



HEREFORDSHIRE COUNCIL

STATEMENT OF ACCOUNTS

2008-2009

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1. INTRODUCTION

- 1.1 The statement of accounts for 2008/09 is an important financial report that presents the council's overall financial position for the year.
- 1.2 The 2008/09 financial year was challenging but the overall summary position is positive. There was a small net under spend on the revenue account. This means that Directorates used their allocations to deliver the required services within budget.
- 1.3 The Directorate position is only one aspect of the final overall position. This is because the final position includes corporate items such as cash management and other activities undertaken centrally.
- 1.4 The overall position when adding these additional activities is that the council under spent by £249,000 on its net budget of £132m. By any measure this is a sound position and shows strong financial management exists within the council.
- 1.5 I think it appropriate that we support the creation of new reserves at a time when future funding of local government will come under pressure and also at a time when the economic recession is affecting the local economy. It is for the latter reason that an economic development reserve of £346,000 is created to provide support for Herefordshire's economy at this difficult time.
- 1.6 We are also taking the opportunity to add a further £500,000 to our waste disposal reserve. In addition, the overall £249,000 under spend on the revenue account will be added to our existing social care reserve bringing it to a level of £926,000.
- 1.7 I would also like to add that the council was not affected by the collapse of the Icelandic Banks. During the year we have also taken the opportunity to take advantage of all available options to reduce expenditure including rescheduling borrowing.
- 1.8 As in previous years we continue to develop the way we present our financial information. It is important that we are transparent about our finances so that our customers have understandable information. This is particularly important to the council as our expenditure of £132m shows how significant our impact is on the Herefordshire community.

Cllr Harry Bramer
Cabinet Member for Resources

June 2009

2. EXPLANATORY FOREWORD

2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council present the overall financial position for the Authority for the year ended 31st March 2009 and have been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, a statement of recommended practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2 Revenue Expenditure and Income

Summary

2.2.1 The overall position on the council's revenue account was an under spend of £249,000, of which £42,000 related to Directorate budgets. The final revenue outturn of the council also includes corporate items such as treasury management and reserves transfers. The following table summarises the overall position.

	£000
Directorate under spends	(42)
Treasury management including borrowing and investment income	(729)
Additional central government funding	(346)
Transfers to reserves	958
Other changes	(90)
Total under spend	(249)

2.2.2 The overall position includes a number of transfers to and from revenue reserves. As part of the year end process £500,000 was transferred to the waste management reserve, £346,000 to an economic development reserve and £112,000 to a reserve for the Amey review process.

2.2.3 The net under spend of £249,000 has been transferred to the social care contingency reserve, which now stands at £926,000. This reflects the continuing risk to the council's finances due to pressure on Adult and Children's budgets.

Service Area Underspends

2.2.4 The net under spend for the council's directorates of £42,000 was made up as follows:

	Budget *	Actual *	(Under)/Over Spends
	£000	£000	£000
Directorate			
Adult Social Care	46,304	47,054	750
Children and Young People	37,708	37,175	(533)
Deputy Chief Executive	2,810	2,947	137
Environment and Culture	39,554	39,436	(118)
Regeneration	18,995	19,157	162
Resources	4,697	4,417	(280)
Central Services	4,562	4,402	(160)
Total	154,630	154,588	(42)

* These figures include reallocated support services, overheads and capital charges.

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

a. Adult Services

The 3 main variances from budget were in the areas of Learning Disabilities, Older People and Mental Health.

Within Learning Disabilities several different factors impacted on the outturn position, which was a £727,000 over spend. The amount of expenditure assessed as meeting Continuing Healthcare criteria has been included in the accounts based on the application of agreed assessment criteria. There were a number of new residential packages agreed as well as increases in homecare and supported accommodation costs and also less supporting people income was received than anticipated.

Older People over spent by £313,000 due to increased domiciliary costs, partly as a result of the 'red alert' in hospitals during December and January when patients were discharged earlier than normal. There were also cost increases due to more complex care needs and an increase in the level of 'top-up' payments.

Mental Health under spent by £503,000 due to additional income received from client contributions, grant funding, one-off deferred property income and supporting people funding.

b. Children and Young People's Services

In the area of Safeguarding Vulnerable Children there was an over spend of £96,000 with 2 main variances. External agency residential placements were under spent by £209,000 because there were 3 fewer children placed than at the start of the year. Looked After Children over spent by £298,000 because there were 12 more children in agency fostering than at the start of the year.

In the Planning, Performance and Development service there was a net saving of £356,000. The under spend on the transport budget was £494,000 across a number of areas of transport provision. Significant factors include the reductions in diesel fuel prices since the beginning of the financial year compared to those forecast, and the continuing annual route reviews which release savings. The Directorate's ICT budget has over spent by £145,000 due to ICT Service Level Agreement costs and expenditure on ICT system licenses which were previously funded from Standards Fund grants.

The Inclusion and Improvement Service under spent by a total of £573,000 comprising of a number of under spends on individual services. The Joint Agency Management (JAM) budget under spent by £206,000 due to fewer children with complex special needs. An under spend on the Early Years budget of £220,000 arose due to a contribution from the Early Years & Childcare Grant for the Hollybush Children's Centre and there was also an under spend of £148,000 on the Psychology and SEN teams.

The Central Directorate showed an over spend against budget of £288,000 at the year end largely relating to a centrally held efficiency savings budget of £200,000. This was realised during the year throughout the Directorate, which under spent overall, but was not allocated to specific budget areas.

c. Deputy Chief Executive

The overall outturn position for the Deputy Chief Executive's Directorate was an over spend of £137,000.

The most significant variance relates to Legal and Democratic Services. A shortfall in local land charges income of £200,000 was caused by the general downturn in the property market and also due to more competitive pricing in the private sector. Member Services over spent by £110,000 due to additional staff costs. The Coroner's service experienced an increase in post mortem and mortuary fees of £40,000. There were also a number of other over spends within electoral and legal services.

Corporate ICT Projects over spent by £168,000 due to the cost of equipment for the new data centre. However this was mitigated by under spends within ICT operations due to vacancies and software maintenance savings.

Slippage on the Herefordshire Connects programme resulted in less reserves being drawn on in 2008/09.

d. Environment and Culture

The overall outturn position for Environment & Culture was an under spend of £118,000.

Overall there was an over spend of £1.593m on Highways before taking account of transfers from reserves and one-off funding from the Restoration Fund, leaving a net over spend of £659,000. Following the floods in September and November 2008 Highways incurred total emergency repair work of £1.285m, towards which the council received £726,000 under the Bellwin scheme and used the Bellwin threshold reserve of £505,000. There was an over spend on winter maintenance of £836,000 and the £140,000 grant allocated to the council for de-trunking of the A465 was required in full to fund these additional costs. Also parking income was under budget by £200,000 due to the economic climate.

The outturn for Environmental Health and Trading Standards was an under spend of £76,000. The loss of rental income at Hereford Market Hall and budget pressures in street trading resulted in markets and fairs over spending by £135,000. Also the Anti Social Behaviour Team over spent by £84,000 due to temporary staff costs incurred in setting up the team and on-going salary costs. This was mitigated by additional income from the Crematorium of £110,000, vacancy management within services, and additional income from air pollution, licensing, trading standards and commercial environmental health.

e. Regeneration

The overall outturn position for Regeneration was an over spend of £162,000. The 3 main areas with variances were Planning, Strategic Housing and management and administration.

The levels of income within planning fell short of budget by £340,000, which was offset by the receipt of a planning delivery grant of £193,000. Additional costs above available budget remained for consultancy, IT and legal fees and resulted in an overall over spend for planning services of £255,000.

The costs of providing temporary accommodation for homeless people exceeded budget by £236,000 and use of temporary staff resulted in an over spend of £35,000 in administration and strategy. However, measures were

taken to manage this over spend within the service which resulted in an under spend on homelessness prevention and rent deposits of £66,000.

Under management and administration staff vacancy savings of £56,000 were achieved and £95,000 was set aside to support the shortfall of planning fees expected. This resulted in a recruitment freeze within the directorate support service.

f. Resources

The overall position for the Resources Directorate was an under spend of £280,000, the 2 main variances arising in Asset Management and Property Services and Benefit and Exchequer Services.

Office accommodation over spent by £325,000 partly due to increased costs on cleaning, business rates, gas and electricity. There was also increased rental for car parks and service charges at Plough Lane. There was an over spend £350,000 on corporate maintenance. Due to the under spend on benefits subsidy the opportunity was taken to make a revenue contribution of £109k to capital for Legionella works and repairs to Prospect Wall. Also, outstanding costs from prior years on the Amey application were settled and there was an increase in emergency expenditure.

There was a benefits subsidy surplus of £799,000 due to two factors:

- 1) the higher number of changes in circumstances for claimants actioned, which increased the amount of recoverable overpayments and associated subsidy; and
- 2) additional local authority error subsidy because the level of error was below the DWP threshold so attracts 100% subsidy.

The remaining £130,000 under spend is due to staff vacancies which have now been filled and one off grant income.

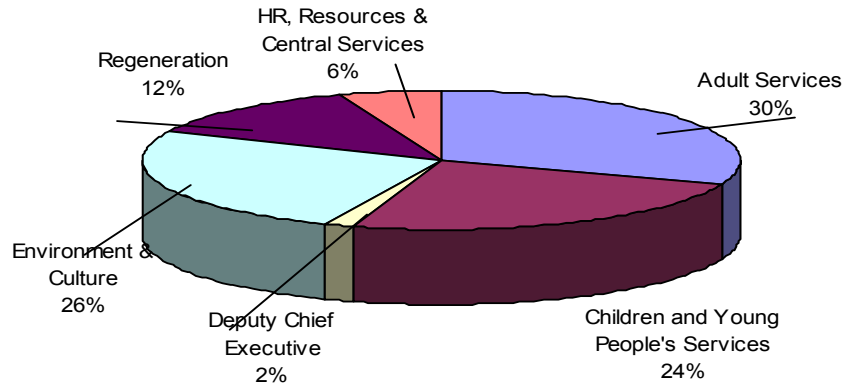
g. Central Services

The under spend is mainly due to a culmination of smaller under spends on corporate subscriptions, flood levies and pension costs. Also, following a successful legal case local authorities are now able to recover VAT in relation to historic errors. Worcester County Council successfully pursued an overpayment in respect of library related charges, which resulted in a receipt to Herefordshire of £55,000 in relation to overpayments made prior to local government reorganisation.

