575	
38,317				38,867
268,185	<b>Total Assets less Current Liabilities</b>			262,629
53,101	Long-term borrowing	8	41,720	
0	Debt Liability	9	272	
79,679	Pensions liability	10	58,309	
1,858	Provisions	11	1,434	
134,638				101,735
133,547	<b>Total Assets less Liabilities</b>			160,894
13,703	Capital contributions deferred	12		18,337
93,673	Fixed asset restatement reserve	13		96,528
71,535	Capital financing reserve	14		63,783
(79,679)	Pensions reserve	10		(58,309)
1,526	Deferred credits	15		565
18,908	Usable capital receipts	16		19,964
6,983	Earmarked reserves	17		9,407
6,050	Revenue balances			9,847
847	Collection Fund balances			772
1	Community charge balances			0
133,547	<b>Total net worth</b>			160,894

## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1. Prior year adjustment

Full implementation of FRS 17 'Retirement benefits' in the 2003/04 accounts is a significant change in accounting policy and therefore the 2002/03 comparative figures have been restated to reflect this. The requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 37% in 2002/03 (27% in 2003/04)

### 2. Fixed Assets

#### (a) Movement in Fixed Assets

	Operational assets				Non-	Total
	Other land and buildings	Vehicles, plant and equipment	Infra-structure assets	Community assets	operational assets	
	£000	£000	£000	£000	£000	£000
<b>Net book value at 31.3 03</b>	<b>165,454</b>	<b>1,312</b>	<b>36,984</b>	<b>2,191</b>	<b>34,524</b>	<b>240,465</b>
Additions	4,079	665	9,273	94	5,411	19,522
Disposals/deletions	(360)	(20)	(150)	0	(552)	(1,082)
Revaluations	8,112	0	0	(381)	(3,804)	3,927
Reclassifications	(629)	(32)	830	2	(171)	0
Reclassifications - deferred charge	(13)	0	0	0	0	(13)
Depreciation for year	(3,409)	(459)	(1,913)	0	0	(5,781)
Impairment losses for year	(40)	(20)	0	0	(23)	(83)
<b>Net book value at 31.3.04</b>	<b>173,194</b>	<b>1,446</b>	<b>45,024</b>	<b>1,906</b>	<b>35,385</b>	<b>256,955</b>

#### (b) Valuations

For each class of fixed asset included in the Balance Sheet at current value the valuation has been carried out by Alison Hext Dip Est. Man. MRICS, an internal valuer employed by Property Services.

Operational assets, where there is evidence to support value are valued on Existing Use Value basis, and where they are of a specialised nature are valued on a Depreciated Replacement Cost basis. Non-operational assets are valued on an Open Market Valuation basis.

Assets are subject to a 5 year rolling revaluation programme. Where the Council is not aware of any material change in value, the valuations have not been updated other than part of the rolling programme.

During 2003/04 fixed assets of £78.214 million were valued, consisting of £55.276 million Operational Land and Buildings and £22.938 million of Non-operational assets.

### (c) Commitments

Significant contractual commitments in the Capital Programme at 31.3.04 totalling £2.59 million are as follows and are to be met in future years.

Schemes	£000
Whitecross High School – purchase of land	550
Leominster Industrial Estate Access Road	1,879
Aylestone Hill	9
Castle Pool	6
Kington Primary - rebuilding	<u>150</u>
	<u>2,594</u>

### (d) Analysis of Fixed Assets

The fixed assets as at 31<sup>st</sup> March 2004 were as follows:

	Nos.		Nos.
<b>Social Services and Housing</b>		<b>Education</b>	
Homes for older people	5	Primary schools	78
Day Centres	5	Secondary schools	14
Children and family centres	3	Special schools	5
Other Social Services	8	Pupil Referral units	2
Establishments		Other Educational	
Homeless Shelter	1	Establishments	6
<b>Environment</b>		<b>Policy and Community</b>	
Principal County roads	350 km	Youth centres	7
Distributor/access roads	2,934 km	Libraries	6
Cemeteries	4	Heritage, museums & galleries	4
Crematorium	1	Archives office	1
Public conveniences	34	Leisure centres	7
Traveller sites	8	Swimming pools	3
Bus stations	2	Other Community assets	153
Operational depots	8		
Car parks	54		
Smallholdings (including cottages)	75 (5,156 acres )		
Operational Depots	11		
General buildings and offices	30		
Other non-operational/investment assets	201		

### 3. Deferred Charges

Deferred charges relate to expenditure of a capital nature, which does not impact on the acquisition or enhancement of a Council fixed asset.

