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## **INTRODUCTION**

The 2006/07 financial year saw the council continue to make good progress at a time of ever increasing demands for our services as well as greater statutory responsibilities that placed further pressure on our resources.

The Director of Resources and her team focused on ensuring we maintain good control of our finances as well as supporting the service improvements necessary to ensure we deliver our aim of being amongst the best performing councils in the country. In 2006/07 we again received confirmation that the council's finances are well managed when the Audit Commission, the government public spending watchdog, once again gave the council a good mark for our Use of Resources assessments.

The way we present our information continues to develop and improve. Financial information can be complex and often the jargon can make explaining performance difficult. It is important that our customers have access to understandable and informative information. It is for this reason we will build on the successful leaflet sized summary version of the Accounts published last year as well as taking every opportunity to make our financial information accessible and understandable.

We believe the people of Herefordshire want us to provide value without compromising quality. Our financial performance is a key factor in delivering this objective.

Harry Bramer

Cabinet Member - Resources

## EXPLANATORY FOREWORD

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 2007 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

#### Summary

The 2006/07 accounts show an under spend against budget for the year of £3.2 million on net revenue expenditure. This resulted in a transfer from revenue balances of £5.8 million compared with a net anticipated transfer from balances of £9 million (of which £3.7 million related to 2005/06 under spends brought forward and £4.8 million of transfers to specific reserves). The additional £3.2 million is attributable to the following:

	£000
Service area under spends	(157)
Treasury management including interest received	(1,459)
Additional transfers (to)/from earmarked reserves	779
Additional central government funding	(1,252)
Application of contingency	(1,023)
Other changes	(81)
Total under spend	<u>(3,193)</u>

#### Service Area Underspends

The net under spend for the council's directorates of £157,000 was made up as follows:

	Under/(Over) Spends £000
<b>Directorate</b>	
Adult & Community Services	1,023
Children and Young People's Services	(139)
Corporate and Customer Services	191
Environment	(274)
Human Resources	5
Resources	(589)
Central Services	(374)
Total under spend	<u>(157)</u>

The position is the net result of a number of under and over spends. The most significant of these were:

#### Adult and Community Services

- Over spending in the areas of Learning Disability (£1.071m), Mental Health (£481,000) and Physical Disability (£341,000).
- An under spend of £811,000 on Older People's services, mainly due to services being funded by the Access and Systems capacity grant.

#### Children and Young People's Services

- An over spend of £554,000 on safeguarding and assessments.
- School transport under spent by £373,000 due to route reviews and falling rolls and the school improvement service also under spent (£186,000) mainly due to delayed staff appointments.

### Corporate and Customer Services

- The main variance was a deficit on the ICT trading account of £255,000.
- An under spend in Policy and Performance of £138,000 occurred due to staff vacancies.

### Environment

- Environmental health and trading standards under spent by £952,000 due to delays in implementing variations to the waste management contract. Planning also under spent by £77,000 due to additional building control income and grant funding for conservation.
- Highways and transportation overspent by £751,000 with the main areas being winter maintenance, car parks and concessionary fares.

### Resources

- The main variation was an increase in the level of housing benefit subsidy as the result of improved performance in processing benefits (a net saving of £390,000). Increased income from summons and court costs for the council tax service also added to the overall under spend.
- There were variations within the Property Services budget. An over spend on Administrative Buildings was more than offset by under spends on Industrial Estates and Retail Properties

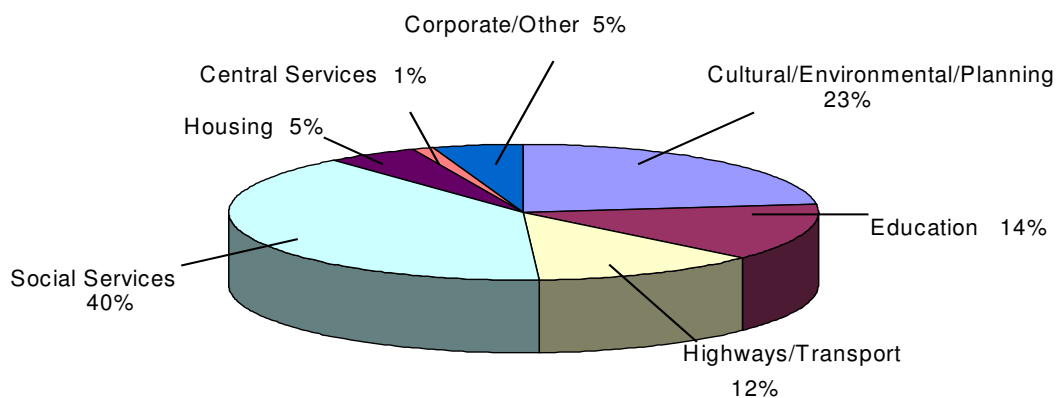
### Central Services

- There were a number of under spends on central costs including corporate subscriptions, audit fees and unfunded pensions.

## Analysis of Revenue Expenditure and Income

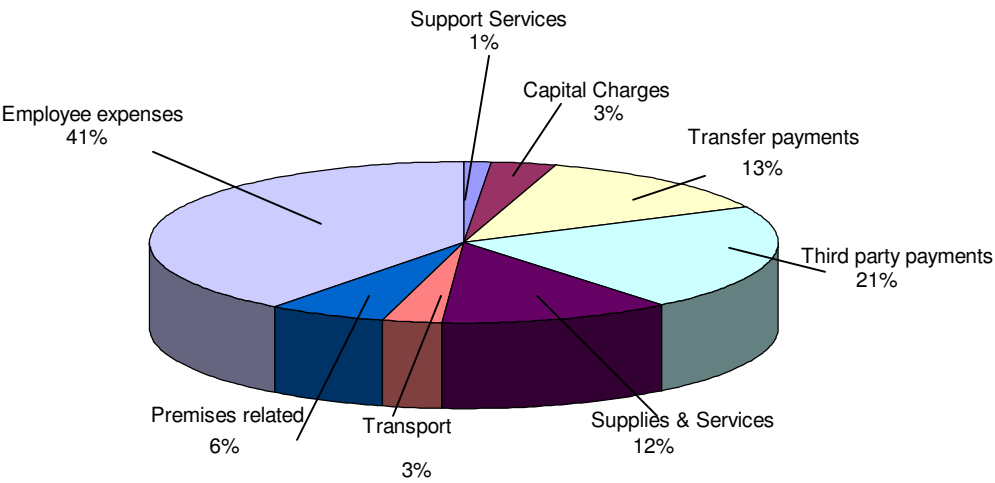
The net cost of services within the Income and Expenditure Account is £122.3 million, made up of the following services:

### Analysis of Net Expenditure by Services



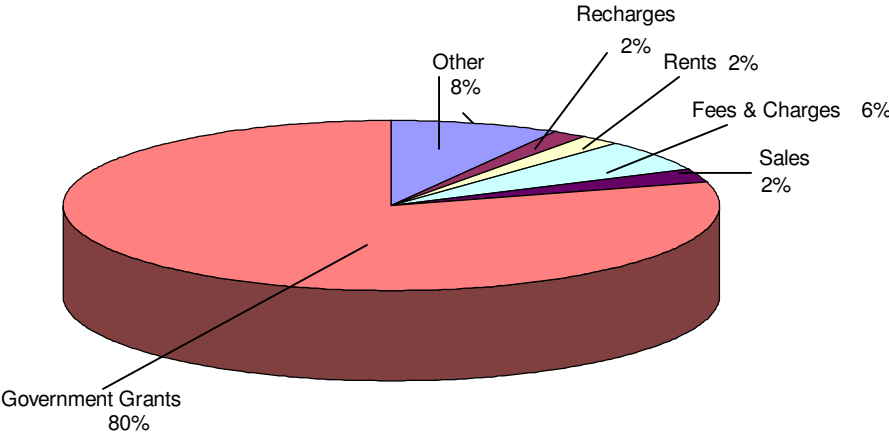
The gross cost of services was £335 million, spent on the following types of expenditure

**Analysis of Gross Service Expenditure**



The gross income for the year for services was £212.7 million and came from the following sources:

**Analysis of Income within Services**

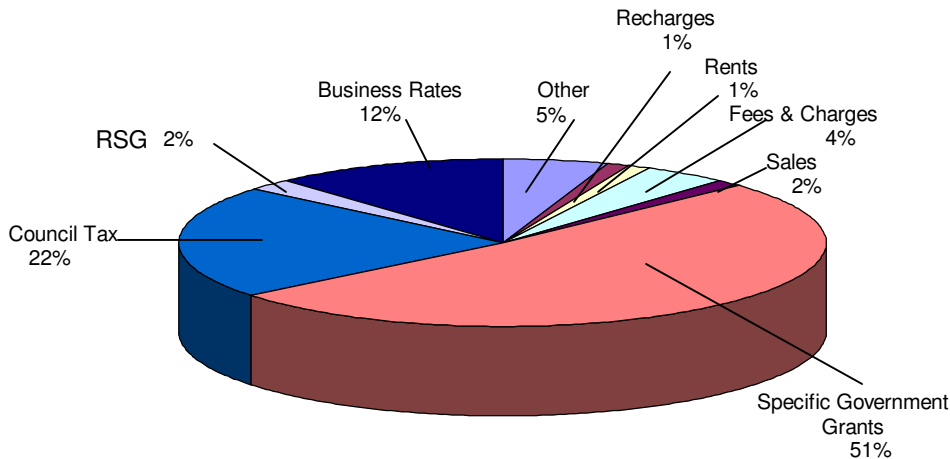


The figure for government grants includes £78.2 million Dedicated Schools Grant, which is a new ring-fenced grant from 2006/07 for schools' funding. Previously schools' funding was provided as part of the Revenue Support Grant outside of the Education service accounts. The

grants figure also includes £39.9 million in respect of the payment and administration of housing and council tax benefits.

In addition to income generated by services and service specific grants, the council received £7.6 million Revenue Support Grant, £38.8 million in redistributed non-domestic rates and £1.4 million of Local Authority Business Growth Incentive grant towards financing the council's net expenditure. Funding from council tax totalled £73.2 million in 2006/07 plus £0.5 million from Collection Fund surpluses.