2.3 Analysis of Revenue Expenditure and Income

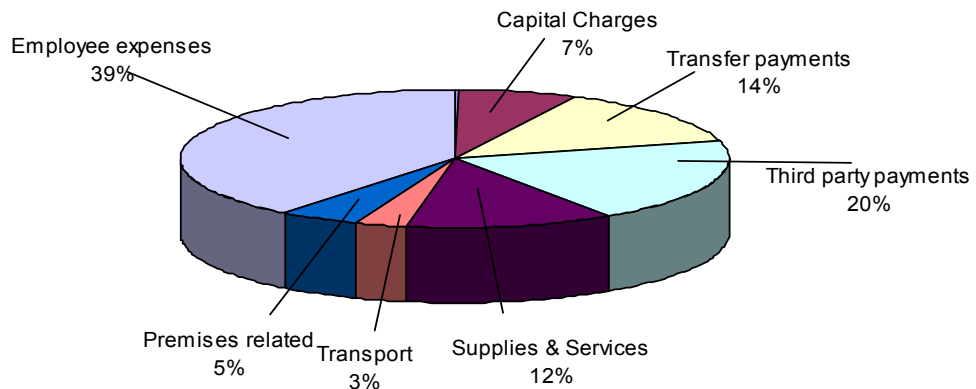
2.3.1 The net cost of services within the Income and Expenditure Account is £154.6 million, made up of the following directorates:

Analysis of Net Expenditure by Directorates



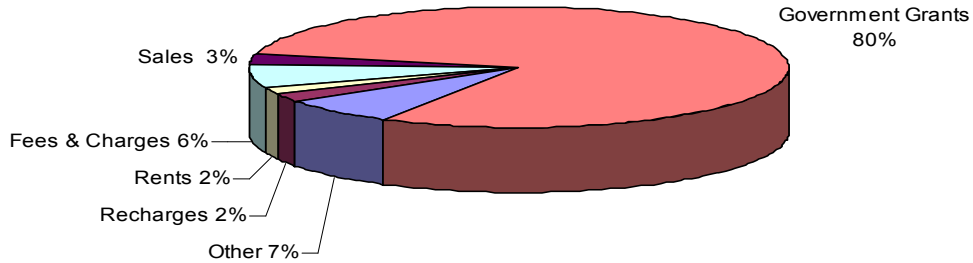
2.3.2 The gross cost of services was £366.1 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £211.5 million and came from the following sources:

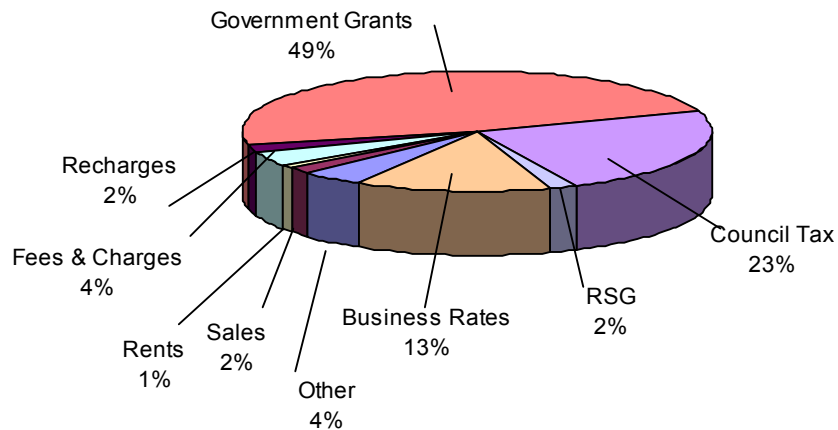
Analysis of Income within Services



2.3.4 The figure for government grants includes £83.6 million Dedicated Schools Grant after recoupment of £1.5 million for Hereford Academy. This commenced in 2006/07 and previously schools' funding was provided as part of the Revenue Support Grant outside of the education service accounts. The grants figure also includes £45.2 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £6.5 million Revenue Support Grant and £46.8 million in redistributed non-domestic rates towards financing the council's net expenditure. Council tax income totalled £80.9 million in 2008/09, including parish and town councils' precepts.

Total Revenue Income



2.4 Capital Programme

2008/09 Out-turn

2.4.1 With regard to capital spending some £48.05 million was incurred compared to the original forecast of investment in the council's assets of £57.9 million. The main changes include slippage in the corporate accommodation programme and the new livestock market. No conditional funding resources have been lost.

2.4.2 Herefordshire Council utilised supported borrowing of £12.75 million, capital receipts reserve funding of £6.22 million, revenue of £0.29 million, grants of £20.62 million and prudential borrowing of £8.17 million to fund capital expenditure in 2008/09.

Summary of Capital Expenditure

2.4.3 Capital expenditure for the year is summarised as follows:

	£000
Highways, footways and bridges	12,843
Education new build, refurbishment and improvements to existing schools	12,318
Ross on Wye Flood Alleviation	3,196
Affordable Housing Grants and Private Sector Renewal	2,784
Extra Care Housing Development	1,283
Social Care ICT Solution	1,216
Hereford Connects	1,151
New Crematorium, Hereford	1,777
Broadband Installation in Schools	1,077
Other schemes	10,406
	<u>48,051</u>

2.4.4 Prudential Borrowing

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. In 2008/09 the council utilised £8.17 million of prudential borrowing to fund the capital programme. The table below summarises the out-turn position:

	£000	£000
2008/09 Planned Prudential Borrowing		18,334
Add: Slippage from 2007/08		4,609
Less: Slippage into future years	(12,665)	
No longer required	(2,107)	(14,772)
		<u>8,171</u>

2.4.5 Included in the £12.66 million slippage into future years is £3.25 million for corporate accommodation, £2.1 million for the Herefordshire Connects programme and £1.1 million for City Centre enhancements. Also included is £2.5 million, which remained unallocated in 2008/09 and has now been allocated to new schemes as part of the 2009/10 budget process.

Future years' capital programme

2.4.6 The council maintains as a minimum a full three-year rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is as set out below.

	2009/10	2010/11	2011/12
	£000	£000	£000
Sources of funding			
Grants and Contributions	34,154	32,164	3,655
Prudential Code Borrowing	16,588	9,650	1,039
Capital Receipts Reserves	3,268	1,764	500
Supported Capital Expenditure (Revenue)	13,567	13,210	1,200
	<u>67,577</u>	<u>56,788</u>	<u>6,394</u>

2.5 The Council's Borrowing

2.5.1 The council's borrowing strategy is determined each year within the Treasury Management Strategy, which is approved as part of the budget process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

2.5.2 In 2008/09 £13 million of new loans were taken out as follows:

Date	Amount £	Period of loan	Rate of Interest
10/09/08	5,000,000	50 years	4.38%
09/10/08	5,000,000	50 years	4.36%
04/03/09	3,000,000	33 days	0.60%

2.5.3 The council had a total of £118.40 million outstanding loan debt at 31st March 2009 of which £15.25 million was repayable within 12 months.

2.6 The Council's Reserves

2.6.1 The council retained a minimum level of general reserves of £4.5 million as a contingency against unforeseen emergencies and events. At the end of 2008/09 the council held general reserves of £6.39 million compared with a position of £6.73 million in 2007/08. Specific reserves totalled £16.06 million (£16.57 million in 2007/08), which are detailed in paragraph 10.20 to the Statements.

2.7 Pensions

2.7.1 In accordance with Financial Reporting Standard 17 on Retirement Benefits (FRS 17), Paragraph 10.29 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. The net deficit shown as at 31st March 2009 is £130.1 million, which is approximately 89% of the fair value of the assets (70% at 31st March 2008). 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. The pension fund position is reviewed every three years and was last revalued as at 31st March 2007. Further to the revaluation, the council's employers' contribution increased from 18.2% of pensionable pay in 2007/08 to 20.4% by 2010/11, with phased increases over that period.

2.8 The 'Deep Partnership'

- 2.8.1 During 2007/08 a single Chief Executive for the council and primary care trust was established and since Spring 2008 a single management team has been in place comprising directors from both organisations. The directors are now working together as one team to progress the ambitions of enhanced partnership working, referred to as a 'deeper partnership'.
- 2.8.2 Our partnership working is bringing together and improving a number of corporate services. Now the council, the primary care trust and the hospital trust have appointed a specialist supplier to develop a shared services strategy for a number of key functions.
- 2.8.3 The shared services strategy links in with other major programmes such as Herefordshire Connects, the accommodation strategy and organisational development. By sharing more services we can deliver improved value for money and customer service in line with the partnership's vision for Herefordshire.

2.9 Impact of Economic Climate

- 2.9.1 The economic downturn has had an effect on directorate income in 2008/09 accounts. Land charges income, parking fees and planning fees were all below target levels. This is anticipated to continue over the forthcoming year and £500,000 has been included in the budget for 2009/10 to address this.
- 2.9.2 The credit crunch and impact on interest rates has impacted on the treasury management activities during the year. As investment income rates have reduced and suitable counterparties have been more difficult to find, it has been more advantageous to borrow for capital spending from internal reserves rather than borrowing externally. Thus the council took out external loans of £13 million, although the capital spend in the year included a borrowing requirement of £20.9 million.
- 2.9.3 The economic downturn has also had an impact on the value of the council's assets. The council's valuer has assessed the impact of the economic situation on the balance sheet using market evidence, which has resulted in £8 million written off as impairments in 2008/09.

2.10 The 2008/2009 Statement of Accounts

- 2.10.1 The council's accounts are detailed in the following pages and comprise:
- a. The Income and Expenditure Account**

This account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2008/09.
 - b. 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.
 - c. The Statement of Total Recognised Gains and Losses**

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

d. The Balance Sheet

This shows the authority's financial position for the year ended 31st March 2009, and represents the value of all assets and liabilities.

e. Cash Flow Statement

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

f. Notes to the Statements

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

g. 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.

2.10.2 The Statement of Accounts was authorised for issue on 8th June 2009 by the Director of Resources.

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

**Director of Resources
June 2009**

3. STATEMENT OF ACCOUNTING POLICIES

3.1 General Principles

3.1.1 The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008: A Statement of Recommended Practice. This Code is recognised by statute as representing proper accounting practice.

3.2 Accruals of Income and Expenditure

3.2.1 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 on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. 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.