	<b>£000</b>
Balance as at 1 <sup>st</sup> April 2003	1,393
Education	4,454
Social Care	81
Policy & Finance – General	928
Policy & Finance – Property	479
Environment – General	1,948
Social Development	168
Economic Development	317
Housing	3,866
Other (LSVT)	114
	<u>13,748</u>
Less: Charge to Revenue in the year	12,507
<b>Balance as at 31<sup>st</sup> March 2004</b>	<b><u>1,241</u></b>

£0.013 million related to previous years' fixed assets restated as deferred charges

#### 4. Long-term Debtors

An analysis of Long-term debtors is as follows;

2002/03	2003/04
£000	£000
236 Staff car loans	204
69 Theatre project loan	22
41 Housing Advances	33
75 Computer loans	46
0 Ross Festival loan	30
854 LSVT Right-to-buy share	0
33 Housing Associations	33
461 HRA Mortgages	364
<u>1,769</u>	<u>732</u>

#### 5. Long-term Investments

The following long-term investments were inherited from outgoing councils on 1st April 1998:

Council	Nominal Value £000	Market Value £000	Investment
Hereford City	1.126	0.847	3½% War Stock
	0.527	0.279	2½% Consolidated Stock
Leominster District	0.078	0.059	3½% Conversion Stock
	1.744	1.312	3½% War Stock
	0.394	0.209	2½% Consolidated Stock
	<u>3.869</u>	<u>2.706</u>	
South Herefordshire District	10.000		ADC Debenture Stock 1996/2011
	0.140		Parochial investment
Balance at 31 <sup>st</sup> March 2004	<u>14.009</u>		

## 6. Stocks and Work-in-progress

An analysis of stocks and work-in-progress is as follows;

2002/03		2003/04
£000		£000
16	Rail passes	13
1	Record office	1
78	Tourist Information offices	83
2	Museums	1
85	Highways salt and grit	53
174	DSO stock	25
0	IT Stock	8
<u>356</u>		<u>184</u>

## 7. Short-term Investments

### (a) Internally Managed

	£000	£000
Balance at 1 <sup>st</sup> April 2003		33,540
Investments made during year (285 transactions)	783,383	
Investments recalled during year	<u>(803,113)</u>	
Balance at 31 <sup>st</sup> March 2004		<u>13,810</u>

### (b) Externally Managed

The fund is managed by Investec Asset Management Ltd. The balance at 31<sup>st</sup> March 2004 is at market value and the investment is supported by:

2002/03		2003/04
£000		£000
5,932	Certificates of Deposit	6,644
667	Fixed Interest Securities	0
42	Deposit accounts	179
<u>6,641</u>	Balance at 31 <sup>st</sup> March	<u>6,823</u>

### Total Short-term Investments at 31<sup>st</sup> March 2004

**£20,632,872**

## 8. Borrowing

### a) Borrowing Analysis

Total borrowing can be analysed as follows:

	Range of Interest Rates %	Debt 1.4.03 £000	Loans Raised £000	Loans Repaid £000	Debt 31.3.04 £000
Public Works Loan Board - Maturity	3.5 - 10.5	54,814	9,484	(24,773)	39,525
Public Works Loan Board - Annuity	4.25 - 9.125	7,727	0	(397)	7,330
Money Market - Maturity	2.85	0	6,000	0	6,000
		<u>62,541</u>	<u>15,484</u>	<u>(25,170)</u>	<u>52,855</u>

## b) Loan Maturity

An analysis of loans as at 31<sup>st</sup> March 2004 by maturity is:

2002/03		2003/04	2003/04
£000	LONG TERM BORROWING	£000	£000
2,886	Maturing within 1 - 2 years	424	
8,799	Maturing within 2 - 5 years	6,394	
3,568	Maturing within 5 - 10 years	1,373	
6,065	Maturing within 10 - 15 years	1,897	
31,783	Maturing in more than 15 years	31,632	
<u>53,101</u>			41,720
9,440	Borrowing repayable within 12 months		11,135
<u>62,541</u>			<u>52,855</u>

## c) Trust Funds

A number of Trusts funds have investments with the Council totalling £894,752.

## 9. Debt Liability

Herefordshire's proportion (24.6%) of the Ex-Hereford and Worcester County Council's Public Works Loan Board outstanding debt on 31<sup>st</sup> March 1998 was transferred to Herefordshire on 30<sup>th</sup> September 2002. However there continue to be ongoing transactions relating to debt managed by, and for other organisations that continue to be administered by Worcestershire County Council. Herefordshire's proportion of the principal amounts of debt managed by other organisation on behalf of Ex Hereford and Worcester County Council as at 31<sup>st</sup> March 2004 total £0.272 million and are recognised as a debt liability.

## 10. Pensions

In accordance with FRS17 – 'Retirement Benefits', the Council is required to disclose certain information concerning the assets and liabilities related to defined benefit pension schemes for its employees. The Council participates in two schemes, the Local Government Pension scheme and the Teachers' Pension scheme.

### Teachers Pension Scheme

The scheme is a defined benefit scheme, administered by the Teachers pensions agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the authority to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme i.e. actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

At the year end there were contributions of £667,484 remaining payable, which related to the March 2004 contributions paid to the scheme in April 2004.

### Local Government Pension scheme

The figures have been provided by the actuary to the pension scheme, using information provided by the scheme, and assumptions determined by the actuary in conjunction with the Council. The latest full actuarial valuation was 31<sup>st</sup> March 2001. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations are affected by uncertainties within a range of possible values.