### Total Revenue Income



### Capital Programme

With regard to capital spending some £41 million was incurred compared to the original forecast investment in the council's assets of £37 million, revised to £61 million following the approval of capital bids. There was slippage on revised capital programme of £16 million mainly in relation to the Herefordshire Connects project, Hereford crematorium and the accommodation strategy. No conditional funding resources have been lost and the council has maximised the use of resources available.

Herefordshire Council utilised supported borrowing of £13.2 million, capital receipts reserve funding of £4.8 million, grants of £14.4 million, revenue contributions of £0.5 million and prudential borrowing powers of £8.1 million to fund capital expenditure in 2006/07.

### Summary of Capital Expenditure

	£000
Highways, Footways and Bridges	11,750
Education new build, refurbishment and improvements to existing schools	8,159
Extra Care Housing Development, Hereford	5,280
ICT Services	3,807
Affordable Housing Grants	2,118
High Town and High Street, Hereford	1,346
Purchase of office accommodation, Hereford	1,261
Other schemes	7,228
	40,949

As a minimum the council maintains a full three-year rolling capital programme reflecting commitments, but fundamentally linked to the council's strategic plans and estimated sources of funding. The total programme detailed by the sources of funding is as set out below.

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Sources of funding</b>			
Grants and Contributions	24,772	28,079	18,683
Prudential Code Borrowing	19,782	13,444	40
Capital Receipts Reserves	11,426	8,463	2,700
Supported Capital Expenditure (Revenue)	9,963	1,500	1,500
Revenue Funded	215	-	-
	<u>66,158</u>	<u>51,486</u>	<u>22,923</u>

When the usual sources such as grants and supported borrowing cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. The council has approved an unsupported prudential borrowing level of £16,995,000 (plus slippage from previous years) for 2007/08, £7,865,000 for 2008/09 and £7,797,000 for 2009/10, excluding possible corporate accommodation funding requirements.

### **The Council's Borrowing**

The council had a total of £93.9 million outstanding loan debt at 31<sup>st</sup> March 2007 of which £12.5 million was repayable within 12 months.

### **The Council's Reserves**

The council retains a minimum level of general reserves of £3 million as a contingency against unforeseen emergencies and events. In 2006 there was a change of approach that saw amounts of general reserve transferred to specific reserve in order to give greater transparency and ensure reserves are properly reflected as part of the medium term financial plan. The council is clear that the greater the range of financial risks covered by specific reserves the lower the minimum balance required on the General Fund. The change of approach is reflected in the 2006/07 accounts, which closed with general reserves of £8.7 million compared with a position of £14.5 million in 2005/06. Specific reserves total £19.8 million reflecting their increased use where specific risks are identified.

### **Pensions**

In accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17), Note 29 to the Statements sets out the council's assets and liabilities in respect of the Local Government Superannuation scheme. The net deficit shown as at 31<sup>st</sup> March 2007 is £88.8 million, which is approximately 43% 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.

Herefordshire Council staff are members of the Worcestershire County Council Pension Fund, which was revalued as at 31<sup>st</sup> March 2004. Further to the revaluation, the council's employers' contribution will increase from 16.5% of pensionable pay to 19.9%, phased over 6 years up to and including 2010/11. Annual increases will be approximately 0.6% of pay. The period over which the council's deficit will be dealt with has been increased from 13 years to 25 years, in line with government advice. The fund position is reviewed every three years.



# The 2006/2007 Statement of Accounts

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

## **1 The Income and Expenditure Account**

This account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2006/07

## **2 The Statement of Movement on the General Fund Balance**

This reconciliation statement shows the differences between the outturn on the Income and Expenditure Account and the amount required to be transferred to or from General Fund balances.

## **3 The Statement of Total Recognised Gains and Losses**

This statement brings together all the gains and losses of the council for the year.

## **4 The Balance Sheet**

This shows the Authority's financial position as at 31<sup>st</sup> March 2007 i.e. the end of the financial year 2006/07, and represents the value of all assets and liabilities.

## **5 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.

## **6 Notes to the Statements**

The notes to the core financial statements provide further information on the financial activities of the council.

## **7 The Collection Fund**

This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes precept payments to the West Mercia Police Authority and Hereford & Worcester Fire Authority, representing income collected from council taxpayers on their behalf, and NNDR contributions payable to central government.

The Statement of Accounts was authorised for issue on 29<sup>th</sup> June 2007 by the Director of Resources, Mrs Sonia Rees.

Further information about the council's finances is available from the Director of Resources, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

**Mrs Sonia Rees  
Director of Resources  
June 2007**

# STATEMENT OF ACCOUNTING POLICIES

## 1. General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006: A Statement of Recommended Practice, which is recognised by statute as representing proper accounting practice.

## 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 made where an event has taken place that gives the council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet. The largest and by far the most material provision is an insurance provision, which has been subject to an independent evaluation.

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the net cost of services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no charge against council tax for the expenditure.

## 4. Grants

Revenue and capital grants are accounted for on an accruals basis. Revenue grants are matched in service revenue accounts with the expenditure to which they relate, except for grants covering general expenditure (e.g. Revenue Support Grant), which are credited to the Income and Expenditure Account after Net Operating Expenditure. Capital grants are credited to the Capital Contributions Deferred account and released to service revenue accounts in line with depreciation on assets to which the grant relates.

## 5. Pensions

Employees of the council are members of two separate pension schemes;

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education and Skills (DfES)
- The Local Government Pension Scheme administered by Worcestershire County Council

Both schemes provide defined benefits to members, earned as employees work for the council.

However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

### **Local Government Pension Scheme**

The Local Government Scheme is accounted for as a defined benefits scheme;

- The liabilities are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees.
- Liabilities are discounted to their value at current prices
- Assets are included in the balance sheet at their fair value
- The change in the net pensions liability is analysed into seven components;
  - Current service cost – the increase in liabilities as a result of service earned in the year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
  - Interest cost – the expected increase in liabilities in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account.
  - Expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account.
  - Gains/losses on curtailments – the results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees – included in the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
  - Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries – included in the Statement of Total Recognised Gains and Losses.
  - Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund.

Statutory provisions limit the council to raising council tax to cover amounts payable by the council to the pension fund in the year. In the Statement of Movement on the General Fund Balance there is an appropriation to or from the Pensions Reserve to replace the notional costs of retirement benefits with the amounts payable to the pension fund in the year.

### **6. VAT**

Income and expenditure excludes any amounts relating to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

### **7. Overheads and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. The total absorption costing principle is used – the full cost of overheads and

support services are shared between users in proportion to the benefits received, with the exception of;

- Corporate and Democratic Core – costs relating to the council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

The two categories are accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

### 8. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the council (e.g. software licences) is capitalised when it will bring benefits to the council for more than one year. The balance is amortised to revenue over the economic life of the investment to reflect the pattern of consumption.

### 9. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

#### Recognition

Expenditure on the acquisition, creation and enhancement of a fixed asset is capitalised on an accruals basis, provided that it yields benefits to the council for more than one year.

#### 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
Infrastructure and community assets	Depreciated historical cost
Non-operational land, properties and other non-operational assets	lower of net current replacement cost or net realisable value

Contrary to the CIPFA capital accounting guidance, tenanted farms will continue to be disclosed as non-operational assets (Investment Properties) in the 2006/07 accounts, as these properties do not contribute to service objectives of the council.

#### 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 Account.

#### Disposals

When an asset is disposed of, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance.

The written-off value of disposals is not a charge against council tax. Amounts are therefore appropriated to the Fixed Asset Restatement Account from the Statement of Movement on the General Fund Balance.

### **Depreciation**

Depreciation is charged on all fixed assets with a finite useful life 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.

### **Impairment**

Where impairment is identified this is accounted for :

- Where attributable to the clear consumption of economic benefits the loss is charged to the relevant service revenue account
- Otherwise – written off against the Fixed Asset Restatement Account.

### **10. Charges to Revenue for Fixed Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding fixed assets during the year;

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service

The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue towards debt repayment of at least 4% of its overall borrowing requirement (for prudential borrowing repayments are being set aside from revenue over the expected useful life of the assets). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by an adjustment with the Capital Financing Account.

### **11. Deferred charges**

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of a tangible asset. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. A transfer to the Capital Financing Account reverses out the amounts charged in the Statement of Movement on the General Fund Balance so that there is no impact on the council tax.

### **12. Leases**

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

### **13. Investments**

Internal investments are shown in the Consolidated Balance Sheet at original cost. External investments are shown at the lower of cost or net realisable value.

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

Stock has been included in the accounts at current cost.

### **15. 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.

## **16. Private Finance Initiative**

Private Finance Initiative (PFI) contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor.

Under FRS 5, assets employed in the provision of services under 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.

The council has 2 PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of a secondary school at Whitecross. The assets employed in the provision of services under both contracts are deemed to be the service operator's assets under the provisions of FRS 5. Accordingly they are not recorded as Fixed Assets in the council's balance sheet.

However under FRS 5 it is appropriate to recognise the residual value of the assets that will transfer to the council's ownership at the end of the PFI contract. The assets are valued and an annual sum is calculated on a straight-line basis over the duration of the PFI contract. The sum is transferred from the revenue PFI payment to the balance sheet to be accrued as a Long Term Debtor. At the end of the PFI contract the Long Term Debtor is transferred to a Fixed Asset category.

## **17. Exceptional/Extraordinary Items**

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

## **18. 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 figures are included in the accounts on the basis of an estimated claim form, as the claim is completed and audited at a later date. There are no estimates in the 2006/07 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

# 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 Director of Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

## The Director of Resources' Responsibilities

The Director of Resources 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 2007 and its income and expenditure for the financial year.

In preparing this statement of accounts, the Director of Resources 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 Director of Resources has also:

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

## Certificate of the Director of Resources

I certify that the Statement of Accounts present fairly the financial position of Herefordshire Council at 31<sup>st</sup> March 2007 and its income and expenditure for that period.

Mrs Sonia Rees  
Director of Resources  
29<sup>th</sup> June 2007

## INCOME AND EXPENDITURE ACCOUNT

This account reports the costs of all the functions for which the council is responsible and shows how this has been financed from central government grants and income from local taxpayers. It includes all day-to-day expenses and related income as well as transactions measuring the value of fixed assets consumed and the real projected value of retirement benefits earned by employees in the year.