3.3 Reserves and Provisions

3.3.1 The council maintains a number of provisions and earmarked reserves to cover future expenditure.

3.3.2 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 the insurance provision, which has been subject to an independent evaluation.

3.3.3 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.

3.4 Grants

3.4.1 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 the depreciation on the assets to which the grant relates.

3.5 Pensions

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

- a. The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Children, Schools and Families (DCSF).

- b. The Local Government Pension Scheme administered by Worcestershire County Council.
- 3.5.2 Both schemes provide defined benefits to members, earned as employees work for the council.
- 3.5.3 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 the Teachers' Pensions Scheme in the year.
- 3.5.4 The Local Government Pension Scheme is accounted for as a defined benefits scheme as follows:
- a. The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees.
 - b. Liabilities are discounted to their value at current prices
 - c. Assets are included in the Balance Sheet at their fair value
 - d. The change in the net pensions liability is analysed into seven components;
 - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Income and Expenditure Account.
 - ii. **Past service cost:** The increase in liabilities arising from current year decisions whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - iii. **Interest cost:** The expected increase in the present value of liabilities during the year as they move one year closer to being paid is debited to Net Operating Expenditure in the Income and Expenditure Account.
 - iv. **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, is credited to Net Operating Expenditure in the Income and Expenditure Account.
 - v. **Gains/losses on curtailments:** The results of actions to relieve the council of liabilities or events that reduce the expected future benefits of employees is included in the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.
 - vi. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in the Statement of Total Recognised Gains and Losses.

vii. Contributions paid to the pension fund: Cash paid as employer's contributions to the pension fund.

3.5.5 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.

3.5.6 Further information on accounting for the pension fund is set out in paragraph 10.29 to the Statements.

3.6 VAT

3.6.1 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.

3.7 Overheads and Support Services

3.7.1 The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2008. 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:

- a. **Corporate and Democratic Core:** The costs relating to the council's status as a multi-functional, democratic organisation.
- b. **Non Distributed Costs:** The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

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

3.8 Intangible Fixed Assets

3.8.1 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.

3.9 Tangible Fixed Assets

3.9.1 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

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

Measurement

3.9.3 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:

- a. **Operational land, properties and other operational assets:** The lower of net current replacement cost and net realisable value in existing use.

b. Infrastructure and community assets: Depreciated historical cost.

c. Non-operational land, properties and other non-operational assets: The lower of net current replacement cost and net realisable value.

3.9.4 Contrary to the CIPFA capital accounting guidance, tenanted farms will continue to be disclosed as non-operational assets (Investment Properties) in the 2008/09 accounts, as these properties do not contribute to service objectives of the council. The total value of the smallholdings is £4.5 million.

3.9.5 The council is holding a number of buildings for the Edgar Street Grid development as non-operational assets in the Balance Sheet. One of the office buildings and part of a second are currently occupied by the council awaiting development. The two buildings, Blueschool House and Franklin House, are valued at £2 million.

Revaluations

3.9.6 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. Increases in valuations are credited to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

3.9.7 The Revaluation Reserve contains revaluation gains recognised since 1 April 2007. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Disposals

3.9.8 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. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Receipts are appropriated to the Usable Capital Receipts Reserve from the Statement of Movement on the General Fund Balance.

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

Depreciation

3.9.10 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 (applying a maximum 50 years limit) and after allowing for any residual value of the asset. The council's valuer makes an informed assessment of the appropriate rate of depreciation dependent on the suitability and age 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 and no depreciation is charged in the year of disposal.

3.9.11 Revaluation gains are also depreciated by an amount equal to the difference between current value depreciation charged on assets and the depreciation chargeable on historical cost. Depreciation on revaluation gains is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Impairment

- 3.9.12 In addition to the rolling programme, a review for impairment of a fixed asset, whether carried at historical cost or valuation, is carried out at each year end. If events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable, its balance sheet value is reduced accordingly. Because of the general economic downturn, a comprehensive impairment review was carried out at 31st March 2009 and the reduced values were fully reflected in the balance sheet.
- 3.9.13 Where impairment has been identified, the accounting treatment depends on the nature of the impairment of value. Where an asset suffers an impairment representing the clear consumption of economic benefits, the impairment loss is charged to the relevant service revenue account in the Income and Expenditure Account. If there are any accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.
- 3.9.14 Where impairment losses arise due to a general fall in prices, the impairment loss is first charged against any previous gains to that asset. To the extent that previous gains are insufficient to cover, the excess is charged to the relevant service revenue account.

3.10 Charges to Revenue for Fixed Assets

- 3.10.1 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;
- a. Depreciation attributable to the assets used by the relevant service (net of Government Grants Deferred).
 - b. Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off.
 - c. Amortisation of intangible fixed assets attributable to the service.
 - d. Items classified as Revenue Expenditure Funded from Capital Under Statute.
- 3.10.2 The council is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make prudent provision from revenue towards debt repayment. For supported borrowing the council sets aside 4% per annum for debt repayment and for prudential borrowing the principal is repaid over the life of the asset. Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Statement of Movement on the General Fund Balance through an adjustment to the Capital Adjustment Account.

3.11 Revenue Expenditure Funded from Capital under Statute

- 3.11.1 Expenditure that may be capitalised under statutory provisions but does not result in the creation of a tangible asset has been charged to the relevant service revenue account in the year. A transfer to the Capital Adjustment 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.

3.12 Leases

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

3.13 Financial Liabilities

3.13.1 Financial liabilities are initially measured at fair value and carried at amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.

3.13.2 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

3.13.3 Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over the future years. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

3.13.4 There were no premiums or discounts in the 2008/09 accounts.

3.14 Financial Assets

3.14.1 All financial assets have been classified as 'loans and receivables'. These are assets that have fixed or determinable payments but are not quoted in an active market.

3.14.2 Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable is based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

3.14.3 Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

3.14.4 Any gains or losses that arise on the de-recognition of the asset are credited/debited to the Income and Expenditure Account.

3.15 Stocks and Work-in-Progress

3.15.1 Stock has been included in the accounts at current cost.

3.16 Amey Wye Valley Limited

3.16.1 During 2007/08 Amey Wye Valley Limited took over a long term contract that Herefordshire Jarvis Services had entered in to with Herefordshire Council in 2003. In accordance with the accounting treatment set out in FRS 9 (Associates and Joint Ventures) no group accounts are required for the partnership with Amey Wye Valley. This is conducted as a contractual arrangement with the transactions included in the Income and Expenditure account and capital accounts.

3.17 Private Finance Initiative

3.17.1 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.

3.17.2 Under FRS 5, assets employed in the provision of services under PFI contracts are recorded on either the Balance Sheet of the council or the service provider, depending on which party has access to the benefits and risks associated with the assets.

3.17.3 The council has two 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.

3.17.4 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.

3.18 Landfill Allowances Scheme

3.18.1 The Landfill Allowance Trading Scheme (LATS) is a 'cap and trade' scheme, which allocates tradable landfill allowances to each Waste Disposal Authority (WDA). The scheme gives rise to:

- a. An asset for allowances held.
- b. LATS grant income.
- c. A liability for actual landfill usage.

3.18.2 Landfill allowances, issued free by the Department for Environment, Food and Rural Affairs (DEFRA), are treated as a government grant in revenue and recognised as a current asset in the Balance Sheet. As landfill is used a liability is recognised by creating a provision, which is discharged by using allowances or paying a cash penalty to DEFRA. Allowances can be traded between WDAs. Paragraph 10.31 to the Statements provides details of the 2008/09 usage.

3.19 Estimation Techniques

3.19.1 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.

- 3.19.2 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.
- 3.19.3 There are no estimates in the 2008/09 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

4. STATEMENT OF RESPONSIBILITIES

4.1 The Council's Responsibilities

4.1.1 The council is required to:

- a. 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.
- b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- c. Approve the statement of accounts.

4.2 The Director of Resources' Responsibilities

4.2.1 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 council's financial position as at 31st March 2009 and its income and expenditure for the financial year.

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

- a. Selected suitable accounting policies and then applied them consistently.
- b. Made judgements and estimates that were reasonable and prudent.
- c. Complied with the Code of Practice.

4.2.3 The Director of Resources has also:

- a. Kept proper accounting records which were up to date.
- b. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

4.3 Certificate of the Director of Resources

4.3.1 I certify that the Statement of Accounts present fairly the financial position of Herefordshire Council at 31st March 2009 and its income and expenditure for that period.

Mr David Powell
Director of Resources
8th June 2009

5. INCOME AND EXPENDITURE ACCOUNT

5.1 This account reports the costs of all the functions for which the council is responsible and shows how they have 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.

5.2 The Income and Expenditure Account for 2008/09 is set out below:

2007/08 Net £000	Note	2008/09 Expenditure £000	2008/09 Income £000	2008/09 Net £000
Directorate				
39,375	Adult Services	66,061	19,007	47,054
32,191	Children and Young People's Services	153,095	115,739	37,356
36,917	Environment and Culture	52,695	13,260	39,435
16,036	Regeneration	30,788	11,631	19,157
3,974	Deputy Chief Executive	4,199	1,253	2,946
7,070	Central Services	4,858	644	4,214
7	Human Resources	115	113	2
(31)	Resources	54,249	49,832	4,417
135,539	Net Cost of Services	366,060	211,479	154,581
(594)	(Profit) or loss on disposal of fixed assets			(365)
2,217	Precepts and levies			2,547
0	(Surplus)/deficit on trading accounts			0
4,348	Interest payable and similar charges	10.18		4,964
40	Housing capital receipts pool			21
15,876	Pensions interest	10.29		19,745
(14,060)	Return on Pensions Assets			(13,016)
(3,234)	Interest and Investment income	10.18		(2,868)
140,132	Net Operating Expenditure			165,609
Sources of Finance				
(1,581)	Local Authority Business Growth Incentive Scheme			(346)
(1,148)	Local Public Service Agreement			(334)
(76,524)	Council Tax			(80,864)
(256)	Transfer from Collection Fund			0
(6,847)	General Government Grants			(15,346)
(40,801)	Contribution from Non-Domestic Rates			(46,793)
(127,157)				(143,683)
12,975	(Surplus) or Deficit for the year			21,926

5.3 The net cost of services is shown above analysed by the council's directorates, in line with the way the council's budgets are compiled and monitored. In 2008/09 the Directorates were restructured and the comparative 2007/08 figures have been

restated to reflect this. The directorate figures shown in paragraph 2.2.4 include some items which are required to be shown after the net cost of services in the Income and Expenditure account.