### (a) Assets and Liabilities

The underlying assets and liabilities for retirement benefits attributable to the authority at 31<sup>st</sup> March are:

	31 March 2003 £m	31 March 2004 £m
Market Value of Assets	117.3	143.6
Liabilities	<u>197.0</u>	<u>201.9</u>
Surplus/(Deficit)	<u>(79.7)</u>	<u>(58.3)</u>

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The deficit on the scheme will be made good by increased contributions over future years as assessed by the scheme actuary.

### (b) Actuarial assumptions

The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	2.5%	2.8%
Rate of increase in salaries	3.75%	4.05%
Rate of increase in pensions	2.5%	2.8%
Discount rate	6.0%	6.3%

### (c) Pension Scheme assets

The assets held by the pension scheme are split between investment categories as follows:

	31 March 2003		31 March 2004	
	£000	%	£000	%
Equities	81,734	69.7	114,629	79.8
Government Bonds	14,893	12.7	10,630	7.4
Other Bonds	12,196	10.4	10,199	7.1
Property	7,622	6.5	1,293	0.9
Other	821	0.7	6,894	4.8
	<u>117,266</u>		<u>143,645</u>	

The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.5%
Government Bonds	4.5%	4.7%
Other Bonds	5.4%	5.5%
Property	6.5%	6.5%
Other	3.75%	4.0%

### (d) Movement in scheme deficit during the year.

2002/03		2003/04	
£000		£000	
(38,600)	Surplus/(Deficit) at beginning of year	(79,679)	
(5,286)	Current service cost	(5,218)	
8,978	Employer contributions	7,612	
(404)	Past service cost/Curtailment cost	1,412	
184	Net interest/Return on Assets	(3,788)	
<u>(44,551)</u>	Actuarial gain or (loss)	<u>21,352</u>	
<u>(79,679)</u>	Surplus/(Deficit) at end of year	<u>(58,309)</u>	



The primary cause of the change from an estimated net liability of £79.7 million at 31<sup>st</sup> March 2003 to an estimated net liability of £58.3 million at 31<sup>st</sup> March 2004 was the difference between the expected and actual return on assets.

The net liability represents the difference between the value of the Authority's pension fund assets at 31<sup>st</sup> March 2004 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<sup>st</sup> April 2004 would also have an impact on the capital value of the pension fund assets.

The extent to which the expected future returns on assets are sufficient to cover the estimated net liabilities will be considered by the actuaries in their next full actuarial review of the pension fund, due to be carried out as at 31<sup>st</sup> March 2004. Their advice on whether or not there is an anticipated shortfall in the funding of the scheme at that time will determine the future level of pension contributions.

## 11. Provisions

The provisions at 31.3.04 are listed below;

2002/03 £000	2003/04 £000
34 Village focus grants	34
162 Maintenance of Open spaces	0
78 Planning	0
96 Dev and Rec Joint schemes	0
136 Former Hereford and Worcester liabilities	82
248 Engineering services	0
33 New Mills traffic signals	0
21 DSO schools	0
962 Insurance	1,088
15 Replacement of cancelled cheques	0
73 IT services	150
0 Legal Claim	80
<u>1,858</u>	<u>1,434</u>

During the year the provisions were reviewed resulting in a number being transferred back to revenue.

An insurance provision is held to cover the cost of policy excesses in relation to expected property and liability claims. The sum involved is calculated based on a detailed assessment of likely claims, based on the claims experience of this authority and the former authorities. The balance is to meet the estimated costs, within the policy excess of public and employers liability of claims incurred, both reported and unreported.

During 2003/04 the Council engaged consultants to independently review the level of the insurance provision against commitments. Although a full consideration of the review findings was not possible before the accounts were closed, an initial examination indicated that the provision should be increased and a further £125,000 was transferred into the provision. Whilst this addition will address a significant proportion of the potential shortfall, further additional sums may be added over the next 3 years. Given the timescales involved in insurance claims this approach is considered to be reasonable.

## 12. Capital Contributions Deferred Account

The balance on this account represents the value of capital grants and contributions, which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking into account the depreciation.

	£000
Balance as at 1 <sup>st</sup> April 2003	(13,703)
Adjustment for grants relating to Deferred Charges	<u>18</u>
	(13,685)
Add: Grants applied in the year	(6,761)
Less: Transfer to AMRA	<u>2,109</u>
Balance as at 31 <sup>st</sup> March 2004	<u>(18,337)</u>

## 13. Fixed Asset Restatement Reserve

This account is required under the system of capital accounting. The account receives the entries relating to the valuation of the Authority's fixed assets. Allowances are also made for the net book value of assets disposed of.