2005/06 Net £000		2006/07 Expenditure £000	2006/07 Income £000	2006/07 Net £000
1,652	Central services	13,638	12,049	1,589
235	Court services	209	0	209
25,115	Cultural, environmental and planning services	44,206	16,120	28,086
89,930	Education services	134,255	117,380	16,875
13,093	Highways, roads and transport services	22,026	6,894	15,132
7,342	Housing services	42,104	36,055	6,049
42,883	Social services	71,702	23,046	48,656
4,219	Corporate and democratic core	3,931	13	3,918
(3,072)	Non-distributed costs	906	0	906
681	Other services	2,045	1,124	921
182,078	<b>Net Cost of Services</b>	335,022	212,681	122,341
	(1,419) Profit or loss on disposal of fixed assets			(146)
	2,040 Precepts and levies			2,141
	816 (Surplus)/Deficit on trading accounts			0
	3,301 Interest payable and similar charges			4,058
	437 Housing capital receipts pool			233
	(10,135) Return on pensions assets			(11,871)
	13,758 Pensions interest cost			14,339
	(1,945) Interest and Investment income			(2,736)
188,931	<b>Net Operating Expenditure</b>			128,359
	<b>Sources of Finance</b>			
	(602) Business Growth Incentive Scheme			(1,417)
	(68,926) Council tax			(73,244)
	(300) Transfer from Collection fund			(500)
	(58,372) Revenue Support Grant			(7,610)
	(58,954) Contribution from Non-Domestic Rates			(38,767)
(187,154)				(121,538)
1,777	<b>(Surplus) or Deficit for the year</b>			6,821



## STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

The Income and Expenditure Account shows the council's performance in terms of the resources consumed and generated during the year. However, the authority is required to raise council tax on a different accounting basis with additional amounts of income and expenditure credited or charged to the General Fund.

The main differences are;

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payment of a share of housing capital receipts to the Government is a loss in the Income and Expenditure Account, but is met from capital receipts rather than council tax.
- Retirement benefits are charged as amounts become payable to pension funds rather than as future benefits are earned.
- The movement on the General Fund balance also takes into account movements to and from earmarked reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund balance.

<b>2005/06</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
1,777(Surplus)/Deficit on the Income and Expenditure Account	6,821
(1,811)Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(1,034)
<hr style="width: 100px; margin-left: 0;"/> (34)Decrease /(Increase) in General Fund Balance for the Year	<hr style="width: 100px; margin-right: 0;"/> 5,787
(14,491)General Fund Balance brought forward	(14,525)
<hr style="width: 100px; margin-left: 0;"/> (14,525)General Fund Balance carried forward	<hr style="width: 100px; margin-right: 0;"/> (8,738)

Note 2 to the accounts provides a detailed analysis of the differences between the Income and Expenditure Account and the movement on the General Fund balance.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the council for the year and shows the aggregate increase in its net worth. In addition to the surplus or loss generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

<b>2005/06</b> <b>£000</b>	<b>2006/07</b> <b>£000</b>
1,777(Surplus)/Deficit for the year on the Income and Expenditure Account	6,821
(24,986)Surplus arising on revaluation of fixed assets	(8,656)
28Movement on Collection Fund balance	822
(1,213)Actuarial (gains)/losses on pension fund assets and liabilities	(14,643)
<u>(24,394)</u>	<u>(15,656)</u>

## BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2007

31.3.06 £000		31.3.07 £000	31.3.07 £000
<b>Fixed Assets</b>			
3,897	Intangible Fixed Assets	4,308	
Tangible Fixed Assets			
Operational Assets			
201,852	- Land and buildings	207,656	
4,300	- Vehicles, plant, furniture and equipment	5,292	
67,477	- Infrastructure assets	76,920	
1,790	- Community Assets	1,790	
37,343	Non-operational Assets	<u>41,908</u>	
316,659			337,874
409	Long-term debtors		519
14	Long-term investments		<u>14</u>
317,082	<b>Total Long-term Assets</b>		<b>338,407</b>
<b>Current Assets</b>			
131	Stocks and work-in-progress	173	
26,580	Debtors	21,384	
37,889	Short-term Investments	40,985	
1,085	Landfill Allowance	921	
2,041	Cash and bank	<u>2,677</u>	
67,726			66,140
<b>Current Liabilities</b>			
28,463	Creditors	33,466	
13,386	Short term borrowing	13,412	
6,308	Cash overdrawn	<u>6,658</u>	
48,157			<u>53,536</u>
336,651	<b>Total Assets less Current Liabilities</b>		<b>351,011</b>
69,853	Long-term borrowing	81,389	
34,344	Capital contributions deferred	33,066	
8	Debt Liability	7	
100,614	Pensions liability	88,851	
2,555	Provisions	<u>2,762</u>	
207,374			<u>206,075</u>
<b>129,277</b>	<b>Total Assets less Liabilities</b>		<b><u>144,936</u></b>
<b>Financed by;</b>			
118,258	Fixed asset restatement reserve		120,632
61,726	Capital financing account		62,455
(100,614)	Pensions reserve		(88,851)
20,070	Usable capital receipts		21,711
403	Deferred credits		332
967	Collection Fund		145
13,942	Earmarked reserves		19,774
14,525	Revenue balances		<u>8,738</u>
<b>129,277</b>	<b>Total net worth</b>		<b><u>144,936</u></b>

## CASH FLOW STATEMENT

2005/06 £000		2006/07 £000	2006/07 £000
	<b>Revenue Activities</b>		
	<b>Cash outflows</b>		
118,889	Cash paid to and on behalf of employees	125,409	
156,721	Other operating cash payments	162,240	
28,058	Housing Benefit paid out	28,562	
36,500	National non-domestic rate payments to national pool	36,508	
279	Payments to the Capital Receipts Pool	252	
15,597	Precepts paid	16,554	
356,044			369,525
	<b>Cash inflows</b>		
(74,418)	Council Tax income	(79,134)	
(58,954)	National non-domestic rate receipts from national pool	(38,767)	
(33,946)	Non domestic rate receipts	(36,725)	
(58,372)	Revenue Support Grant	(7,609)	
(27,536)	DWP grants for benefits	(27,968)	
(56,341)	Other government grants	(139,086)	
(48,773)	Other operating cash receipts	(57,641)	
(358,340)			(386,930)
(2,296)	<b>Revenue Activities Cash Flow</b>		(17,405)
	<b>Servicing of Finance</b>		
	<b>Cash outflows</b>		
3,130	Interest paid	3,896	
	<b>Cash inflows</b>		
(1,422)	Interest/discount received	(2,258)	
1,708			1,638
	<b>Capital Activities</b>		
	<b>Cash outflows</b>		
24,413	Purchase of fixed assets	28,775	
7,160	Other capital cash payments	11,777	
31,573			40,552
	<b>Cash inflows</b>		
(3,596)	Sale of fixed assets	(6,583)	
(13,822)	Capital grants received	(7,848)	
(1,401)	Other capital cash receipts	(1,853)	
(18,819)			(16,284)
12,166	<b>Net cash inflow/outflow before financing</b>		8,501
	<b>Management of Liquid Resources</b>		
4,430	Net decrease in short term investments		2,770
	<b>Financing</b>		
	<b>Cash outflows</b>		
3,424	Repayments of amounts borrowed	8,443	
	<b>Cash inflows</b>		
(18,000)	New loans raised	(20,000)	
(14,576)			(11,557)
2,020	<b>Net decrease (increase) in cash</b>		(286)

## NOTES TO THE STATEMENTS

### 1. Prior Period Adjustments

In the 2006/07 accounts, the council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account;

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are itemised in the table);

	2005/06 Net £000	LABGI £000	Removal of capital charges £000	Relocation of grants deferred £000	Gains on asset disposal £000	2005/06 Restated £000
Central services	1,665		(7)	(6)		1,652
Court services	235					235
Cultural, environmental and planning services	27,227		(1,497)	(615)		25,115
Education services	96,186		(5,363)	(893)		89,930
Highways, roads and transport services	16,065		(2,830)	(142)		13,093
Housing services	7,452		(21)	(89)		7,342
Social services	43,411		(344)	(184)		42,883
Corporate and democratic core	3,630	602	(10)	(3)		4,219
Non-distributed costs	(3,072)					(3,072)
Other services	696		(15)			681
<b>Impact on Net Cost of Services</b>	<b>193,495</b>	<b>602</b>	<b>(10,087)</b>	<b>(1,932)</b>	<b>0</b>	<b>182,078</b>
Surplus on disposal of fixed assets	0				(1,419)	(1,419)
Asset Management Revenue Account (Interest payable in 2006/07)	(8,718)		10,087	1,932		3,301
Other	4,971					4,971
<b>Impact on Net Operating Expenditure</b>	<b>189,748</b>	<b>602</b>	<b>0</b>	<b>0</b>	<b>(1,419)</b>	<b>188,931</b>

In addition, CIPFA has now produced guidance on the treatment of the Local Authority Business Growth Incentive (LABGI) grant. It is recommended that this is shown as a general grant and therefore the grant has been moved from the Corporate and Democratic Core Service to the financing section of the Income and Expenditure Account.