- 5.4 The Accounting Code of Practice requires that service expenditure analysis should be shown in accordance with the Best Value Accounting Code of Practice (BVACOP) for consistency and comparability among local authorities. The BVACOP analysis is set out below:

2007/08 Net £000		2008/09 Expenditure £000	2008/09 Income £000	2008/09 Net £000
BVACOP Analysis of Services				
39,431	Adult Social Care	66,062	19,033	47,029
	Cultural, Environmental, Regulatory and			
32,356	Planning	55,536	17,492	38,044
32,454	Children and Educational Services	153,836	116,454	37,382
14,413	Highways and Transport Services	24,478	7,274	17,204
4,938	Housing Services	44,179	36,398	7,781
4,281	Corporate and Democratic Core	4,371	644	3,727
3,438	Non-distributed Costs	950	0	950
2,722	Central Services	15,164	12,773	2,391
235	Court Services	280	0	280
1,271	Other Services	1,204	1,411	(207)
135,539	Net Cost of Services	366,060	211,479	154,581

- 5.5 In both versions of the Income and Expenditure account the net cost of services is shown after support services have been recharged, so that the recharged cost is reflected only in the accounts of the service receiving it. This is also a requirement of BVACOP.

- 5.6 Under the BVACOP analysis of the Income and Expenditure Account:

- a. **Central Services** includes local tax collection, registration of births, deaths and marriages, elections, emergency planning, and local land charges.
- b. **Corporate and Democratic Core** includes two categories of expenditure, Democratic Representation and Management (DRM) and Corporate Management Costs. DRM includes all aspects of members' activities and Corporate Management includes activities that provide the infrastructure that allows services to be provided e.g. the Chief Executive, external audit, corporate level financing and treasury management.
- c. **Non-distributed costs** include costs relating to retirement benefits and capital charges for non-operational assets.

6. STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

6.1 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.

6.2 The main differences are:

- a. Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- b. 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.
- c. Retirement benefits are charged as amounts become payable to pension funds rather than as future benefits are earned.
- d. The movement on the General Fund balance also takes into account movements to and from earmarked reserves.

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

2007/08		2008/09
£000		£000
12,975	(Surplus)/Deficit on the Income and Expenditure Account	21,926
(11,680)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(21,588)
1,295	Decrease /(Increase) in General Fund Balance for the Year	338
(8,023)	General Fund Balance brought forward	(6,728)
(6,728)	General Fund Balance carried forward	(6,390)

6.4 Paragraph 10.3 to the accounts provides a detailed analysis of the differences between the Income and Expenditure Account and the movement on the General Fund balance.

7. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

7.1 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.

7.2 The Statement of Total Recognised Gains and Losses in 2008/09 is set out below.

2007/08		2008/09
£000		£000
12,975	(Surplus)/Deficit for the year on the Income and Expenditure Account	21,926
(14,104)	Surplus arising on revaluation of fixed assets	(9,602)
504	Prior year adjustment – Financial Instruments	0
0	Adjustment to Opening Balance on Pensions Reserve	377
443	Movement on Collection Fund balance	(47)
41,825	Actuarial (gains)/losses on pension fund assets and liabilities	(9,022)
41,643		3,632

7.3 The 2007/08 prior year adjustment for Financial Instruments represents the re-stated Financial Liabilities balance as at 31st March 2007. The balances recognise the adjustment made to the amortised costs as at 1st April 2007 for two Lenders Option-Borrowers Option (LOBO) loans, which have been adjusted using the Effective Interest Rate.

7.4 The 2008/09 adjustment in relation to the pensions reserve reflects a change in the valuation method for assets (as described in paragraph 10.29.5)

7.5 An analysis of the actuarial gains and losses is shown in paragraph 10.29.15.

8. BALANCE SHEET AS AT 31ST MARCH 2009

31.3.08 £000		Note	31.3.09 £000	31.3.09 £000
	Fixed Assets	10.13,10.15		
2,037	Intangible Fixed Assets	10.12	3,492	
	Tangible Fixed Assets			
	Operational Assets			
219,955	- Land and buildings		230,559	
4,794	- Vehicles, plant, furniture and equipment		7,505	
95,706	- Infrastructure assets		106,990	
2,560	- Community Assets		2,944	
53,075	Non-operational Assets		50,909	
<u>378,127</u>				402,399
624	Long-term debtors			1,173
14	Long-term investments	10.18		4
<u>378,765</u>	Total Long-term Assets			<u>403,576</u>
	Current Assets			
206	Stocks and work-in-progress		102	
22,500	Debtors	10.26	32,413	
41,703	Short-term Investments	10.18	26,595	
238	Landfill Allowance	10.31	4	
3,536	Cash and bank		4,551	
<u>68,183</u>				63,665
	Current Liabilities			
37,763	Creditors	10.25	38,706	
14,079	Short term borrowing	10.18	16,802	
6,608	Cash overdrawn		5,714	
<u>58,450</u>				61,222
<u>388,498</u>	Total Assets less Current Liabilities			<u>406,019</u>
94,264	Long-term borrowing	10.18	104,068	
55,630	Capital contributions deferred		70,160	
6	Debt liability		4	
132,878	Pensions liability		130,114	
2,441	Provisions	10.19	2,029	
<u>285,219</u>				306,375
<u>103,279</u>	Total Assets less Liabilities			<u>99,644</u>
	Financed by;			
182,850	Capital adjustment account	10.20		169,680
12,592	Revaluation reserve	10.20		20,587
(501)	Financial instruments adjustment account	10.20		(498)
(132,878)	Pensions reserve	10.20,10.29		(130,114)
17,945	Usable capital receipts	10.20		17,558
269	Deferred credits			228
(298)	Collection Fund			(251)
16,572	Earmarked reserves	10.20		16,064
6,728	Revenue balances	10.20		6,390
<u>103,279</u>	Total net worth			<u>99,644</u>

9. CASH FLOW STATEMENT

2007/08 £000		2008/09 £000	2008/09 £000
	Revenue Activities		
	Cash outflows		
131,810	Cash paid to and on behalf of employees	137,397	
201,004	Other operating cash payments	179,696	
30,216	Housing Benefit paid out	32,958	
38,822	National non-domestic rate payments to national pool	41,820	
174	Payments to the Capital Receipts Pool	23	
17,412	Precepts paid	18,603	
419,438			410,497
	Cash inflows		
(83,079)	Council Tax income	(87,618)	
(40,801)	National non-domestic rate receipts from national pool	(46,793)	
(37,244)	Non domestic rate receipts	(40,437)	
(6,847)	Revenue Support Grant	(6,514)	
(28,435)	DWP grants for benefits	(32,760)	
(155,354)	Other government grants	(145,862)	
(68,269)	Other operating cash receipts	(44,525)	
(420,029)			(404,509)
(591)	Revenue Activities Cash Flow		5,988
	Servicing of Finance		
	Cash outflows		
4,222	Interest paid	4,906	
	Cash inflows		
(2,712)	Interest/discount received	(2,724)	
1,510			2,182
	Capital Activities		
	Cash outflows		
42,405	Purchase of fixed assets	42,081	
141	Other capital cash payments	162	
42,546			42,243
	Cash inflows		
(3,269)	Sale of fixed assets	(5,854)	
(25,673)	Capital grants received	(15,781)	
(3,423)	Other capital cash receipts	(3,516)	
(32,365)			(25,151)
11,100	Net cash (inflow)/outflow before financing		25,262
	Management of Liquid Resources		
166	Net decrease in short term investments		(14,700)
	Financing		
	Cash outflows		
464	Repayments of amounts borrowed	529	
	Cash inflows		
(12,639)	New loans raised	(13,000)	
(12,175)			(12,471)
(909)	Net decrease/(increase) in cash		(1,909)

9.1 Further information can be found in paragraph 10.32 to the Statements. The comparatives for 2007/08 have been amended due to a change in the treatment of deferred charges from capital to revenue activities

10. NOTES TO THE CORE STATEMENTS

10.1 Prior Period Adjustments

10.1.1 The Balance Sheet figures for 31 March 2008 have not been adjusted from those included in the Statement of Accounts for 2007/08.

10.2 Trading Operations

10.2.1 The council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from external customers. The large deficits this year are due to high impairment charges on the Cattle Market (£229,000), the new livestock market site (£371,000), the Butter Market (£814,000), Barrs Court Trading Estate (£854,000) and Rotherwas Industrial Estate (£801,000).

10.2.2 Significant trading accounts are summarised as follows:

	2008/09 £000	2008/09 £000
Markets		
The council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls. The surplus in 2007/08 was £171,000.	Turnover	(718)
	Expenditure	2,402
	Deficit	1,684
Industrial & Commercial Estates		
The council owns and manages a number of industrial and commercial estates in the County. The surplus in 2007/08 was £1.451 million.	Turnover	(1,576)
	Expenditure	3,384
	Deficit	1,808
Retail Properties		
The council owns retail premises in Hereford City centre from which it receives commercial rents. The surplus in 2007/08 was £571,000.	Turnover	(664)
	Expenditure	163
	Surplus	(501)

10.3 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

10.3.1 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 calculated on a different basis with additional items charged or credited to the General Fund as follows:

2007/08 £000		2008/09 £000
	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	
(2,176)	Amortisation of intangible fixed assets	(735)
(13,915)	Depreciation and impairment of fixed assets	(19,800)
2,292	Government Grants deferred amortisation	2,718
(9,857)	Revenue Expenditure Funded from Capital under Statute	(7,357)
6,583	Grant Supporting Revenue Expenditure Funded from Capital under Statute	2,392
3	Effective Interest Rate adjustment	4
633	Surplus or loss on the sale of fixed assets (non-revenue)	496
<u>(12,145)</u>	Net charges made for retirement benefits in accordance with FRS17	<u>(16,225)</u>
(28,582)		(38,507)
	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	
6,950	Statutory provision for repayment of debt	6,814
3,251	Capital expenditure charged to the General Fund Balance	290
(40)	Transfer of usable capital receipts to meet payments to the Housing Capital Receipts Pool	(21)
9,943	Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	10,344
<u>20,104</u>		<u>17,427</u>
	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	
(3,202)	Net transfer to/(from) earmarked reserves	(508)
<u>(11,680)</u>		<u>(21,588)</u>

10.4 Section 137 of the Local Government Act 1972

10.4.1 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 £485,035 in 2008/09 under these powers.