2002/03		2003/04
£000		£000
(238,904) Balance as at 1 <sup>st</sup> April		(93,673)
(20,459) Revaluation and Restatement of Fixed Assets		(3,937)
<u>165,690</u> Disposal of Fixed Assets		<u>1,082</u>
(93,673) Balance as at 31 <sup>st</sup> March		(96,528)

## 14. Capital Financing Reserve

The Capital Financing Reserve contains the amounts, which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

2002/03		2003/04
£000		£000
(53,012) Balance as at 1st April		(71,535)
(24,859) Capital Receipts Set-Aside		(330)
(1,521) Credit cover provided		0
(8,422) Capital Financing - Capital Receipts		(4,245)
(50) Write down of LGR adjustments		0
21,132 Appropriation to Consolidated Revenue Account		12,047
(1,904) Write down of Deferred Charges (long-term debtors)		8
(2,899) Write down of debt transfer		<u>272</u>
(71,535) Balance as at 31st March		(63,783)

The appropriation to the Consolidated Revenue Account reconciles debits made for impairment and depreciation (net of government grants and contributions deferred) and deferred charges write-offs to the Minimum Revenue Provision.

## 15. Deferred Credits

The deferred credits figure in the balance sheet is made up of £363,661 in respect of HRA mortgages and £201,211 relating to a credit arrangement. The credit arrangement relates to leased offices at Thorn Business Park, Rotherwas. Capital Finance Regulations require the substance of these transactions to be recognised and the nature of the lease means that the asset is recognised in the balance sheet as an asset of the council. However, as the asset is

not owned by the council a deferred credit liability representing the asset's valuation is also provided.

### 16. Usable Capital Receipts

Capital receipts received in the year are allocated between usable and reserved proportions. The usable proportion is available to finance new capital expenditure. The reserved element is required to be set aside as provision for credit and liability (i.e. to repay debt) and is transferred to the Capital Financing Reserve.

#### Usable Capital Receipts

	2003/04
	£000
Balance as at 1 <sup>st</sup> April	(18,908)
Usable receipts in the year	(5,301)
Applied in the year	<u>4,245</u>
Balance as at 31 <sup>st</sup> March	<u>(19,964)</u>

### 17. Movement on Specific Revenue Reserves

	Balance 31.3.03	Transfer from Revenue	Transfer to Revenue	Balance 31.3.04
	£000	£000	£000	£000
Community buildings	(64)			(64)
Commuted sums	(43)	(213)	8	(248)
Schools balances in hand	(4,704)	(2,141)		(6,845)
Industrial Estates - maintenance	(90)	(16)		(106)
Initiatives Fund	(149)	(109)	31	(227)
Support Services	(652)	(367)	442	(577)
IT services	(55)	(804)		(859)
Magistrates Court PFI	(990)		990	0
Schools Balance of Risk	(128)	(125)		(253)
Winter maintenance	(108)			(108)
Planning	0	(24)		(24)
SRB schemes	0	(96)		(96)
	<u>(6,983)</u>	<u>(3,895)</u>	<u>1,471</u>	<u>(9,407)</u>

### 18. Provision for Bad debts

A provision of £185,000 was made in the 1998/99 accounts in respect of debtors outstanding to the former Hereford and Worcester County Council on 31<sup>st</sup> March 1998. Of this £81,496 was unapplied at 31<sup>st</sup> March 2004. This sum is being retained to meet the potential costs associated with former Hereford and Worcester County Council insurance claims.

In general it is not intended that any new bad debts provisions will be set up in the general fund accounts. Bad debts will undoubtedly arise but they are not expected to be material and will be charged to the revenue account as they occur. However, a provision of £76,000 has been set up in respect of the recovery of overpaid housing benefits accrued for in the 2003/04 accounts.

Bad debt provisions are also maintained for Council Tax (£278,260) and Non-domestic rates (£79,680). A small provision of £14,000 has been retained for outstanding Housing Revenue Account debts.

## 19. Amounts due to or from related parties

As at 31<sup>st</sup> March 2004 amounts due to and from related parties were as follows:

<b>Related Party</b>	<b>Due to £000</b>	<b>Due from £000</b>
Office for the Deputy Prime Minister	23	
Department for Transport	459	
Department for Works and Pensions	245	
Department for Education and Skills	1,291	96
Department of Health	63	
Cabinet Office		7
Home Office		141
Department for Food, Agriculture & Rural affairs		113
Legal Services Commission		31
Learning & Skills Council	164	325
Advantage West Midlands	473	940
Government Office For West Midlands	523	1,254
Lottery	97	100
Countryside Agency	70	56
Teachers Pension	667	23
Worcestershire County Council	1,262	138
Herefordshire Primary Care Trust	159	413
Courtyard Trust	23	126
Herefordshire Jarvis Services	1,330	877
West Mercia Police Authority	1	2

The amounts are included in the Council's debtors and creditors figures.