**2. Breakdown of the amounts in addition to the Income and Expenditure Accounts required to be debited or credited to the General Fund for the year**

The Income and Expenditure Account shows the financial performance for the year measured by resources consumed and generated over the year. However, the amount required to be raised from council tax is on a different basis with additional items charged or credited to the General Fund as follows;

<b>2005/06</b>	<b>2006/07</b>
<b>£000</b>	<b>£000</b>
<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year</b>	
(841) Amortisation of intangible fixed assets	(1,807)
(7,231) Depreciation and impairment of fixed assets	(8,310)
1,932 Government Grants deferred amortisation	3,755
(5,395) Write down of deferred charges to be financed from capital resources	(4,284)
1,419 Surplus or loss on the sale of fixed assets (non-revenue)	272
<u>(7,445)</u> Net charges made for retirement benefits in accordance with FRS17	<u>(11,727)</u>
(17,561)	(22,101)
<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year</b>	
4,782 Statutory provision for repayment of debt	5,378
832 Capital expenditure charged to the General Fund Balance	509
(437) Transfer of usable capital receipts to meet payments to the Housing Capital Receipts Pool	(233)
7,804 Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	8,847
<u>12,981</u>	<u>14,501</u>
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
2,698 Net Transfer to or from earmarked reserves	5,832
71 Voluntary provision for repayment of debt	734
<u>(1,811)</u>	<u>(1,034)</u>

### 3. 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.

Significant trading accounts are summarised as follows:

	2006/07 £000	2006/07 £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	(749)
In 2006/07 there was a deficit due to work undertaken on the Market Hall	Expenditure	1,055
	Deficit	<u>306</u>
	[Surplus 2005/06	261]
<b>Industrial &amp; Commercial Estates</b>		
The council owns and manages a number of industrial and commercial estates in the County	Turnover	(1,608)
	Expenditure	588
	Surplus	<u>(1,020)</u>
	[Surplus 2005/06	1,410]
<b>Retail Properties</b>		
The council owns retail premises in Hereford City centre from which it receives commercial rents	Turnover	(590)
	Expenditure	328
	Surplus	<u>(262)</u>
	[Surplus 2005/06	573]
<b>ICT Services</b>		
Information and Communications Technology Services are provided to all council directorates	Turnover	(5,853)
	Expenditure	6,108
	Deficit	<u>255</u>
The deficit of £255,000 on the trading account was reallocated to Directorates in accordance with the Best Value Accounting Code of Practice	[Deficit 2005/06	58]

### 4. 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 council spent £495,603 in 2006/07 under these powers.

### 5. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2006/07 the total was £991,000 split as set out below;

2005/06		2006/07
£000		£000
658	Recruitment advertising	511
10	Other advertising	22
464	Other publicity	458
<u>1,132</u>		<u>991</u>

## 6. Building Regulations Charging Account 2006/07

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 2005/06 £000		Chargeable 2006/07 £000	Non-Chargeable 2006/07 £000	Total Building Control 2006/07 £000
<b>Expenditure</b>				
549	Employee Expenses	423	141	564
48	Transport	28	9	37
33	Supplies & Services	11	4	15
254	Central Support Service Charges	311	35	346
<u>884</u>	<b>Total Expenditure</b>	<u>773</u>	<u>189</u>	<u>962</u>
<b>Income</b>				
(788)	Building Regulation Charging	(710)	0	(710)
<u>96</u>	<b>(Surplus)/Deficit for the Year</b>	<u>63</u>	<u>189</u>	<u>252</u>

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

The Act empowers Local Authorities to provide goods and services to other public bodies. In 2006/07 services were provided to the following organisations:

2005/06 £000	Organisation	2006/07 £000
18	Hereford College of Art & Design	14
9	Hereford College of Technology	6
93	Hereford and Worcester Fire Brigade	71
16	Herefordshire Housing Ltd	0
<u>136</u>		<u>91</u>



## 8. Partnership schemes under the section 31 Health Act 1999

There are seven Section 31 agreements between the council and Primary Care Trust (PCT).

Three are hosted by the PCT:

- Mental Health;
- Hillside Intermediate Care;
- Blanchworth Contract, Kington.

The four agreements hosted by the council are:

- Learning Disabilities;
- Integrated Community Equipment Store (ICES);
- Free Nursing Care (FNC);
- Joint Agency Management for Out of County Placements (from 1<sup>st</sup> April 2006).

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

#### Mental Health

This section 31 agreement is the integrated mental health and social care service. This service is available to all residents within the county of Herefordshire.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £14.6 million;
- Herefordshire Council - £4.4 million.

2005/06 £000		2006/07 £000
18,692	Gross Income	19,120
19,281	Gross Expenditure	20,920
589	Net over / (under) spend	1,800

The council's gross overspend for mental health is £535,698.

#### Hillside Intermediate Care

Hillside is a residential intermediate care service provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to maximise their potential allowing them to return home quickly as possible following an episode of ill-health.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £939,000;
- Herefordshire Council - £286,000.

2005/06 £000		2006/07 £000
1,159	Gross Income	1,225
1,352	Gross Expenditure	1,383
193	Net over / (under) spend	158

The council's gross overspend for Hillside intermediate care is £36,815.

## Blanchworth Contract, Kington

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £498,000;
- Herefordshire Council - £340,000.

2005/06 £000		2006/07 £000
818	Gross Income	838
818	Gross Expenditure	838
0	Net over / (under) spend	0

**The agreements hosted by Herefordshire Council were as follows:-**

### Learning Disabilities

This section 31 agreement is the integrated learning disabilities health and social care service. This service is available to all residents with a learning disability within the county of Herefordshire.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £2.95 million;
- Herefordshire Council - £8.5 million.

2005/06 £000		2006/07 £000
10,789	Gross Income	11,491
11,704	Gross Expenditure	12,609
915	Net over / (under) spend	1,118

The council's gross overspend for integrated Learning Disabilities service is £1,070,523.

### Integrated Community Equipment Service

A joint equipment store service is provided as a partnership between Herefordshire Council and Herefordshire Primary Care Trust. Its aim is to promote independence and enable individuals to remain in their home.

The main partners in this pooled budget and their contributions are:-

- Herefordshire Primary Care Trust - £532,000;
- Herefordshire Council - £71,000.

2005/06 £000		2006/07 £000
488	Gross Income	604
492	Gross Expenditure	548
4	Net over / (under) spend	(56)

The council's gross under spend for the Integrated Community Equipment Service is £47,544.

### Free Nursing Care

The agreement is a payment and recharge mechanism. Herefordshire Council pay free nursing care payments to service providers on behalf of Herefordshire Primary Care Trust. These payments are recharged to Herefordshire Primary Care Trust.

The main partner in this pooled budget is Herefordshire Primary Care Trust and their contribution £958k.

2005/06 £000		2006/07 £000
1,027	Gross Income	958
1,060	Gross Expenditure	1,003
33	Net over / (under) spend	45

The council's gross overspend for Free Nursing Care is £45,052.

### JAM Out of County Placements

Herefordshire Council and the PCT have signed a new Section 31 agreement for Joint Agency Management (JAM) of Out of County Placements for Children with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.

	£000
Gross Funding	
Herefordshire PCT	157
Herefordshire Council (Dedicated Schools Grant)	732
Herefordshire Council	646
Total Funding	1,535
Total Expenditure	1,575
Net overspend	40

The outturn position for the pool resulted in an overspend of £40,481 which has been absorbed as part of the overall financial position achieved by Children and Young People's Directorate in 2006-07.

### 9. Members Allowances

Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2006/07 members were paid a total of £609,158 under these regulations (£597,544 in 2005/06). This was made up of £359,621 Basic allowances, £208,094 Special responsibility allowances and £41,443 for travelling and subsistence.

### 10. Employees remuneration

The Accounts and Audit Regulations 2003 require authorities to disclose the number of employees whose remuneration in the year, excluding pension contributions, 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, expense allowances chargeable to tax and the money value of benefits. Employer pension contributions are exempt.

Remuneration band	No. of Employees
£50,000 - £59,999	24
£60,000 - £69,999	14
£70,000 - £79,999	4
£80,000 - £89,999	1
£90,000 - £99,999	7
£100,000 - £109,999	0
£110,000 - £119,999	0
£120,000 - £129,999	0
£130,000 - £139,999	1

The following table summarises the redundancies which occurred in 2006/07:

2006/07	Teachers	Others	Total
Number	13	19	32
Total Cost	£84,154	£204,589	£288,743
Average	£6,473	£10,768	£9,023

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

## 11. Summary of Capital Expenditure and Fixed Asset disposals

### Movement on Fixed Assets

	<i>Operational assets</i>				<i>Non-operational assets</i>			<i>Intangible assets</i>	<i>Total</i>
	Other land and buildings	Vehicles plant and equip	Infra-structure assets	Comm-unity assets	Held for Invest-ment	Under Constr-uction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Net book value at 31<sup>st</sup> March 2006</b>	<b>201,852</b>	<b>4,300</b>	<b>67,477</b>	<b>1,790</b>	<b>35,492</b>	<b>675</b>	<b>1,176</b>	<b>3,897</b>	<b>316,659</b>
Additions	5,210	2,261	12,971	250	1,730	2,518	1,812	2,219	28,971
Disposals/deletions	(1,822)				(2,002)		(2,470)		(6,294)
Revaluations	7,400			(250)	502	(724)	1,728		8,656
Reclassifications	(1,471)				211		1,260		0
Depreciation for year	(3,513)	(1,269)	(3,528)						(8,310)
Amortisation for year								(1,808)	(1,808)
<b>Net book value at 31<sup>st</sup> March 2007</b>	<b>207,656</b>	<b>5,292</b>	<b>76,920</b>	<b>1,790</b>	<b>35,933</b>	<b>2,469</b>	<b>3,506</b>	<b>4,308</b>	<b>337,874</b>

## Capital Expenditure and Financing

2005/06 £000	Capital Expenditure	2006/07 £000
7,792	Other land and buildings	5,210
10,480	Roads and infrastructure	12,971
273	Community assets	250
778	Investment and non operational assets	6,060
3,014	Vehicles, plant and equipment	2,261
2,418	Intangible assets	2,219
<u>24,755</u>		<u>28,971</u>
-	PFI asset prepayment	183
<u>7,090</u>	Deferred charges	<u>11,795</u>
<u>31,845</u>		<u>40,949</u>
<b>Financing of Capital Expenditure</b>		
13,916	Borrowing – Supported Capital Expenditure (Revenue)	13,152
5,131	- Prudential Borrowing	8,128
10,169	Grants and Contributions	14,405
1,827	Capital Receipts	4,755
802	Revenue contribution	509
<u>31,845</u>		<u>40,949</u>

## 12. Significant Commitments under capital contracts

Scheme	2006/07 £000
Riverside Junior and Infant School Amalgamation (May 2007 to November 2009)	6,740
Sutton Primary School Replacement (April 2007 to October 2008)	2,195
Extra Care Housing Development, Hereford (September 2008)	1,320

## 13. Fixed Assets

The major fixed assets held by the council as at 31<sup>st</sup> March 2007 includes:

	31.03.07
<b>Children and Young People's Services</b>	
Primary Schools	76
Secondary Schools	14
Special Schools	5
Pupil Referral Units	2
Other Educational Establishments	5
Children and Family Centres	2
Youth Centres	7

### **Adult and Community Services**

Homes for older people	6
Day Centres	5
Homeless Shelter	1
Other Social Services Establishments	5
Libraries	6
Heritage, Museums & Galleries	5
Leisure Centres	6
Swimming Pools	4
Other Leisure/Community Facilities	4

### **Environment**

Principal County roads	350 km
Distributor/Access roads	2,911.5 km
Cemeteries	4
Crematorium	1
Public Conveniences	30
Travellers Sites	5
Bus Stations	2
Car Parks	41
Open Markets	2
Household Waste Sites	3

### **Other**

Smallholdings (non-operational assets)	70
General Buildings and Offices	27
Operational Depots	9
Registrars	2
Other Non operational Assets	219
Other Community Assets	177

### **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. The basis for valuation is set out in the Statement of Accounting Policies.