10.5 Publicity

10.5.1 Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2008/09 the total was £952,000 split as set out below.

2007/08		2008/09
£000		£000
398	Recruitment advertising	450
30	Other advertising	10
626	Other publicity	492
<u>1,054</u>		<u>952</u>

10.6 Building Regulations Charging Account 2008/09

10.6.1 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		Chargeable	Non-Chargeable	Total Building Control
2007/08		2008/09	2008/09	2008/09
£000		£000	£000	£000
	Expenditure			
548	Employee Expenses	427	142	569
32	Transport	26	9	35
20	Supplies & Services	10	4	14
349	Support Services	243	27	270
<u>949</u>	Total Expenditure	<u>706</u>	<u>182</u>	<u>888</u>
	Income			
(712)	Building Regulation Charging	(637)	0	(637)
<u>237</u>	(Surplus)/Deficit for the Year	<u>69</u>	<u>182</u>	<u>251</u>

10.7 The Local Authority (Goods and Services Act) 1970

10.7.1 The Act empowers local authorities to provide goods and services to other public bodies. In 2008/09 services were provided to the following organisations:

2007/08	Organisation	2008/09
£000		£000
2	Hereford College of Art & Design	1
5	Hereford College of Technology	5
73	Hereford and Worcester Fire Brigade	51
<u>80</u>		<u>57</u>

10.8 Partnership Schemes Under Section 75 of the Health Act 2006

10.8.1 There are seven Section 75 agreements between the council and Primary Care Trust (PCT).

10.8.2 Three are hosted by the PCT:

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

10.8.3 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.

Mental Health

10.8.4 This Section 75 agreement is the integrated mental health and social care service. This service is available to all residents within the county of Herefordshire.

10.8.5 The main partners in this pooled budget and their contributions were:

- Herefordshire Primary Care Trust - £19 million.
- Herefordshire Council - £6.2 million.

10.8.6 Gross income and expenditure for the year is summarised below:

2007/08 £000		2008/09 £000	
(20,828)	Gross Income	(25,263)	
24,234	Gross Expenditure	26,488	
<u>3,406</u>	Net over / (under) spend	<u>1,225</u>	

10.8.7 The council's element of the pool under spent by £503,000 due to additional income from client contributions, one-off property income and grant funding.

Hillside Intermediate Care

10.8.8 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.

10.8.9 The main partners in this pooled budget and their contributions were:

- Herefordshire Primary Care Trust - £903,338
- Herefordshire Council - £371,194

10.8.10 Gross income and expenditure for the year is summarised below:

2007/08 £000		2008/09 £000	
(1,201)	Gross Income	(1,276)	
1,241	Gross Expenditure	1,283	
<u>40</u>	Net over / (under) spend	<u>7</u>	

10.8.11 The council's gross overspend for Hillside intermediate care was £6,804

Blanchworth Contract, Kington

10.8.12 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £514,073
- b. Herefordshire Council - £356,628

10.8.13 Gross income and expenditure for the year is summarised below:

2007/08		2008/09	
£000		£000	
(859)	Gross Income	(871)	
859	Gross Expenditure	871	
<u>0</u>	Net over / (under) spend	<u>0</u>	

Learning Disabilities

10.8.14 This Section 75 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.

10.8.15 The main partners in this pooled budget and their contributions were:

- a. Herefordshire Primary Care Trust - £3.5 million
- b. Herefordshire Council - £10.2 million

10.8.16 Gross income and expenditure for the year is summarised below:

2007/08		2008/09	
£000		£000	
(12,171)	Gross Income	(13,696)	
14,441	Gross Expenditure	14,397	
<u>2,270</u>	Net over / (under) spend	<u>701</u>	

10.8.17 The council's gross over spend for integrated Learning Disabilities service was £701,379 due to several factors, including the impact of Continuing Healthcare assessments, new residential packages and increases in homecare and supported accommodation costs.

Integrated Community Equipment Service

10.8.18 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.

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

- a. Herefordshire Primary Care Trust - £266,867
- b. Herefordshire Council - £266,867

10.8.20 Gross income and expenditure for the year is summarised below:

2007/08		2008/09
£000		£000
(668)	Gross Income	(534)
668	Gross Expenditure	534
<u>0</u>	Net over / (under) spend	<u>0</u>

Free Nursing Care

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

10.8.22 The main partner in this pooled budget is Herefordshire Primary Care Trust and their contribution was £861,223.

10.8.23 Gross income and expenditure for the year is summarised below:

2007/08		2008/09
£000		£000
(1,261)	Gross Income	(861)
1,207	Gross Expenditure	993
<u>(54)</u>	Net over / (under) spend	<u>132</u>

10.8.24 The council's gross over spend for Free Nursing Care was £132,180.

JAM Out of County Placements

10.8.25 Herefordshire Council and the PCT have signed a Section 75 agreement for the 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.

10.8.26 Gross income and expenditure for the year is summarised below:

2007/08		2008/09
£000		£000
	Gross Funding	
(199)	Herefordshire PCT	(206)
(597)	Herefordshire Council (DSG)	(619)
(597)	Herefordshire Council	(619)
<u>(1,393)</u>	Total Funding	<u>(1,444)</u>
1,393	Total Expenditure	1,444
<u>0</u>	Net over / (under) spend	<u>0</u>

10.9 General Government Grants

10.9.1 The General Government Grants of £15.3 million within the Income and Expenditure Account (paragraph 5.2) is made up of £6.5 million Revenue Support Grant (RSG), (£6.9 million 07/08) and £8.8 million for the Area Based Grant (ABG).

From 2008/09 the ABG replaces the Local Area Agreement Grant, which is a non-ringfenced general grant with no conditions imposed on its use, ensuring full local control over how the funding can be used.

10.10 Members Allowances

10.10.1 Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2008/09 members were paid a total of £664,336 under these regulations (£647,678 in 2007/08). This was made up of £404,863 basic allowances, £217,586 special responsibility allowances and £41,887 for travelling and subsistence.

10.11 Employees remuneration

10.11.1 The Accounts and Audit Regulations 2003 require authorities to disclose the number of employees whose remuneration in the year, excluding employer 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.

Remuneration band	No. of Employees	
	2008/09	2007/08
£50,000 - £59,999	59	53
£60,000 - £69,999	16	16
£70,000 - £79,999	15	13
£80,000 - £89,999	5	1
£90,000 - £99,999	0	1
£100,000 - £109,999	3	5
£110,000 - £119,999	2	1
£120,000 - £129,999	1	0
£130,000 - £139,999	0	1
£140,000 - £149,999	0	0
£150,000 - £159,999	0	0
£160,000 - £169,999	0	0
£170,000 - £179,999	0	0
£180,000 - £189,999	1	0

10.11.2 The following table summarises the redundancies which occurred in 2008/09:

2008/09	Teachers	Others	Total
Number	24	61	85
Total Cost	£451,379	£478,347	£929,726
Average	£18,807	£7,842	£10,938

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

10.12 Intangible Assets

10.12.1 Movement in Intangible Fixed Assets in the year were:

	Software	Other	Total
	£000	£000	£000
Net book value at 31st March 2008	2,015	22	2,037
Additions	2,190	0	2,190
Amortisation for year	(727)	(8)	(735)
Net book value at 31st March 2009	3,478	14	3,492

10.12.2 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 3 years useful life remaining.

10.13 Summary of Capital Expenditure and Fixed Asset disposals

10.13.1 The following tables summarise the movements on fixed assets, capital expenditure and capital financing in the year.

Movement on Fixed Assets

	<i>Operational assets</i>				<i>Non-operational assets</i>		<i>Intangible assets</i>	<i>Total assets</i>	
	Land and buildings	Vehicles plant and equip	Infra-structure assets	Community assets	Held for Investment	Under Construction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	
Cost or Valuation									
At 1 st April 2008	223,288	6,282	99,825	2,560	41,213	8,555	3,307	4,213	389,243
Additions	10,984	4,445	16,421	527	358	5,335	272	2,190	40,532
Disposals/deletions	(4,102)				(1,129)		(154)		(5,385)
Revaluations*	8,644			82	(967)		98		7,857
Impairments*	(2,558)			(225)	(3,816)	(827)	(632)		(8,058)
Reclassifications	702				148	(1,032)	182		0
At 31st March 2009	236,958	10,727	116,246	2,944	35,807	12,031	3,073	6,403	424,189
Depreciation and Impairments									
At 1 st April 2008	(3,333)	(1,488)	(4,119)					(2,176)	(11,116)
Charge for 2008/09	(4,871)	(1,734)	(5,138)					(735)	(12,478)
Disposals	58								58
Reclassifications	1						(1)		0
Revaluations	1,746								1,746
At 31st March 2009	(6,399)	(3,222)	(9,257)				(1)	(2,911)	(21,790)
Balance Sheet amount at 31st March 2008	219,955	4,794	95,706	2,560	41,213	8,555	3,307	2,037	378,127
Balance Sheet amount at 1st April 2009	230,559	7,505	106,989	2,944	35,807	12,031	3,072	3,492	402,399

*Revaluations: This relates to increased valuations and also reduced valuations where there is a previous revaluation reserve to cover (for the specific property concerned).

*Impairments: This relates to a reduced valuation but where there is no revaluation reserve available to cover (so that the loss is charged to the Income and Expenditure Account).