## 20. Contingent Liabilities

- (a) A gratuities scheme made under Section 18 of the Superannuation Act 1953, since replaced by the Local Government (Discretionary Payments) Regulations 1996, provides that the widows of the former Hereford Rural District Council and Ross and Whitchurch Rural District Council are entitled to a gratuity if the employee dies before attaining the age of 65. There were potentially up to 9 employees widows who could benefit from this scheme but 6 of these are no longer eligible as the employees concerned have reached the age of 65. Payments under this scheme are being made to one widow following the death of a former employee. The maximum total contingent liability under this scheme amounted to £38,000 as at 31<sup>st</sup> March 2004. The liability will reduce over the next few years as the individuals involved reach the age of 65.
- (b) When the housing stock was transferred to Herefordshire Housing Ltd a legal agreement was entered into for a stock enhancement contract which would result in significant VAT savings of which the Council should receive a share. It has been determined by the Inland Revenue that this contract should be subject to Corporation Tax. The effect of this would be to negate the benefits of the VAT sharing agreement. Herefordshire Housing Ltd are reviewing their position and are seeking support from the Council. It is possible that the £139,000 VAT share received from Herefordshire Housing for 2003/04 may be returned to them.
- (c) There is a possible claim (potentially between £37,000 and £183,000) by a company, who lease refuse vehicles to the council, regarding a subletting.
- (d) There is a claim for land which the authority must acquire under a purchase notice at Belmont. The value of the land is disputed, the maximum liability being £60,000
- (e) Possible claims are outstanding in respect of the Waste management contract previously held with Beacon Waste (potential liability £200,000).

- (f) There is an outstanding claim against the Council in respect of an alleged formaldehyde poisoning in a Council property. This is not an insured peril as it does not arise from a single event.
- (g) Herefordshire Housing has suggested that the underpinning of Disraeli Court is defective, leading to subsidence and that this may be the responsibility of the Council. This is in an area with historical problems with the water table beneath the soil. There is no realistic indication of the value of this at the moment.
- (h) As part of the arrangements for the transfer of services to Herefordshire Housing, Halo Leisure Trust, Herefordshire Jarvis Services, and from a date to be agreed in 2004, Shaw Homes, the Council has given guarantees in relation to increases in pension contributions as a result of actuarial revaluations. The guarantee involves the Council in meeting the cost of any increase in pension contributions over and above the level of contribution on the date of transfer, but only in respect of staff transferring on this date.

### **21. Schools Balances – Local management of schools**

A sum of £6,844,725 is shown in Reserves in respect of balances held by schools under the Local Management of Schools arrangements. Under these arrangements schools are entitled to draw on, add to, or maintain the sums held as they think fit. The balances are not available for general Council use.

The total sum, which includes devolved capital allocation of £1,141,046 can be split between Primary schools (£4,540,643), Secondary schools (£1,721,008), Special schools (£417,359) and Pupil referral units (£165,715).

## CAPITAL EXPENDITURE AND FINANCING

2002/03 £000	<b>Capital Expenditure</b>	2003/04 £000
	Housing	
1,638	- Social Housing Grants	1,638
1,590	- Renovation and other Grants	1,857
2,523	- Improvements to Housing Stock	90
7,160	- LSVT costs	24
654	- Other	370
	Education	
3,139	- New build and refurbishment	4,027
2,499	- Improvements to schools	1,632
0	- ICT Equipment	2,096
122	- Other	529
	Social Development	
91	- Burghill Sports Field	18
148	- Leisure Centre Schemes	91
0	- Aylestone Hill proposals	94
530	- King George V Playing Fields	57
71	- Museum/Friar street	66
0	- Castle Pool	22
28	- Other schemes	115
	Social Care	
172	- IT and other equipment	127
0	- Mini buses	105
420	- Other schemes	168
	Highways	
4,368	- Capital maintenance of carriageways	4,589
547	- Assessment and strengthening of bridges	1,952
917	- Other improvements to roads	2,634
232	- Cycle network	204
438	- Footways	476
0	- Rail	15
579	- Flood Works	0
42	- Remediation of Landfill sites	0
159	- Traffic calming	309
479	- Safer routes to schools	342
177	- Passenger waiting facilities	344
165	- Pedestrian routes	45
59	- Speed cameras and signing	136
881	- Rural Bus Pilot	1,268
0	- Urban Bus Challenge	245
27	- Parking Policy	16
140	- Multi Modal Study	0
385	- Other schemes	414
	Economic Development	
80	- Community buildings grants	3
527	- Industrial Estate works	1,541
0	- Edgar Street Grid	252
368	- Other schemes	117

<b>2002/03</b>	<b>Capital Expenditure</b>	<b>2003/04</b>
<b>£000</b>		<b>£000</b>
	Policy and Finance	
0	- Hillside Capital works	1,229
878	- Property Adaptations	807
1,062	- eModernisation	824
15	- CCTV	158
28	- INFO centre in Bromyard	700
86	- Personnel system	31
167	- Other	73
	Other	
66	- New Premises at Rotherwas	0
1,358	- Joint Funded schemes	16
<u>35,015</u>		<u>31,866</u>

<b>2002/03</b>	<b>Financing of Capital expenditure</b>	<b>2003/04</b>
<b>£000</b>		<b>£000</b>
10,931	Borrowing - Basic Credit Approval	16,243
3,077	- Supplementary Credit Approval	1,682
1,939	Major Repairs Reserve	0
7,775	Other Grants and Contributions	10,863
8,422	Capital Receipts	4,245
2,534	Use of PCL balance	0
337	Temporary accruals	(1,167)
<u>35,015</u>		<u>31,866</u>