Hillside Intermediate Care Centre is run in partnership with the Primary Care Trust as a combined Health and Social Care service as an operational asset. For valuation purposes the council has a reversionary interest in the freehold value of the building at the end of the 25 year contractual period. The rent for 25 years is £5 per annum and the liabilities on the council for the structure and other outgoings mean the freehold has no current value to the council, and is in the council's balance sheet at a notional value of £1. As the contract nears termination the property will be revalued on the basis of any increasing net potential value to the council.

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets;

	<b>Land &amp; Buildings £000</b>	<b>Other Operational £000</b>	<b>Non-operational £000</b>	<b>Intangible assets £000</b>	<b>Total £000</b>
Valued at historical cost		84,002	1,943	4,308	90,253
Valued at current value in:					
2002/03	10,661		6,023		16,684
2003/04	27,829		9,118		36,947
2004/05	37,994		1,679		39,673
2005/06	61,256		5,851		67,107
2006/07	69,916		17,294		87,210
<b>Net book value at 31st March 2007</b>	<b>207,656</b>	<b>84,002</b>	<b>41,908</b>	<b>4,308</b>	<b>337,874</b>

### Depreciation

The depreciation methods used are set out in the Accounting Policies. In 2006/07 the total depreciation on fixed assets was £8.3 million.

### 14. Intangible Assets

Movement in Intangible Fixed Assets in the year were;

	Software	Other	Total
	£000	£000	£000
Original cost of assets held at 31 <sup>st</sup> March 2006	4,583	50	4,633
Amortisations to 31 <sup>st</sup> March 2006	(722)	(14)	(736)
<b>Net book value at 31st March 2006</b>	<b>3,861</b>	<b>36</b>	<b>3,897</b>
Additions	2,219	0	2,219
Amortisation for year	(1,801)	(7)	(1,808)
<b>Net book value at 31st March 2007</b>	<b>4,279</b>	<b>29</b>	<b>4,308</b>

Software is being written off over a useful life of 3 years. Other Intangible Fixed Assets relates to capital expenditure for Leominster Railway Station leased from Rail Track on a 20-year lease with 4 years useful life remaining.

## 15. Undischarged obligations arising from long-term contracts

The council has a number of significant long-term contractual commitments;

### **Mercia Waste Management Ltd – Waste management PFI contract**

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 2007, the waste disposal contract was subject to a standstill agreement, which temporarily suspends aspects of the contract pending negotiations to secure variations to the current contract. Because of the failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster and the change in government targets for recycling and the diversion of bio-degradable waste from landfill, new and significantly different arrangements for dealing with waste disposal are now not expected until 2007/08 at the earliest, assuming the negotiations on a contract variation are completed.

### **Stepnell Ltd – School PFI Contract**

The Whitecross High School PFI project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. At the end of this period the school will transfer to the council's ownership.

### **Herefordshire Jarvis Services**

In 2003 the council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over 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.

### **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 at least £1 million per annum over 10 years.

### **Shaw Homes**

The council has a contract with Shaw Healthcare for the provision of care in the authority's residential homes and day care centres. The contract expires in 2033/34 for all homes except Elmhurst, which expires in 2008/09. The level of payments will depend on the authority's take up of beds and Shaw Healthcare's performance in providing services. The payments for 2006/07 totalled £4.3 million (£3.7 million residential and £550,000 day care).

## 16. Operating leases

The council is required to disclose the amount paid in respect of leases in the year and the amount of lease rentals received from lessees:

2005/06 £000		2006/07 £000
	<b>The amount of lease rentals paid to lessors</b>	
938	Other Land & Buildings	946
739	Vehicle, Plant & Equipment	670
	<b>Rental received in the year for operating leases</b>	
2,669	Other Land & Buildings	3,017



The authority was committed at 31<sup>st</sup> March 2007 to making payments of £872,000 under operating leases in 2007/08, comprising the following elements:

	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>
Leases expiring in 2007/08	122	221
Leases expiring between 2008/09 and 2012/13	434	183
Leases expiring after 2012/13	316	0

With regards to the Authority's activity as a lessor, the gross value of assets held for use in operating leases was £127,410,461 as valued at 1<sup>st</sup> April 2006 and subject to £1,555,162 depreciation to 31<sup>st</sup> March 2007.

## 17. Analysis of Borrowing

As at 31 <sup>st</sup> March 2006 £000		As at 31 <sup>st</sup> March 2007 £000
<i>Analysis of loans by type</i>		
70,296	Public Works Loan Board	81,853
<u>12,000</u>	Money Market	<u>12,000</u>
<u>82,296</u>	Total outstanding	<u>93,853</u>
<i>Analysis of loans by maturity</i>		
12,443	Repayable within 12 months	12,464
5,464	Between 1 and 2 years	486
4,009	Between 2 and 5 years	804
1,689	Between 5 and 10 years	1,744
3,862	Between 10 and 15 years	3,828
<u>54,829</u>	More than 15 years	<u>74,527</u>
<u>82,296</u>		<u>93,853</u>

The Council has two LOBO (Lenders Option- Borrowers Option) market loans as follows:

- 1) £6,000,000 borrowed on 4<sup>th</sup> February 2004 from Dexia Credit Local at an initial fixed rate of interest of 2.85% for 2 years followed by 4.50% for the remaining 48 years.
- 2) £6,000,000 borrowed on 24<sup>th</sup> November 2004 from Danske Bank at an initial fixed rate of interest of 1.60% for 2 years followed by 4.50% for the remaining 48 years.

In addition a number of Trust Funds have investments with the council totalling £948,319.

## 18. Investments

### (a) Long-term investments

Long-term investments of £14,000 were inherited from outgoing authorities on Local Government reorganisation in 1998

## (b) Short-term Investments

### Internally Managed

	£'000	£'000
Balance at 31 <sup>st</sup> March 2006		30,420
Investments made during year (266 transactions)	931,877	
Investments recalled during year	<u>(929,091)</u>	
<b>Balance at 31<sup>st</sup> March 2007</b>		<u>2,786</u> <b>33,206</b>

### Externally Managed

The fund is managed by Investec Asset Management Limited and the investment is supported by:

	2005/06 £'000	2006/07 £'000
Fixed Interest Securities	2,118	0
Certificates of Deposit	5,315	7,685
Deposit Accounts	36	94
<b>Balance at 31<sup>st</sup> March</b>	<u>7,469</u>	<u>7,779</u>

**Total Short-term Investments at 31<sup>st</sup> March 2007**                      **£ 40,984,642**

## 19. Provisions

The provisions at 31.3.07 are listed below;

2005/06 £000	2006/07 £000
22 Village focus grants	22
73 Former Hereford and Worcester liabilities	51
1,020 Insurance	1,230
373 Redundancies	556
<u>1,067 Landfill Allowances liability</u>	<u>903</u>
<u>2,555</u>	<u>2,762</u>

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 using a detailed assessment of likely claims, based on the claims experience of this authority and the former authorities. The level of the provision is reviewed each year against the potential commitments. During 2006/07 the council engaged consultants, Marsh UK Ltd, to assess whether the level of the insurance provision was adequate. The findings were that it was adequate but recommended that additional funds should be set aside if available. Consequently the provision has been increased from just over £1 million to £1.2 million.

## 20. Details of Movement on Reserves

The council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and some have been set up voluntarily to earmark resources for future spending plans.

<b>Reserve</b>	<b>1 April 2006 £000</b>	<b>Net Movement In Year £000</b>	<b>1 April 2007 £000</b>	<b>Purpose of Reserve</b>
Fixed Asset Restatement Account	118,258	2,374	120,632	Store of gains and losses on revaluation of fixed assets
Capital Financing Account	61,726	729	62,455	Store of capital resources set aside to meet past expenditure
Usable Capital Receipts	20,070	1,641	21,711	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	(100,614)	11,763	(88,851)	Balancing account to Pensions Liability in the Balance Sheet
General Fund	14,525	(5,787)	8,738	Resources available to meet future costs
Earmarked reserves	13,942	5,832	19,774	Set aside for specific purposes

The council held the following earmarked reserves of £19.8 million at 31<sup>st</sup> March 2007;

<b>Reserve</b>	<b>31.03.06 £000</b>	<b>Transfer (to)/from revenue £000</b>	<b>31.3.07 £000</b>
Community buildings	64		64
Commuted sums	78		78
Schools balances in hand	8,739	(602)	8,137
Industrial Estates - maintenance	145	17	162
Support Services & Equipment renewals	209		209
Schools Balance of Risk	373	(68)	305
Winter maintenance	108	392	500
Planning	24		24
SRB schemes	96		96
College Hill Community Centre	180		180
Waste Disposal	1,366	908	2,274
LSC	32		32
School energy audits	50	(50)	0
Landfill Allowance scheme	19	(1)	18
Herefordshire Connects project	1,928	146	2,074
Wye Valley ANOB	98		98
Elections	0	119	119
Members ICT	0	30	30
Invest to Save/Initiatives fund	433	682	1,115
Budget management	0	1,100	1,100
Contingent liabilities	0	300	300
Social care contingency	0	1,977	1,977
Standards fund	0	377	377
Treasury management (LOBO) reserve	0	505	505
	<b>13,942</b>	<b>5,832</b>	<b>19,774</b>

## 21. Schools Balances – Local management of schools

A sum of £8,136,542 is shown in reserves in respect of school 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.