Capital Expenditure and Financing

2007/08 £000	Capital Expenditure & Financing	2008/09 £000
125,898	Opening capital financing requirement	136,270
	<u>Capital Investment</u>	
34,695	Operational assets	32,377
9,203	Non-operational assets	5,965
304	Intangible assets	2,190
141	PFI asset prepayment	162
9,857	Revenue expenditure funded from capital under statute	7,357
	<u>Sources of finance</u>	
(26,554)	Grants and Contributions	(20,623)
(7,071)	Capital Receipts	(6,217)
(10,203)	Sums set aside from revenue	(7,106)
<u>136,270</u>	Closing capital financing requirement	<u>150,375</u>
	<u>Explanation of movements in year</u>	
9,963	Borrowing – Supported Capital Expenditure (Revenue)	12,750
7,360	- Prudential Borrowing	8,170
(6,951)	Revenue provision	(6,815)
<u>10,372</u>		<u>14,105</u>

10.14 Significant Commitments Under Capital Contracts

10.14.1 The significant commitments in respect of capital contracts due to be met in 2009/10 and 2010/11 are as follows:

Scheme	2009/10 £000	2010/11 £000
Minster Replacement School (August 2010)	7,343	8,643

10.15 Fixed Assets

10.15.1 The major fixed assets held by the council as at 31st March 2009 includes:

31.03.09

Children and Young People's Services

Primary Schools	73
Secondary Schools	14
Special Schools	4
Pupil Referral Units	3
Other Educational Establishments	5
Children and Family Centres	6
Youth Centres	7

Adult and Community Services

Homes for older people	6
Day Centres	5
Other Social Services Establishments	7
Libraries	6
Heritage, Museums & Galleries	5
Leisure Centres	6
Swimming Pools	4
Other Leisure/Community Facilities	5

Environment

Principal County roads	368km
Distributor/Access roads	2,916km
Cemeteries	4
Crematorium	1
Public Conveniences	29
Travellers Sites	6
Bus Stations	2
Car Parks	41
Open Markets	2
Household Waste Sites	5

Other

Smallholdings (non-operational assets)	59
General Buildings and Offices	28
Operational Depots	5
Registrars offices	2
Other Non operational Assets	322
Other Community Assets	338

10.15.2 The increase in the number of non – operational assets and community assets is mainly due to a review and reconfiguration of Property Services' database.

Valuations

10.15.3 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 Asset Management and Property Services. The basis for valuation is set out in the Statement of Accounting Policies.

10.15.4 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.

Depreciation

10.15.5 The depreciation methods used are set out in the Accounting Policies (paragraph 3.9.10). In 2008/09 the total depreciation on fixed assets was £11.7 million.

10.16 Undischarged obligations arising from long-term contracts

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

a. 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 of the contract over its full life is in excess of £500 million, of which around 25% relates to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years and there is an "in principle" agreement to exercise this agreement. As at 31st March 2009, 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. The failure of the contractor to secure planning permission for an Energy from Waste Plant at Kidderminster has meant that the two authorities would be unable to meet current government targets for recycling and the diversion of bio-degradable waste from landfill. Negotiations continue to vary the current contract to secure longer-term waste treatment facilities within the two counties to enable targets to be met as well as securing shorter-term waste treatment capacity to ensure the Landfill Allowance Trading Scheme (LATS) targets are met.

b. 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.

c. Amey Wye Valley Limited

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 (HJS) with the transfer of Herefordshire Commercial services staff to the new company. On 31st August 2007 Amey Wye Valley Limited took over this contract from HJS. The contract is currently being renegotiated and is expected to deliver savings of around £1 million.

d. Owen Williams

On 1st 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. During 2008/09 the company was taken over by Amey and is now called Amey OW Limited.

e. **Shaw Homes**

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes except Elmhurst, which expired during 2008/09. The level of payments are dependant on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments for 2008/09 totalled £4.9 million.

10.17 Operating leases

10.17.1 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. These amounts are as follows:

2007/08 £000		2008/09 £000
	The amount of lease rentals paid to lessors	
912	Other Land & Buildings	908
506	Vehicle, Plant & Equipment	314
	Rental received in the year for operating leases	
2,699	Other Land & Buildings	2,555

10.17.2 The council was committed at 31st March 2009 to making payments of £1.22 million under operating leases in 2009/10, comprising the following elements:

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000
Leases expiring in 2009/10	35	202
Leases expiring between 2010/11 and 2014/15	564	135
Leases expiring after 2014/15	284	0

10.17.3 With regards to the council's activity as a lessor, the gross value of assets held for use in operating leases was £118,790,049 as valued at 1st April 2008 and subject to £1,571,110 depreciation to 31st March 2009.

10.18 Financial Instruments Balances

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

	Long-Term		Current	
	2007/08 £000	2008/09 £000	2007/08 £000	2008/09 £000
Financial liabilities at amortised cost	94,264	104,068	12,991	15,757
Total borrowings	94,264	104,068	12,991	15,757
Loans and receivables	14	4	41,703	26,595
Total investments	14	4	41,703	26,595

10.18.2 In accordance with recommended accounting practice, the above figures for borrowings and investments include the year end accruals for interest receivable

and payable. The Balance Sheet figures for short-term borrowing also include money invested with the council by Trust Funds.

Financial Instruments Gains and Losses

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

	Financial Liabilities		Financial Assets	
	Liabilities measured at amortised cost		Loans and receivables	
	£000		£000	
	2007/08	2008/09	2007/08	2008/09
Interest charges and similar charges	(4,348)	(4,964)		
Interest and investment income			2,890	2,225
Net gain/(loss) for the year	(4,348)	(4,964)	2,890	2,225

10.18.4 The interest and investment income figure in the Income and Expenditure Account also includes West Mercia Supplies surplus re-distribution.

Fair Value of Assets and Liabilities carried at amortised cost

10.18.5 Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Where the fair value differs from the carrying amount these items are shown below.

	31 March 2008		31 March 2009	
	£000		£000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Liabilities	107,255	106,393	119,825	122,232
Loans and receivables	41,703	41,696	26,595	26,632

Their fair values have been assessed by Sector, the council's Treasury Management Advisors as follows:

- The fair values of Public Works Loan Board (PWLB) loans has been determined by using the PWLB rates for new loans matching the duration remaining on an existing loan maturity, as at 31st March 2009.
- The fair values for the council's two LOBO loans and the short-term market loan, have been valued using market rates for the equivalent loans as at 31st March 2009.
- The fair value for the council's short term investments have been valued using the market rates as at 31st March 2009.

10.18.6 The fair values of trade and other receivables are taken to be the invoiced or billed amount.

Nature and Extent of Risks Arising from Financial Instruments and How the Council Manages Those Risks

10.18.7 The authority's activities expose it to a variety of financial risks:

- a. **Credit risk:** The possibility that other parties might fail to pay amounts to the council.
 - b. **Liquidity risk:** The possibility that the council might not have funds available to meet its commitments to make payments.
 - c. **Market risk:** The possibility that financial loss might arise for the council as a result of changes in such measures as interest rates.
- 10.18.8 The authority has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments. The council also has a risk register in place for Treasury Management activities.
- Credit Risk**
- 10.18.9 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. Deposits are not made with banks and financial institutions unless they are rated by independent agencies, such as Fitch and Moodys with the following minimum ratings: Moodys (Long-term: A, Short-term: P-1) Fitch (Long-term: A, Short-term: F1). The council has a policy of not lending more than £10 million of its surplus balances to one institution, this figure is only applicable to those with the highest possible long-term rating: (AAA,AA+,Aaa); with a sliding scale thereafter towards the minimum.
- 10.18.10 The year ended 31st March 2009 proved to be an unparalleled year in the financial markets. The collapse of the Icelandic banks and other institutions shocked investors and meant that the council had to exercise extreme caution in placing funds. Whilst still using credit ratings as a guide, the council also took account of other information received, both from its Treasury Advisors (Sector) and from other sources. During the year the council restricted its new investment activities to only dealing with UK banks and AAA rated institutions, and the term of its investments were reduced to a maximum of three months. It is council policy that if one of the credit rating agencies advises that the credit rating of a bank or building society is under review for possible downgrade, or has a "negative outlook", the council removes that bank or building society from its list of eligible counterparties.
- 10.18.11 Due to the scale of the banking crisis, at the year end the council was only actively investing with a few UK banks and building societies together with the UK government's Debt Management Office (DMO) and various Money Market Funds which are AAA credit rated.
- 10.18.12 On 31st March 2009 the council had £26.595 million invested with six counterparties. Of this amount £15.537 million was invested with the DMO; £7.919 million was invested with UK banks and building societies and £3.139 million was invested with two foreign banks (being term deposits placed before economic events resulted in the council's investment policy being reviewed and revised). Since the balance sheet date the foreign deposits (placed with Irish and German banks) have been repaid to the council.
- 10.18.13 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last three financial years, adjusted to reflect current market conditions.

	Amount at 31st March 2009	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2009	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	26,595	Nil	Nil	Nil
Council debtors	10,527	0.50%	0.50%	53

10.18.14 The amount outstanding for council debtors as at 31st March can be analysed by age as follows:

	£000
Less than 3 months	7,781
3 to 6 months	671
6 months to 1 year	835
More than 1 year	1,240
	<u>10,527</u>

Liquidity Risk

10.18.15 As the council has ready access to borrowings from the Public Works Loan Board (PWL B), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that not more than an upper limit percentage of loans are due to mature within the following periods through a combination of careful planning of new loans and (where it is economic to do so) making early repayments.

10.18.16 The maturity analysis of the loan debt is as follows:

	£000	Upper Limit Allowed by Prudential Indicators
		%
Less than 1 year	15,757	50
Between 1 and 2 years	271	50
Between 2 and 5 years	3,407	100
More than 5 years	100,390	100
	<u>119,825</u>	

10.18.17 All trade and other payables are due to be paid in less than 1 year.

Interest rate risk

10.18.18 The council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a significant impact on the council. For instance, a fall in interest rates would have the following effects:

- a. Borrowings at variable rates: The interest expense charged to the Income and Expenditure Account will fall.

- b. Investments at variable rates: The interest income credited to the Income and Expenditure Account will fall.

10.18.19 The authority has set Treasury Management Indicators to control key financial risks in accordance with CIPFA's Prudential Code.

10.18.20 The Treasury Management Team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and at quarterly strategy meetings with the council's treasury advisors. The council sets an annual Treasury Management Strategy including analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable, also during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Sensitivity analysis of interest rates

10.18.21 Movement in interest rates would have had the following impact on the council's borrowings and investments in 2008/09.

	1% Increase in Interest Rates £000	1% Fall in Interest Rates £000
Interest payable on new borrowing	54	(54)
Interest receivable on average investment balances	525	(525)

10.19 Provisions

10.19.1 The provisions at 31.3.09 are listed below:

2007/08 £000	2008/09 £000
22 Village focus grants	0
51 Former Hereford and Worcester liabilities	51
1,585 Insurance	1,759
545 Redundancies	63
0 Pay provision	152
238 Landfill Allowances liability	4
2,441	2,029

10.19.2 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 an assessment of current notified claim reserves and potential claim costs forecasted for the next financial year. The level of provision is reviewed each year. Consequently the provision has been increased from just under £1.6 million to just under £1.8 million.

10.20 Details of Movement on Reserves

10.20.1 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.