# STATEMENT OF TOTAL MOVEMENT IN RESERVES

	<b>CAPITAL RESERVES</b>			<b>REVENUE RESERVES</b>				<b>TOTAL</b>
	<b>Fixed Asset Restatement Reserve £000</b>	<b>Capital Financing Reserve £000</b>	<b>Usable Capital Receipts £000</b>	<b>Pensions Reserve £000</b>	<b>General Fund £000</b>	<b>Specific Reserves £000</b>	<b>HRA £000</b>	
Balance at 31.3.03	(93,673)	(71,535)	(18,908)	79,679	(6,368)	(6,983)	318	(117,470)
Transfer of balance					318		(318)	0
Net (surplus) / deficit for year		12,327		(21,370)	(3,797)	(2,424)		(15,264)
Effects of disposals and revaluations of Fixed Assets:								
Unrealised gains/ losses on revaluation of fixed assets	(3,854)							(3,854)
Impairment Review	(83)							(83)
Proceeds of Disposals	1,082	(330)	(5,301)					(4,549)
Net (surplus) / deficit	(2,855)	(330)	(5,301)					(8,486)
Financing of Fixed Assets		(4,245)	4,245					0
Balance at 31.3.04	<u>(96,528)</u>	<u>(63,783)</u>	<u>(19,964)</u>	<u>58,309</u>	<u>(9,847)</u>	<u>(9,407)</u>	<u>0</u>	<u>(141,220)</u>

## **The Pensions Reserve**

The pensions reserve has been created to comply with FRS 17 'Retirement Benefits', with a prior year adjustment to the balance sheet.

## **Statement of Actuarial (gains) and losses**

The actuarial gains identified within the movements on the pensions reserve are entirely the result of differences between the expected and actual return on assets, shown below as a percentage of assets:

2002/03	2002/03		2003/04	2003/04
£000	%		£000	%
44,551	38	Difference between expected and actual return on assets	(21,352)	14.9



## CASH FLOW STATEMENT

2002/03 £000		2003/04 £000	2003/04 £000
	<b>Revenue Activities</b>		
	<b>Cash outflows</b>		
109,324	Cash paid to and on behalf of employees	112,871	
143,841	Other operating cash payments	131,932	
21,420	Housing Benefit paid out	24,020	
32,935	National non-domestic rate payments to national pool	32,795	
8,435	Precepts paid	9,685	
315,955			311,303
	<b>Cash inflows</b>		
(4,343)	Rents (after rebates)	0	
(56,104)	Council Tax income	(64,056)	
(52,086)	National non-domestic rate receipts from national pool	(52,969)	
(35,388)	Non domestic rate receipts	(34,588)	
(45,298)	Revenue Support Grant	(53,558)	
(17,728)	DWP grants for benefits	(25,441)	
(42,672)	Other government grants	(48,630)	
(73,185)	Other operating cash receipts	(47,596)	
(326,804)			(326,838)
(10,849)	<b>Revenue Activities Cash Flow</b>		(15,535)
	<b>Servicing of Finance</b>		
	<b>Cash outflows</b>		
3,120	Interest paid	3,309	
	<b>Cash inflows</b>		
(716)	Interest/discount received	(1,589)	
2,404			1,720
	<b>Capital Activities</b>		
	<b>Cash outflows</b>		
16,845	Purchase of fixed assets	19,760	
14,593	Other capital cash payments	16,024	
31,438			35,784
	<b>Cash inflows</b>		
(47,289)	Sale of fixed assets	(1,581)	
(7,422)	Capital grants received	(8,423)	
(2,467)	Other capital cash receipts	(1,558)	
(57,178)			(11,562)
(34,185)	<b>Net cash inflow/outflow before financing</b>		10,407
	<b>Management of Liquid Resources</b>		
32,690	Net decrease in short term investments		(19,730)
	<b>Financing</b>		
	<b>Cash outflows</b>		
21,471	Repayments of amounts borrowed	25,873	
	<b>Cash inflows</b>		
(18,698)	New loans raised	(15,484)	
2,773			10,389
1,278	<b>Net decrease (increase) in cash</b>		1,066

## 1. Reconciliation of Revenue Cash Flow

2002/03	2003/04	
£000	£000	£000
(2,121) (Surplus) Deficit on Consolidated Revenue Account	(3,797)	
<u>(382) Collection Fund surplus</u>	<u>(374)</u>	
(2,503)		(4,171)
(2,404) Interest/discount		(1,720)
<b>Non-cash Transactions</b>		
619 Contributions from (to) provisions	424	
(1,874) Contributions from (to) reserves	(2,424)	
334 Revaluation of investments	182	
<u>(1,554) Provision for debt liability (MRP)</u>	<u>(2,847)</u>	
(2,475)		(4,665)
<b>Items on an Accruals basis</b>		
(711) Increase/(Decrease) in stocks and WIP	(172)	
1,956 Increase/(Decrease) in debtors	(2,934)	
<u>(4,712) (Increase)/Decrease in creditors</u>	<u>(1,873)</u>	
<u>(3,467)</u>		<u>(4,979)</u>
<u>(10,849) Net cash flow from revenue activities</u>		<u>(15,535)</u>