Following the introduction of a balance claw-back mechanism, where the amount of revenue balance a school is permitted to hold is capped, school balances have reduced in total by £638,269.

The total balances, which includes devolved capital of £2,718,615 and extended schools of £373,655, can be split between Primary schools (£4,616,706), Secondary schools (£3,136,069), Special schools (£262,264) and Pupil Referral Units (£121,503).

## 22. Disclosure of deployment of Dedicated Schools Grant

The council's expenditure on schools is funded by grant monies provided by the Department for Education and Skills, the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over- and underspends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for 2006/07 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Original grant allocation to Schools Budget for the current year in the authority's budget.	8,324	70,012	78,336
Adjustment to finalised grant allocation	(185)	0	(185)
DSG receivable for the year	<u>8,139</u>	<u>70,012</u>	<u>78,151</u>
Transfer from DSG to Capital	(220)	0	(220)
Transfer from DSG to Sickness Reserve	(44)	0	(44)
Actual expenditure for the year	<u>(7,769)</u>	<u>(70,503)</u>	<u>(78,272)</u>
(Over)/under spend for the year	106	(491)	(385)
Planned top-up funding of ISB from council resources	6	0	6
Use of schools balances brought forward	0	602	602
(Over)/under spend carried forward to 2007/08	<u>112</u>	<u>111</u>	<u>223</u>

## 23. Contingent Liabilities

(a) When the council's houses were 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 has now obtained charitable status, which has resolved this issue for the future. It is expected that a limited proportion of the VAT share received from Herefordshire Housing for 2003/04 and 2004/05 will be returned to them, estimated to be around £300,000.

- (b) As part of the arrangements for the transfer of services to Herefordshire Housing, Halo Leisure Trust, Herefordshire Jarvis Services, and 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. The cost of these guarantees will be reflected in higher pension contributions for the council as a whole. The levels of the employers contributions set by the Actuarial review as at 31<sup>st</sup> March 2004 meant that the guarantee did not result in additional costs to the Council in the period covered by the review (up until 31<sup>st</sup> March 2008).
- (c) There is an outstanding claim against the council in respect of an alleged formaldehyde poisoning in a council property. Although the claim, which is not covered by insurance, is substantial, the council is rigorously defending itself against from the claim. The actual liability faced by the council is believed to be very significantly less than the claim submitted.
- (d) There is a claim against the council for loss of earnings of £140,000, due to the suspension of someone's trading activity during a prosecution case against him, in which he was initially convicted, but later won on appeal.
- (e) Costs of £100,000 to £250,000 in respect of power provision may be incurred at Plough Lane to satisfy ICT disaster recovery requirements.
- (f) There is a claim for compensation against the Authority in respect of the Compulsory Purchase Order the council has made over land at Ross-on-Wye, for the purpose of flood alleviation measures. A provisional estimate of the value of the claim is approximately £36,000.

#### **24. 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.

**Central government** has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in Note 31 relating to the Cash Flow Statement.

**Members of the council** have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing 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. An examination of the Register indicates that the council's financial transactions with these bodies in 2006/07 are not material.

**Officers** – A number of senior officers are members of professional bodies and are involved in local organisations and partnerships, such as the Learning and Skills Council and Herefordshire Partnership. During 2006/07 there were no significant declarations of pecuniary interest in accordance with section 117 of the Local Government Act 1972.

**Pension Funds** – During the year the council paid £11.1 million to the Local Government Pension scheme administered by Worcestershire County Council and £9.3 million to the Teachers Pension Scheme.

### **Other Public Bodies**

- During the year the council made payments of over £19 million to Worcestershire County Council, including payments to the pension scheme and for the joint waste disposal contract.
- The council works in partnership with the Primary Care Trust under Section 31 pooling arrangements. Payments to the PCT in 2006/07 totalled £7.5 million and invoices raised to the PCT were also £7.5 million.

### **Significant Partners**

- The council paid £16.5 million to Herefordshire Jarvis Services under the long-term contract for the provision of services, the largest of which related to highways.
- Under the contract with Owen Williams for the provision of technical services the council paid £2.2 million in 2006/07.
- Payments of £4.3 million were made to Shaw Healthcare for the provision of care in residential homes and for day centres in 2006/07, plus £300,000 towards capital costs on the homes.

### **Other organisations**

- The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2006/07 the council paid £1.7 million to Halo Leisure Trust.
- In 2006/07 the council paid £573,000 to the Courtyard Trust. The council has a commissioning agreement with the trust based on agreed outcomes.
- The council is represented by its elected members on the West Mercia Supplies Joint Committee. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. Payments of £2.6 million were made in 2006/07.

## **25. Creditors**

An analysis of creditors and receipts in advance at the year-end is as follows;

	2005/06 £000	2006/07 £000
Directorate Service Areas	12,624	16,131
ICT	21	320
Herefordshire In Touch	183	10
Joint Funding	1,511	1,254
Capital	962	1,916
Creditors System	9,409	9,348
Treasury Management	686	870
Collection Fund	1,441	2,101
Purchase Ordering System Accruals	858	824
Other	768	692
	<u>28,463</u>	<u>33,466</u>

## 26. Debtors

An analysis of debtors and payments in advance at year-end is as follows;

	2005/06 £000	2006/07 £000
Directorate Service Areas	6,574	6,856
School Loan Accounts	282	765
ICT	115	106
Joint Funding	1,037	806
Capital	2,888	3,509
VAT	2,027	1,833
Treasury management	204	221
Leased Cars	98	67
Debtors System	7,972	4,662
Fairer Charging	111	116
Collection Fund	5,782	3,189
Other	49	68
	<u>27,139</u>	<u>22,198</u>
Provision for Bad Debts	<u>(559)</u>	<u>(814)</u>
	<u>26,580</u>	<u>21,384</u>

## 27. Amounts due to or from related parties

As at 31<sup>st</sup> March 2007 amounts due to and from related parties were as follows:

<b>Related Party</b>	<b>Due to £000</b>	<b>Due from £000</b>
Department for Communities and Local Government	5,050	133
Department for Transport	199	0
Department for Works and Pensions	618	0
Department for Education and Skills	2,325	1,227
Department of Health	22	0
Department for Food, Agriculture & Rural affairs	20	76
Department of Constitutional Affairs	0	27
Countryside Council for Wales	5	13
Learning & Skills Council	636	362
Advantage West Midlands	196	2,407
Government Office For West Midlands	235	361
Home Office	95	0
Lottery	9	3
Arts Council	65	0
Countryside Agency	8	0
Teachers development agency	45	0
Teachers Pension	815	0
Worcestershire County Council	2,476	93
Herefordshire Primary Care Trust	2,019	2,973
Courtyard Trust	0	6
Herefordshire Jarvis Services	1,642	221
Shaw Healthcare	335	0
Halo	649	54
West Mercia Supplies	150	398
Owen Williams	232	0

These amounts are included in the council's debtors and creditors figures.

In addition, there were capital grants of £2.67 million from related parties held in the Capital Grants Deferred Account not yet applied to capital spend. Of this amount £2.62 million related to government departments and £51,000 to the Primary Care Trust.

## 28. External Audit Fees

The council incurred the following fees relating to external audit and inspection;

	2005/06 £000	2006/07 £000
• Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	175	212
• Fees payable to the Audit Commission in respect of statutory inspection	81	50
• Fees payable to the Audit Commission for the certification of grants claims and returns	90	85

## 29. 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 FRS 17 the Teachers' Pension scheme is treated as if it was a defined contribution scheme.

### Teachers' Pensions 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.

In 2006/07 the council paid £6.06 million in respect of teachers' pension costs, which represented 12.9% 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 2006/07 these amounted to £111,290, representing 0.24% of pensionable pay.

At the year-end there were contributions of £815,162 remaining payable, which related to the March 2007 contributions paid to the scheme in April 2007.

### Local Government Pension Scheme

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 it is earned by employees, rather than when it is 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 in the Statement of Movement in the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	2006/07 £000	2005/06 £000
<b>Income and Expenditure Account</b>		
<b><i>Net Cost of services</i></b>		
Current Service cost	8,406	6,949
Past service cost (gain)	0	(4,057)
Curtailment cost	853	930
<b><i>Net Operating Expenditure</i></b>		
Interest cost	14,339	13,758
Expected return on assets in the scheme	(11,871)	(10,135)
<b><i>Net charge to Income and Expenditure Account</i></b>	<b>11,727</b>	<b>7,445</b>
<b>Statement of Movement in General Fund Balance</b>		
Reversal of net charges under FRS 17	(11,727)	(7,445)
Employer's contribution payable to the scheme	8,847	7,804
<b><i>Net charge to Statement of Movement in General Fund Balance</i></b>	<b>(2,880)</b>	<b>359</b>

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 2004. Further to the revaluation, the council's employers' contribution will increase from 16.5% of pensionable pay to 19.9%, phased over 6 years up to and including 2010/11. Annual increases will be approximately 0.6% of pay. The period over which the council's deficit will be dealt with has been increased from 13 years to 25 years in accordance with guidance from the government. The fund is reviewed by the Actuaries every 3 years.

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.

### **Assets and Liabilities**

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

	31 March 2006 £m	31 March 2007 £m
Market Value of Assets	191.7	205.1
Liabilities	<u>(292.3)</u>	<u>(293.9)</u>
Surplus/(Deficit)	<u>(100.6)</u>	<u>(88.8)</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.

### Actuarial assumptions

The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	2.9%	3.1%
Rate of increase in salaries	4.4%	4.6%
Rate of increase in pensions	2.9%	3.1%
Discount rate	4.9%	5.4%

### Pension Scheme assets

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

	31 March 2006		31 March 2007	
	£000	%	£000	%
Equities	156,643	81.7	185,165	90.3
Government Bonds	23,775	12.4	10,253	5.0
Other Bonds	8,436	4.4	7,382	3.6
Cash/Liquidity	2,876	1.5	2,256	1.1
	<u>191,730</u>		<u>205,056</u>	

The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.0%	7.5%
Government Bonds	4.3%	4.7%
Other Bonds	4.9%	5.4%
Property	6.0%	6.5%
Cash/Liquidity	4.5%	5.25%

### Movement in scheme deficit during the year.

2005/06		2006/07
£000		£000
(102,186)	Surplus/(Deficit) at beginning of year	(100,614)
(6,949)	Current service cost	(8,406)
7,804	Employer contributions	8,847
3,127	Past service/curtailment (cost)/gain	(853)
(3,623)	Net interest/Return on Assets	(2,468)
1,213	Actuarial gain or (loss)	14,643
<u>(100,614)</u>	Surplus/(Deficit) at end of year	<u>(88,851)</u>

The net liability represents the difference between the value of the Authority's pension fund assets at 31<sup>st</sup> March 2007 and the estimated present value of the future pension payments to which it was committed at that date (to be paid out over a period of many years).