10.20.2 The following table details the movements on reserves in 2008/09:

Reserve	1 April 2008 £000	Net (Decrease) Increase £000	1 April 2009 £000	Purpose of Reserve
Capital Adjustment Account	182,850	(13,170)	169,680	Store of capital resources set aside to meet past expenditure
Revaluation Reserve	12,592	7,995	20,587	Store of gains on revaluation of fixed assets not yet realised through sales
Financial Instruments Reserve	(501)	3	(498)	Balancing account to allow differences in statutory requirements and proper accounting practices for borrowings and investments
Usable Capital Receipts	17,945	(387)	17,558	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	(132,878)	2,764	(130,114)	Balancing account to Pensions Liability in the Balance Sheet
General Fund	6,728	(338)	6,390	Resources available to meet future costs
Earmarked Reserves	16,572	(508)	16,064	Set aside for specific purposes
TOTAL	103,308	(3,641)	99,667	

10.20.3 The council held the following earmarked reserves of £16.1 million at 31st March 2009.

Reserve	31.03.08	Transfer (to)/from revenue	31.3.09
	£000	£000	£000
Community buildings	64	(64)	0
Commuted sums	78		78
Schools balances in hand	5,657	(181)	5,476
Industrial Estates - maintenance	223	110	333
Support Services & Equipment renewals	276	(196)	80
Schools Balance of Risk	289	(204)	85
Winter maintenance	500		500
Planning	24		24
SRB schemes	51	(51)	0
College Hill Community Centre	180		180
Waste Disposal	2,274	500	2774
LSC	32		32
Herefordshire Connects project	420	(420)	0
Wye Valley AONB	79	25	104
Invest to Save/Initiatives fund	1,115	(36)	1,079
Contingent liabilities	300		300
Social care contingency	677	249	926
Standards fund	92	(92)	0
Modernisation plans	300	154	454
2008/09 budget capacity	1,500	(1,500)	0
Edgar Street Grid	41	109	150
Whitecross school PFI	108	94	202
Bellwin Threshold	505	(505)	0
LPSA 2 reward grant	1,148	334	1,482
Carbon Reserve	0	30	30
Schools Redundancies	0	294	294
Service Delivery Review	0	112	112
Schools Rates Reserve	0	869	869
Economic Development	0	346	346
Herefordshire Safeguarding Children Board	48	(27)	21
Accommodation	591	(458)	133
	16,572	(508)	16,064

10.21 Schools Balances – Local Management of Schools

10.21.1 A sum of £5,476,294 is shown in reserves in respect of school revenue 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.

10.21.2 The council has introduced a balance claw-back mechanism, where the amount of revenue balance a school is permitted to hold is capped, in order to reduce schools balances in accordance with national government requirements.

10.21.3 The school balances can be split between Primary schools (£2,936,242), High schools (£1,991,718), Special schools (£64,492) and Pupil Referral Units (£93,940). Additionally a sum of (£389,902) is held for extended school activities for all schools.

10.21.4 Schools capital balances are accounted for as deferred capital grant.

10.22 Disclosure of deployment of Dedicated Schools Grant

10.22.1 The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Children, Schools and Families. DSG is a ring-fenced grant 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 a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

10.22.2 Details of the deployment of DSG receivable for 2008/09 are as follows:

Total 2007/08 £000	Central Expenditure 2008/09 £000	Individual Schools Budget 2008/09 £000	Total 2008/09 £000
(82,535) Final DSG for 2008/09			(83,612)
(223) Brought forward from 2007/08			(1,199)
0 Carry forward to 2009/10 agreed in advance			0
(82,758) Agreed budgeted distribution in 2008/09	(8,926)	(75,885)	(84,811)
8,245 Actual central expenditure	8,021	0	8,021
73,359 Actual Individual School Budget deployed to schools	0	75,447	75,447
(45) Local authority contribution for 2008/09	0	0	0
(1,199) Carry forward to 2009/10	(905)	(438)	(1,343)

10.22.3 During 2008/09 £1,054,205 was received in respect of business rates rebates for the period April 2000 to March 2009, due to the application of charitable rates relief for Aided and Foundation Schools. £868,537 relating to the periods 2000/01 to 2007/08 has been transferred to reserves for allocation and £185,668 for 2008/09 has been used to reduce the actual ISB deployed to schools.

10.23 Contingent Liabilities

10.23.1 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 HM Revenues and Customs 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.

10.23.2 As part of the arrangements for the transfer of services to Herefordshire Housing, Halo Leisure Trust, Herefordshire Jarvis Services (now Amey), 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 would be reflected in higher pension contributions for the council as a whole.

- 10.23.3 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 it. The actual liability faced by the council is believed to be very significantly less than the claim submitted.
- 10.23.4 Costs of £100,000 to £250,000 in respect of power provision may be incurred at Plough Lane to satisfy ICT disaster recovery requirements.
- 10.23.5 An old landfill site at Stretton Sugwas could be a danger to neighbouring properties, as advised by our consultants.
- 10.23.6 The council has entered into an agreement with a software company, which has indicated that it may take proceedings against the council if the council pulls out of the contract.

10.24 Related Party Transactions

- 10.24.1 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.
- 10.24.2 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 paragraph 10.32 relating to the Cash Flow Statement.
- 10.24.3 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 2008/09 are not material. In addition, one member was the owner of a residential care home, to which the council made payments in the year £85,000 and another the partner in a company with which the council made payments of £41,000 in relation to provision of a car park.
- 10.24.4 A number of senior officers are members of professional bodies and are involved in local organisations and partnerships, such as the Chamber of Commerce, Herefordshire College of Technology, and Connexions Board.
- 10.24.5 During the year the council paid £13.2 million to the Local Government Pension scheme administered by Worcestershire County Council and £10.2 million to the Teachers Pension Scheme. These figures include employee and employer contributions.
- 10.24.6 **Other Public Bodies**
During the year the council made payments of £22.1 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 75 pooling arrangements. Payments to the PCT in 2008/09 totalled £9 million and invoices raised to the PCT were £13.5 million.

Significant Partners

- 10.24.7 The council paid £24.6 million to Amey Wye Valley under the long-term contract for the provision of services, the largest of which related to highways. Under the contract with Amey OW Ltd for the provision of technical services the council paid £2.9 million in 2008/09. Payments of £4.9 million were made to Shaw Healthcare for the provision of care in residential homes and for day centres in 2008/09.

Other organisations

- 10.24.8 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2008/09 the council paid £2.2 million to Halo Leisure Trust. In 2008/09 the council paid £470,000 to the Courtyard Trust. The council has a commissioning agreement with the Trust based on agreed outcomes.

The council is also represented by its elected members on the West Mercia Supplies Joint Committee. West Mercia Supplies (WMS) is a purchasing consortium that was established in 1987. Herefordshire Council is one of four participating authorities, the other three councils being Worcestershire County Council, Shropshire County Council and the Borough of Telford and Wrekin. WMS exists in order to provide joint procurement services to the four constituent authorities. Having regard to the SORP and the requirements of FRS 9 WMS is a Joint Arrangement that is not a Joint Entity with the financial advantage of bulk purchasing arrangements reflected in the Income and Expenditure Account. The council's share of the joint arrangement, including assets, liabilities, income, expenditure and cashflow is not considered material to the accounts.

10.25 Creditors

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

	2007/08	2008/09
	£000	£000
Directorate Service Areas	21,171	22,272
Joint Funding	215	42
Capital	2,561	4,757
Creditors System	10,594	9,102
Treasury Management	134	136
Collection Fund	1,200	1,493
Purchase Ordering System Accruals	1,148	528
Other	740	376
	<u>37,763</u>	<u>38,706</u>

10.26 Debtors

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

	2007/08	2008/09
	£000	£000
Directorate Service Areas	10,090	10,346
Joint Funding	249	523
Capital	2,845	4,015
VAT	2,388	2,953
Treasury management	10	11
Leased Cars	56	65
Debtors System	4,164	10,571
Fairer Charging	166	225
Collection Fund	3,533	4,826
Other	50	2
	<u>23,551</u>	<u>33,537</u>
Provision for Bad Debts	<u>(1,051)</u>	<u>(1,124)</u>
	<u>22,500</u>	<u>32,413</u>

10.27 Amounts due to or from related parties

10.27.1 As at 31st March 2009 significant amounts due to and from related parties were as follows:

Related Party	Due to £000	Due from £000
Department for Communities and Local Government	285	4,380
Department for Works and Pensions	46	2,224
Department for Children, Schools and Families	2,446	3,175
Department for Food, Agriculture & Rural Affairs	26	60
Learning & Skills Council	736	58
Advantage West Midlands	104	1,005
Department of Transport	13	335
Government Office For West Midlands	383	18
Home Office	241	11
Lottery	52	578
Arts Council	8	0
Teachers Development Agency	91	6
Teachers Pension	850	0
Worcestershire County Council	3,464	64
Herefordshire Primary Care Trust	2,121	5,254
Courtyard Trust	92	0
Amey Wye Valley	3,086	150
Shaw Healthcare	8	17
Halo	131	52
West Mercia Supplies	292	15
Amey OW Ltd	21	0

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

10.27.3 In addition, there were capital grants of £7.56 million from government departments held in the Capital Grants Deferred Account not yet applied to capital spend.

10.28 External Audit Fees

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

	2007/08 £000	2008/09 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	239	284
Fees payable to the Audit Commission in respect of statutory inspection	30	23
Fees payable to the Audit Commission for the certification of grants claims and returns	50	56

10.29 Pensions

10.29.1 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

10.29.2 This 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 council 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, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

10.29.3 In 2008/09 the council paid employer contributions of £6.8 million in respect of teachers' pension costs, which represented 14.1% 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 2008/09 these amounted to £112,322 representing 0.23% of pensionable pay.

10.29.4 At the year-end there were contributions of £849,888 remaining payable, which related to the March 2009 contributions paid to the scheme in April 2009.

Change of Accounting Policy

10.29.5 Under the 2008 SORP the council has adopted the amendment to FRS17, Retirement Benefits relating to asset valuations. As a result quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market price. The effect of this change is that the value of scheme assets at 31st March 2008 has been restated from £190.6 million to £190.2 million, resulting in an increase in the opening balance on the pension deficit of £377,000.

Local Government Pension Scheme

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

10.29.7 Although the benefits will not actually be payable until employees retire, the council 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.