### Movement in debtors and creditors

Increase/(Decrease)	Debtors	Creditors
	£000	£000
Revenue activities	(2,934)	1,873
Financing activities	(2,346)	0
Capital activities	<u>5,239</u>	<u>(3,585)</u>
	<u>(41)</u>	<u>(1,712)</u>

## 2. Reconciliation of net cash flow to movement in net debt

2002/03	2003/04	
£000	£000	£000
(1,278) Increase (decrease) in cash in the period	(1,066)	
(23,423) (Increase) decrease in debt financing	9,686	
32,690 Increase (decrease) in liquid resources	(19,730)	
(155) Internal investment of Trust Funds	(47)	
<u>334 Revaluation of investments</u>	<u>182</u>	
8,168		(10,975)
<u>(32,651) Net debt at 1st April</u>		<u>(24,483)</u>
<u>(24,483) Net debt at 31st March</u>		<u>(35,458)</u>

Liquid resources have been defined as the short-term investments on the balance sheet

### 3. Analysis of Net debt

	1.4.03 £000	Cash Flow £000	Non- cash £000	31.3.04 £000
Cash in hand and at bank	(1,275)	(1,066)		(2,341)
Debt due within 1 year	(10,288)	(1,742)		(12,030)
Debt due after 1 year	(53,101)	11,381		(41,720)
Short term investments	40,181	(19,730)	182	20,633
	<u>(24,483)</u>	<u>(11,157)</u>	<u>182</u>	<u>(35,458)</u>

### 4. Analysis of Government Grants

2002/03	2003/04	
Total £000	Revenue £000	Capital £000
55,579 Office of the Deputy Prime Minister	63,310	538
25,247 Department for Works and Pensions	34,230	0
16,167 Department for Education and Skills	14,322	3,128
6,965 Department of Health	7,156	115
193 Home Office	241	0
480 Countryside Agency	643	51
435 Department for Environment, Food & Rural Affairs	103	0
1,063 Lottery	406	924
1,812 Advantage West Midlands	1,296	2,040
2,047 Government Office for West Midlands	1,692	1,305
1,036 Department for Transport	1,398	322
1,963 Learning and Skills Council	2,695	0
63 Cabinet Office	70	0
67 Legal Services Commission	59	0
3 Arts Council	0	0
0 Basic Skills Agency	8	0
<u>113,120</u>	<u>127,629</u>	<u>8,423</u>

## TRUST FUNDS

The Council acts as Trustee for 10 Trust Funds, which have been established for the benefit of different sections of the Community, including several schools. The initial capital sums received are invested and the annual income is used to make approved payments under the terms of each Trust. The Council is in the process of applying to have some of the education funds wound up due to the very small capital sums involved.

The Sylvia Short Educational Charity is administered by the Council on behalf of the Trustees. This charity, which was established to provide children with learning experience outside the curriculum, has assets of £893,194 including land and investments in shares.

By far the largest Fund involved is the Buchanan Trust, which is invested in agricultural land around Bosbury for the benefit of tenant farmers. The 2003/04 Buchanan Trust Accounts show the cost of running the estate, including management and administration (£66,179) offset by rent received from the tenant farmers (£49,702), income from investments (£26,880) and other income (£22,111). The Trust made a surplus on its revenue account of £32,514 due to the disposal of a building.

The Education Trust Funds incurred a small amount of expenditure in 2003/04 and received income from investments.

Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits, and funds donated towards the costs associated with the swimming pool in Leominster.

There are no material contingent liabilities outstanding at 31<sup>st</sup> March 2004.

### Statement of Revenue Income and Expenditure

	Balance at 1/04/03 £	Revenue Income £	Transactions Expenditure £	New funds, Investment Sales and Revaluations £	Balance at 31/03/04 £
Education (small funds)	21,414	659	(2,708)	272	19,637
Sylvia Short Trust	864,034	65,049	(39,914)	4,025	893,194
Buchanon Trust	2,033,103	98,693	(66,179)	(301,477)	1,764,140
Other Funds	63,536	1,604			65,140
	2,982,087	166,005	(108,801)	(297,180)	2,742,111

### Balance Sheet

The amount shown for Fixed Assets reflects the estimated value of the Buchanan Trust Land and Buildings and the Sylvia Short property portfolio at 31<sup>st</sup> March 2004. Overall the asset value of Buchanan Trust has decreased by £301,477 as a result of the sale of buildings (value £20,000) and a decrease in the value of other fixed assets of £281,477. The asset value of Sylvia Short Educational Charity has decreased by £600,000 as a result of the sale of buildings.

Investments (largely Treasury stocks) are at market value at 31<sup>st</sup> March 2004.

<b>2002/03</b>	<b>2003/04</b>
<b>£000</b>	<b>£000</b>
1,933 Fixed Assets	1,032
227 Investments	845
<u>848</u> Cash temporarily invested with The Herefordshire Council	<u>895</u>
3,008 Total Assets	2,772
(26) Provision for bad debts	(30)
<u>2,982</u> Assets less Liabilities	<u>2,742</u>
<u>2,982</u> Represented by Trust Funds	<u>2,742</u>



## REDUNDANCIES AND EARLY RETIREMENTS

2003/04

## 1. REDUNDANCY

The following table summaries the redundancies which have occurred during the last financial year:

2003/2004	Teachers	Others	Total
Number	5	15	17
Total Cost	£28,359	£52,633	£80,992
Average	£14,180	£3,509	£4,764

All but three of the non-teaching redundancies were Education including schools posts.