### Statement of Actuarial (gains) and losses

The actuarial gain or loss identified within the movements on the pensions reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March:

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between expected and actual return on assets	44,551	38	(21,352)	14.9	(5,587)	3.6	(28,731)	15	(452)	0.2
Gains and losses on scheme liabilities	0	-	0	-	6,507	2.5	5,468	1.9	0	0
Change in demographic and financial assumptions	0	-	0	-	41,157	16.1	22,050	7.5	(14,191)	4.8

### 30. Trust Funds

The council acts as trustee for a number of Trust Funds, which have been established for the benefit of different sections of the Community, including several schools.

	<b>New funds, Investment</b>				
	<b>Balance at 1/04/06</b>	<b>Revenue Income</b>	<b>Transactions Expenditure</b>	<b>Sales and Revaluations</b>	<b>Balance at 31/03/07</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Education (small funds)	22,063	986	(226)	107	22,930
Sylvia Short Trust	1,020,588	47,620	(45,923)	1,596	1,023,881
Buchanan Trust	1,891,414	106,017	(106,366)	586,068	2,477,133
Other Funds	53,355	2,566			55,921
	<u>2,987,420</u>	<u>157,189</u>	<u>(152,515)</u>	<u>587,771</u>	<u>3,579,865</u>

The Sylvia Short Educational Charity, administered by the council on behalf of the Trustees was established to provide children with learning experience outside the curriculum. The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits

Assets and liabilities on the funds at 31<sup>st</sup> March were;

	<b>2005/06 £000</b>	<b>2006/07 £000</b>
Fixed Assets	1,064	1,650
Investments	981	981
Cash temporarily invested with Herefordshire Council	942	948
	<u>2,987</u>	<u>3,579</u>
Represented by Trust Funds	<u>2,987</u>	<u>3,579</u>

### 31. Notes to the Cash Flow Statement

#### Reconciliation of net deficit on the Income and Expenditure Account to the revenue activities in the Cash Flow Statement

2005/06	2006/07	
£000	£000	£000
1,777 (Surplus)deficit on I& E Account	6,821	
<u>(311) Collection Fund (surplus)/deficit</u>	<u>223</u>	
1,466		7,044
(1,708) Interest/discount		(1,638)
<b>Non-cash Transactions</b>		
(1,420) Contributions from (to) provisions	(207)	
(11,535) Capital charges	(10,647)	
359 FRS 17 pension adjustments	(2,880)	
1,419 Surplus on sale of assets (non-revenue)	272	
<u>1,441 Other non-cash</u>	<u>743</u>	
(9,736)		(12,719)
<b>Items on an Accruals basis</b>		
2 Increase/(Decrease) in stocks and WIP	42	
8,212 Increase/(Decrease) in debtors	(5,646)	
<u>(532) (Increase)/Decrease in creditors</u>	<u>(4,488)</u>	
<u>7,682</u>		<u>(10,092)</u>
<u>(2,296) Net cash flow from revenue activities</u>		<u>(17,405)</u>

#### Movement in debtors and creditors

Increase/(Decrease)	Debtors	Creditors
	£000	£000
Revenue activities	(5,646)	4,488
Capital activities	<u>450</u>	<u>515</u>
	<u>5,196</u>	<u>5,003</u>

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

2005/06	2006/07	
£000	£000	£000
(2,020) Increase (decrease) in cash in the period	286	
(14,577) (Increase) decrease in debt financing	(11,556)	
4,430 Increase (decrease) in liquid resources	2,786	
(15) Internal investment of Trust Funds	(6)	
<u>326 Revaluation of investments</u>	<u>310</u>	
(11,856)		(8,180)
<u>(37,761) Net debt at 1st April</u>		<u>(49,617)</u>
<u>(49,617) Net debt at 31st March</u>		<u>(57,797)</u>

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

## Analysis of Net debt

	1.4.06 £000	Cash Flow £000	Non- cash £000	31.3.07 £000
Cash in hand and at bank	(4,267)	286		(3,981)
Debt due within 1 year	(13,386)	(26)		(13,412)
Debt due after 1 year	(69,853)	(11,536)		(81,389)
Short term investments	37,889	2,786	310	40,985
	<u>(49,617)</u>	<u>(8,490)</u>	<u>310</u>	<u>(57,797)</u>

## Analysis of Government Grants in the Cash Flow Statement

2005/06		2006/07	
Total £000		Revenue £000	Capital £000
69,301	ODPM/DCLG	17,718	2,824
37,965	Department for Works and Pensions	41,036	56
26,185	Department for Education and Skills	102,119	2,205
11,603	Department of Health	5,968	98
597	Home Office	282	0
179	Countryside Agency	82	66
425	Department for Environment, Food & Rural Affairs	239	174
1,349	Lottery	114	574
3,015	Advantage West Midlands	1,278	1,436
933	Government Office for West Midlands	1,290	412
1,443	Department for Transport	599	3
2,655	Learning and Skills Council	3,528	0
7	Cabinet Office	0	0
8	Legal Services Commission	0	0
112	Arts Council	27	0
136	Countryside Council for Wales	94	0
144	Department for Constitutional Affairs	16	0
14	Welfare Food Reimbursement	0	0
0	Teachers development agency	273	0
<u>156,071</u>		<u>174,663</u>	<u>7,848</u>

## 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 Balance Sheet.

2005/06 £000	Note	2006/07 £000    £000	
<b>Income</b>			
Council Tax:			
73,410	1	77,482	
<u>9,627</u>		<u>10,132</u>	
83,037			87,614
<u>34,814</u>	2		<u>37,076</u>
<u>117,851</u>			<u>124,690</u>
<b>Total Income</b>			
 <b>Expenditure</b>			
9,614			10,255
3,966			4,228
68,926			73,244
132			95
88			15
 <b>Non Domestic Rates</b>			
34,525	2		36,785
<u>289</u>			<u>291</u>
<u>117,540</u>			<u>124,913</u>
<b>Total Expenditure</b>			
 311	 3		 (223)
656	3		368
967	3		145

## 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, West Mercia Police Authority and Hereford & Worcester Fire 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.). The 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 2006/07 was £1,285.31 with a range between £1,255.99 to £2,323.70. The council tax base used for setting the council tax in 2006/07 was 68,254.

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,270.60
B	£40,001 to £52,000	7/9	12,300.20
C	£52,001 to £68,000	8/9	12,264.90
D	£68,001 to £88,000	9/9	11,204.30
E	£88,001 to £120,000	11/9	11,881.50
F	£120,001 to £160,000	13/9	8,066.50
G	£160,001 to £320,000	15/9	5,062.50
H	Over £320,000	18/9	299.00
Crown			197.50
			<hr/> 67,547.00
	Other adjustments		706.97
			<hr/> 68,253.97

<b>Council Taxpayer Income</b>	£000	£000
Council Tax debit @ 1 <sup>st</sup> April		97,403
<b>Add:</b>		
Redebits	67,468	
Banding Change	639	
Additional – 2 <sup>nd</sup> Homes	477	
Additional – Empty Properties	325	68,909
	<hr/>	
<b>Less:</b>		
Discounts	8,336	
Exemptions	3,001	
Benefits – Statutory	10,102	
Benefits – Non Statutory	30	
Disablement Relief	128	
Transitional Relief	(3)	
Void Assessments	69	
Empty Assessments	67,167	88,830
	<hr/>	<hr/>
		77,482

## 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.

	<b>£000</b>
NNDR Contribution to the Pool	36,785
Cost of Collection Allowance	<u>291</u>
Income from Business Ratepayers	<u>37,076</u>
NNDR Entitlement	39,011

£36,784,830 is the contribution due to the NNDR pool for 2006/07 paid by Herefordshire Council to central government. This represents the amount from business ratepayers less an allowance for the cost of collection. The NNDR pool is held by central government and redistributed to all local authorities. Herefordshire Council received NNDR entitlement of £39,011,193, which is its redistributed share. This figure is calculated on a per head of population basis.

Business rateable value as at 31 <sup>st</sup> March 2007	£ 104,902,919
Business rate multiplier	43.3p

<b>Non-domestic Ratepayers Income</b>	£000	£000
Non-domestic debit @ 1 <sup>st</sup> April		43,352
<b>Add:</b>		
Transitional Premium		(186)
<b>Less:</b>		
Empty Allowances	2,187	
Transitional Relief	636	
Discretionary Relief	206	
Mandatory Relief	2,776	
Write-offs	239	
Interest on Refunds	46	6,090
<b>Income due from non-domestic ratepayers</b>	<u>          </u>	<u>37,076</u>

## Note 3

### Contributions to Collection Fund Surpluses

<b>Council Tax</b>	£000	£000
Surplus at 31.3.06		967
Less: Payments		
Hereford & Worcester Fire Brigade	29	
West Mercia Police Authority	70	
Herefordshire Council	<u>500</u>	<u>599</u>
		368
Surplus balance brought forward		368
Surplus financial year 2005/06		(223)
Surplus balance carried forward		145



# STATEMENT ON INTERNAL CONTROL

## 1. Scope of responsibility

Herefordshire 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 internal control environment

The key elements of the internal control environment at Herefordshire Council include:

- Establishment and monitoring of the council's statutory obligations and organisational objectives, evidenced through the council's Corporate and Annual Operating Plans, guidance on directorate and service plans, effective arrangements for compliance with and monitoring of legislative changes;
- the council's Medium Term Financial Management Strategy;
- an integrated corporate, service and financial planning process;
- the Performance Management Framework which sets out the council's approach to performance management;
- the council's Constitution sets out members and officers responsibilities, and delegations to officers and committees in addition to the terms of reference of all the Council's committees;
- the council has systems and process as outlined in the Risk Management Strategy in place to identify principal risks to the achievement of the council's objectives, supplemented by the consideration of risk in committee reports and the decision making process;
- the Director of Resources has overall responsibility for embedding the council's risk management process;
- there are written Financial Regulations and Contract Standing Orders, which are subject to regular review;

- adoption of statutory and professional standards such as the Codes of Practice recommended by the Chartered Institute of Public Finance and Accountancy;
- financial administration procedures agreed by the Section 151 officer;
- the council has in place a written Whistleblowing Policy, an Anti Fraud and Corruption Policy and a Code of Conduct for employees and one for members all of which have been regularly brought to the attention of all staff;
- an Audit and Corporate Governance Committee is now operating as part of the council's internal control process;
- an independent audit function, which submits regular assurance reports to the council's Audit and Corporate Governance Committee;
- adoption of a Statement of Internal Control assurance process; and
- devolved financial management arrangements where key managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

#### **4. Review of effectiveness**

Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The Corporate Management Board carries out this review at officer level with the Audit and Corporate Governance Committee undertaking the review at member level.