In 2002/03, 38 staff were involved at a total cost of £282,070.

Where appropriate the figures include compensation payments under the Local Government Compensation for Redundancy Regulations which came into force during July 1996.

## 2. EFFICIENCY OF THE SERVICE

During 2003/04, two members of staff received payments under the Efficiency of the Service provisions.

The costs of these two cases are as follows:

2002/2003	Teachers	Others	Total
Number	0	2	2
Total Cost	0	£59,406	£59,406
Average	0	£29,703	£29,703

### 3. ADDED YEARS

A summary of the costs involved in cases where staff were awarded Added Years is as follows:

	No. of Cases	Annual Pension	Retirement Grant	Capital Cost
2003/2004	1	£1,369	£4,107	£26,913

### 4. ACTUARIAL STRAIN LOCAL GOVERNMENT SCHEME

The financial year 1999/2000 was the first full year in which actuarial strain has been charged to the Council budgets and, therefore, the figures below indicate total costs for 1999/2000 to date.

	No. of Cases	Total Actuarial Strain	Actuarial Strain payable 1st Year
1999/00	13 cases	£238,250	£85,609
2000/01	17 cases	£629,002	£226,217
2001/02	10 cases	£196,794	£70,789
2002/03	13 cases	£273,628	£98,427
2004/05	3 cases	£73,114	£26,300

#### NOTE:

Actuarial Strain payments reimburse the Superannuation Fund for the fact that the employee concerned is retiring earlier than normal. The Fund would otherwise have to meet the cost of, perhaps, several years additional pensions payments. In previous years the costs involved were eventually reflected in higher employer contributions. The new arrangements involving actuarial strain make the cost of early retirements more transparent.

### 5. CONCLUSION

In the case of all the four categories detailed above, the number of posts, and therefore the costs involved, are significantly less than in previous year.



**COUNCIL BANK ACCOUNTS 2003/04**

**INTRODUCTION**

There is a requirement under the Council's Financial Standing Orders and the Financial Regulations, for the County Treasurer to report, annually, on the Council's bank accounts. This report covers the period 1st April 2003 to 31st March 2004.

**CONSIDERATIONS**

1. Annex 3(i) shows a summary of the Council's bank accounts as at 31st March 2004.
2. The Council had at 31st March 2004, 222 bank accounts. The number of accounts only one more than it was 12 months ago. A large number of accounts are imprest accounts, which allow establishments to efficiently make small purchases of goods and materials. A significant number of Social Services Welfare (amounts held by establishments on behalf of all residents) and Residents' Property Accounts (amounts held on behalf of individual residents) are also operated by the Council. The majority of these are deposit accounts.
3. In order to properly keep its accounts and collect its revenue efficiently, the Council operates thirteen main bank accounts. Ten of these accounts are operated to facilitate the efficient collection of revenue income.
4. Ten schools (eight High, two Primary) had at 31st March their own independent bank accounts under the arrangements for Local Management of Schools. These arrangements gives schools the right to operate their own independent bank accounts although they do have to submit details of the bank account transactions regularly to the Council.
5. A further fifteen schools have Enhanced Imprest Accounts, often set at £1,000 plus, which allows them the freedom to make large purchases by cheque. Once again, the details of these transactions have to be notified monthly to the local education authority.
6. During the twelve months ended 31st March, 2004 eight new accounts have been opened and three closed.
7. Since 31st March 2004 the main accounts for Housing Rents and Easipay have been closed because they are no longer required.



**BANK ACCOUNTS AS AT 31ST MARCH 2004**

**MAIN BANK ACCOUNTS**

Main bank accounts 13

**IMPREST ACCOUNTS**

Returning Officer 2

<b>Schools:</b> Primary Schools	56
Secondary Schools	7
Special Schools / Pupil Referral Units	7
<b>Total Schools Imprest Accounts</b>	<u>70</u>

**Social Services:**

Social Services Establishments	17
Social Services Area Offices	8
<b>Total Social Services Imprest Account</b>	<u>25</u>

Libraries	11
Leisure Services	1
Youth Services	7
Registration of Birth Deaths & Marriages	6
Housing	1
Environmental Services	7
Other (Various)	21

**TOTAL IMPREST ACCOUNTS** 164

**SOCIAL SERVICES OTHER (NON-IMPREST) ACCOUNTS**

Social Services Area Office DEPOSIT Account	1
Welfare Accounts (12 of which are DEPOSIT accounts)	29
Residents Property Accounts (8 of which are DEPOSIT accounts)	18
Tuck Shop Accounts	2
Clothing Accounts	0
Other (Various)	8
<b>Total Social Services Non-Imprest Accounts</b>	<u>58</u>

**TOTAL NUMBER OF ALL BANK ACCOUNTS** 222