The Audit Services Manager informs both the Corporate Management Board and the Audit and Corporate Governance Committee of any significant issues that warrant their attention.

The review of the effectiveness of the system of internal control is informed by the work of the council's Internal Audit Service, officers of the council who have responsibility for the development and maintenance of the control environment and also by comments made by the Audit Commission and other review agencies/inspectorate.

##### **Internal Audit Service**

Herefordshire's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2003. This responsibility is delegated to the Director of Resources, the officer with responsibility for the administration of the council's financial affairs as set out in section 151 of the Local Government Act 1972.

The Audit Services Team operate in accordance with best practice, professional standards and guidelines. The team independently and objectively reviews, on a continuous basis the extent to which reliance can be placed on the internal control environment. This is evidenced by the opinion given on the council's overall system of control by the Audit Services Manager.

The Audit and Corporate Governance Committee receives interim and annual reports on internal audit activity and approves the annual plan and Audit Strategy for the forthcoming year.

## **The Monitoring Officer**

The role of the Monitoring Officer is a statutory office whose duties are set out in the Local Government and Housing Act 1989 and the Local Government Act 2000. The main responsibilities of the Monitoring Officer are to ensure that the council and its elected Members act with probity in accordance with the law and in accordance with its Constitution and to avoid determinations of maladministration being issued by the Local Government Ombudsman

The Monitoring Officer is also responsible for carrying out investigations and reporting to the Standards Committee of the Council any breaches of the Code of Conduct of members referred to it by the Standards Board for England.

## **Officers of the Council**

Individual Directors and Heads of Service are responsible for establishing and maintaining an adequate system of internal control within their own Directorate and services respectively and for contributing to the control environment on a corporate basis.

Written assurances have been received from all directors and all heads of service that they:

- have actioned recommendations from internal audit, external audit and other inspection reports or are in the process of being actioned within the timetable agreed; and
- are satisfied with the operation of internal control within their area of responsibility.

## **Audit Commission and other review agencies/inspectorate**

In their 2005-2006 Annual Audit and Inspection letter (dated March 2007) the Audit Commission stated that the council's systems of internal control met the minimum requirements for the Use of Resources assessment. To improve the council needed to:

- demonstrate that it actively manages risk and there are outputs from management. Officers need to be trained in risk awareness and the council needs to demonstrate that they have adequately considered partnerships in their risk Assessments;  
*Risk Management is an integral part of the council's Performance Management Framework with the Corporate Risk Log being regularly reviewed by Corporate Management Board. These Corporate Risk Logs are also an integral part of the council's Integrated Performance Reports submitted to Cabinet.*
- embed the assurance framework and the links between the council's objectives and risks could be clearer. Reconciliations of key feeder systems need to occur monthly. Partnership arrangements need to be developed with standing orders showing how good governance and partnerships relate;  
*The council's assurance framework continues to be embedded, the links between the council's objectives and risks are being identified, and the development of partnership arrangement will form part of the pending review of the council's Standing Orders.*
- raise awareness concerning ethical behaviour but also needs to raise awareness of whistleblowing procedures and the antifraud and corruption policy;  
*The council has placed posters on notice boards at its administrative buildings and continues to remind staff by regular notices on payslips.*

- act on feedback from the ethical survey of Members and Senior Officers. There were some areas identified as areas for action such as the work of the Standards Committee and improved communication to the public on the whereabouts of public documents;  
*The council's Legal and Democratic Services Division has carried out training for Members in relation to the role of the council's Standard as part of a wider programme of Member training. The council's Head of Communication is reviewing the council's arrangements with regards to communication with the public.*

### **Benefits Fraud Inspectorate**

The Benefit Fraud Inspectorate gave the service a 2 star rating, which equated to a fair performance overall. Although user focus continued to be good the service failed to achieve its annual target for intervention and visit and this as well as its claims processing performance adversely affected the score. The service has, however, been improving steadily and this is expected to result in an improved inspection score for 2007.

### **Annual Performance Assessment**

The 2006 Annual Performance Assessment of Services for Children and Young People in Herefordshire showed that there were no inadequate assessments, with the council getting a score of 2. The latest action plan shows that progress is being made. However Government Office for the West Midlands (GOWM) have a concern with regards to the ability of the Council to self analyse, drive change and improvement. GOWM have confirmed that the Minister has decided that the GOWM led Improvement Board for Children and Young People will continue to oversee progress in Herefordshire for at least another six months.

### **Fostering Service**

The Commission for Social Care Inspection (CSCI) found the service to be good with some outstanding features. There is an action plan being developed that will ensure that the service continues to improve.

### **Cultural Services**

The Audit Commission inspection of the council's Cultural Services showed the service to be fair with promising prospects for improvement. Recommendations have been made by the Audit Commission and the Head of Service is developing an action plan to address issues raised.

### **Adult Learning**

The Commission for Social Care Inspection (CSCI) has completed its inspection of the council's service for People with Learning Disabilities. The outcome was that people were not being served well and the capacity for improvement was uncertain. The Council now has an action plan which has been developed and is being implemented as an integral part of the Council's comprehensive programme of improvement for Adult Social Care and related services.

## **5. Significant internal control issues**

The council is required to report upon any significant internal controls issues. These include issues which:

- have seriously prejudiced or prevented achievement of an objective

- resulted in the need to seek significant additional funding;
- had a material impact in the accounts;
- resulted in formal action by the Monitoring Officer, Chief Finance Officer or have been reported as significant by the Audit Services Manager; and/or
- attracted significant public interest.

There were three issues identified for improvement:

- As previously reported services for people with Learning Disabilities was judged to be not serving people well.  
*The council has made a positive response to the recommendations made by CSCI. Immediate priority in being given to the recommendations in respect of weaknesses in assessment and care management including safeguarding. Action has already being taken to tackle the backlog of reviews. Action is also being taken to address concerns highlighted in relation to person-centred planning, transition from children's to adult services and the updating of policies and procedures.*
- Three fundamental systems Education Transport, Housing Benefit Payments and Salaries - Children Services were given marginal opinions. Audit recommendations have been made in relation to each system. Recommendation follow up by Audit Services will form part of the review for 2007/ 2008.
- One fundamental system ICT FMS was given an unsatisfactory opinion. Audit recommendations have been made in relation to this system and follow work by Audit Services is in progress.

Cllr R. Phillips  
Leader of the Council

N. Pringle  
Chief Executive

Mrs. S. Rees  
Director of Resources

June 2007

# GLOSSARY OF TERMS

**Accrual**

Income and expenditure are shown in the period they are earned or incurred, not as money is received or paid.

**Actuary**

An expert on pension scheme assets and liabilities

**Asset**

Something the council owns that has a value, such as premises, vehicles, equipment or cash.

**Balance Sheet**

A summary of Herefordshire Council's assets, liabilities and other balances at the end of each accounting period.

**Capital Charge**

A charge made to service revenue accounts to reflect the cost of utilising fixed assets in the provision of services.

**Capital Expenditure**

Expenditure on the acquisition of a fixed asset, which lasts longer than a year or expenditure that adds value to an existing fixed asset.

**Capital Receipts**

Proceeds from the sale of fixed assets, such as land or buildings.

**Collection Fund**

A separate fund recording the expenditure and income relating to Council Tax and Non-domestic Rates.

**Community Assets**

Assets that the council intends to own forever e.g. parks and open spaces.

**Creditor**

Amounts owed by the council for goods and services received, but not paid for at the end of the financial year.

**Debtor**

This the amount of money others owe to Herefordshire for goods and services that they have received but have not paid for by the end of the accounting period.

**Deferred Charges**

Capital expenditure, which does not create a fixed asset.

**Depreciation**

The reduction in value of an asset as recorded in the council's accounts.

**Infrastructure Assets**

Fixed assets on which expenditure can only be recovered by continued use of the asset, such as roads, bridges and footpaths.

**Intangible fixed assets**

Fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights e.g. software.

**National Non Domestic Rates**

This is a national scheme for collecting contributions from businesses towards the cost of local government services, based on a flat rate in the pound set by Government.

**Non Operational Assets**

Assets held by the council not directly used in the provision of services, such as investment properties.

**Operating lease**

A lease where the ownership of the fixed asset remains with the lessor.

**Operational assets**

Fixed assets owned by Herefordshire Council and used to deliver services, such as buildings and equipment.

**Precept**

A levy made by one authority to another to finance its net expenditure.

**Provision**

A sum of money that has been put aside in the accounts for liabilities or losses that are due but where the amount due or the timing of the payment is not known with any certainty.

**Related Parties**

Two or more parties are related parties when at any time during the financial period: -

- One party has direct or indirect control of the other party
- The parties are subject to common control from the same source
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing its own interests
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transactions has subordinated its own interests.

**Private Finance Initiative**

Arrangements supported by the Government involving an external partner to fund major capital developments.

**Reserves**

Amounts set aside in one year's accounts to be spent in future years. Some reserves are earmarked for specific purposes and other general revenue balances are available to meet future revenue and capital expenditure.

**Revenue Expenditure**

The day-to-day expenses associated with the provision of services.

**Revenue Support Grant**

A general grant paid by the Government to local authorities as a contribution towards the costs of their services.