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

	2007/08	2008/09
	£000	£000
Income and Expenditure Account		
Net Cost of services		
Current Service cost	7,762	8,673
Past service cost/(gain)	2,279	24
Curtailement cost	288	799
Net Operating Expenditure		
Interest cost	15,876	19,745
Expected return on assets in the scheme	(14,060)	(13,016)
Net charge to Income and Expenditure Account	<u>12,145</u>	<u>16,225</u>
Statement of Movement in General Fund Balance		
Reversal of net charges under FRS 17	(12,145)	(16,225)
Employer's contribution payable to the scheme	9,943	10,344
Net charge to Statement of Movement in General Fund Balance	<u>(2,202)</u>	<u>(5,881)</u>

10.29.9 In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £9,022 (£41,825 in 2007/08) were included in the Statement of Total Recognised Gains and Losses.

Assets and Liabilities

10.29.10 The following tables set out the movements on the pension scheme assets and liabilities;

Reconciliation of present value of the scheme liabilities:

	2007/08	2008/09
	£000	£000
1 st April	293,907	323,459
Current Service Cost	7,762	8,673
Interest Cost	15,876	19,745
Contributions by scheme participants	2,875	3,211
Actuarial (gains)/losses	10,908	(67,540)
Curtailments	288	799
Benefits Paid	(10,436)	(11,436)
Past Service Costs	2,279	24
31 st March	323,459	276,935

Reconciliation of fair value of the scheme assets:

	2007/08	2008/09
	£000	£000
1 st April	204,646	190,204
Expected rate of return	14,032	13,016
Actuarial gains/(losses)	(30,856)	(58,518)
Employer contributions	9,943	10,344
Contributions by scheme participants	2,875	3,211
Benefits Paid	(10,436)	(11,436)
31 st March	190,204	146,821

- 10.29.11 In view of the large changes occurring in the markets over the year, there have been some changes to the details of the methodology used to determine the expected rates of return. The assumed investment return on government bonds is the yield on 20-year fixed interest gilts at the relevant date. The expected investment return on corporate bonds is based on market yields at the relevant date, but has been restricted to 2% over and above that available on gilts, reflecting an increased risk of default in the corporate bond yield. The assumed investment return on equities is the yield on 20-year fixed interest gilts plus an allowance of 3.5% pa for the 'risk premium' associated with equity investment.

The actual return on scheme assets in the year was £45,502 (£11,281 in 2007/08).

Scheme History

	2004/05	2005/06	2006/07	2007/08	2008/09
	£m	£m	£m	£m	£m
Present value of liabilities	(255.3)	(292.3)	(293.9)	(323.5)	(276.9)
Value of Scheme assets	153.2	191.7	205.1	190.2	146.8
Surplus/(Deficit) in scheme	(102.1)	(100.6)	(88.8)	(133.3)	(130.1)

Actuarial assumptions

10.29.12 The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	3.6%	3.3%
Rate of increase in salaries	5.1%	4.8%
Rate of increase in pensions	3.6%	3.3%
Discount rate	6.1%	7.1%
Longevity at 65 for current pensioners	21.1 years	21.2 years
Longevity at 65 for future pensioners	22.2 years	22.2 years

Pension Scheme assets

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

	31 March 2008		31 March 2009	
	£000	%	£000	%
Equities	168,520	88.6	125,679	85.6
Government Bonds	8,940	4.7	12,333	8.4
Other Bonds	7,228	3.8	4,698	3.2
Cash/Liquidity	5,516	2.9	4,111	2.8
	<u>190,204</u>		<u>146,821</u>	

10.29.14 The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.5%
Government Bonds	4.6%	4.0%
Other Bonds	6.1%	6.0%
Cash/Liquidity	5.25%	0.5%

History of experience (gains) and losses

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

	2004/05	2005/06	2006/07	2007/08	2008/09
	%	%	%	%	%
Differences between the expected and actual return on assets	3.6	15	0.2	(16.2)	(39.9)
Experience gains and losses on liabilities	2.5	1.9	0	2	0

10.30 Trust Funds

10.30.1 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. The following summarises the movement on Trust Funds during the year:

	Balance at 1/04/08	Revenue Transactions		New funds, Investment Sales and Revaluations	Balance at 31/03/09
	£	Income	Expenditure	£	£
Education (small funds)	23,831	792	(207)	(1,022)	23,394
Sylvia Short Trust	1,034,392	36,223	(52,333)	(9,348)	1,008,934
Buchanan Trust	2,681,712	112,189	(138,787)	241,734	2,896,848
Other Funds	58,874	2,368			61,242
	<u>3,798,809</u>	<u>151,572</u>	<u>(191,327)</u>	<u>231,364</u>	<u>3,990,418</u>

10.30.2 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.

10.30.3 Assets and liabilities on the funds at 31st March were:

	2007/08 £000	2008/09 £000
Fixed Assets	1,727	1,969
Investments	983	976
Cash temporarily invested with Herefordshire Council	1,088	1,045
	<u>3,798</u>	<u>3,990</u>
Represented by Trust Funds	<u>3,798</u>	<u>3,990</u>

10.31 Accounting for LATS

10.31.1 The council's estimated landfill usage for the year is 43,977 tonnes. The council received allowances of 41,577 tonnes for 2008/09 from DEFRA and has utilised allowances of 2,400 tonnes transferred from Worcestershire County Council at nil cost. DEFRA has advised that the average traded value for 2008/08 was 10 pence per tonne and therefore the balance sheet shows assets and liabilities of £4,398 at 31st March 2009.

10.32 Notes to the Cash Flow Statement

10.32.1 The reconciliation of the net deficit on the Income and Expenditure Account to the revenue activities in the Cash Flow Statement is set out below:

2007/08	2008/09	
£000	£000	£000
12,975 (Surplus)deficit on the Income & Expenditure Account	21,926	
<u>136</u> Collection Fund (surplus)/deficit	<u>(47)</u>	
13,111		21,879
(1,510) Interest/discount		(2,182)
Non-cash Transactions		
321 Contributions from/(to) provisions	412	
(13,799) Capital charges	(17,817)	
(2,202) FRS 17 pension adjustments	(5,881)	
633 Surplus on sale of assets (non-revenue)	496	
(684) LATS adjustment	(234)	
<u>319</u> Other	<u>6</u>	
(15,412)		(23,018)
Items on an Accruals basis		
33 Increase/(Decrease) in stocks and WIP	(104)	
1,462 Increase/(Decrease) in revenue debtors	7,481	
<u>1,725</u> (Increase)/Decrease in revenue creditors	<u>1,932</u>	
3,220		9,309
<u>(591)</u> Net cash flow from revenue activities		<u>5,988</u>

10.32.2 The reconciliation of net cash flow to movement in net debt in the year is summarised as follows:

2007/08	2008/09	
£000	£000	£000
909 Increase/(decrease) in cash in the period	1,909	
(12,036) (Increase)/decrease in debt financing	(12,515)	
166 Increase/(decrease) in liquid resources	(14,700)	
(139) Decrease in investment of Trust Funds	43	
<u>(815)</u> Revaluation of Financial Instruments	<u>(463)</u>	
(11,915)		(25,726)
<u>(57,797)</u> Net debt at 1st April		<u>(69,712)</u>
<u>(69,712)</u> Net debt at 31st March		<u>(95,438)</u>

10.32.3 Liquid resources have been defined as the short-term investments on the balance sheet. From 2007/08 the revaluation of Financial Instruments includes accruals of interest, which are now required to be added to the carrying values on the Balance Sheet.

10.32.4 The following is an analysis of net debt for the year:

	1.4.08	Cash flow	Non cash	31.3.09
	£000	£000	£000	£000
Cash in hand and at bank	(3,072)	1,909		(1,163)
Debt due within 1 year	(14,079)	(2,472)	(251)	(16,802)
Debt due after 1 year	(94,264)	(10,000)	196	(104,068)
Short term investments	41,703	(14,700)	(408)	26,595
	<u>(69,712)</u>	<u>(25,263)</u>	<u>(463)</u>	<u>(95,438)</u>

10.32.5 The following is an analysis of Government Grants in the Cash Flow Statement for the year:

2007/08	2008/09	
Total	Revenue	Capital
£000	£000	£000
23,529 DCLG	28,643	528
40,217 Department for Works and Pensions	45,173	0
118,128 Department for Children, Schools and Families	101,538	8,048
6,408 Department of Health	819	151
226 Home Office	456	0
5,832 Department for Environment, Food & Rural Affairs	217	5,213
699 Lottery	203	115
10,942 Advantage West Midlands	2,686	981
1,537 Government Office for West Midlands	502	86
4,064 Department for Transport	543	659
13 Department for Trade and Industry	0	0
4,268 Learning and Skills Council	3,907	0
36 Arts Council	17	0
0 Sport England	173	0
0 European Regional Development Fund	38	0
29 Countryside Council for Wales	0	0
19 Department for Constitutional Affairs	4	0
52 Food Standards Agency	0	0
310 Teachers development agency	217	0
<u>216,309</u>	<u>185,136</u>	<u>15,781</u>

11. THE COLLECTION FUND

11.1 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 in the Balance Sheet.

11.2 The Collection Fund for 2008/09 is summarised below:

2007/08	Note	2008/09	
£000		£000	£000
Income			
Council Tax:			
81,576	1	86,166	
<u>10,289</u>		<u>10,993</u>	
91,865			97,159
<u>38,499</u>	2		<u>40,316</u>
<u>130,364</u>			<u>137,475</u>
Total Income			
Expenditure			
10,836			11,478
4,468			4,732
76,524			80,864
173			121
0			(83)
			(83)
Non Domestic Rates			
38,207	2		40,020
<u>292</u>			<u>296</u>
<u>130,500</u>			<u>137,428</u>
Total Expenditure			
(136)	3		47
Surplus/(Deficit) for the year			
145	3		(298)
Balance brought forward			
(307)	3		0
Surplus Distribution			
(298)	3		(251)
Balance carried forward			

11.3 The Herefordshire Council precept figure includes £2.393 million in respect of parish and town council precepts.

Note 1 - Council Tax Income

11.4 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 1st 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 2008/09 was £1,399.29 with a range between £1,364.79 to £1,492.61. The council tax base used for setting the council tax in 2008/09 was 69,374.10.

11.5 The key facts and figures for 2008/09 are summarised below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,367.70
B	£40,001 to £52,000	7/9	12,543.40
C	£52,001 to £68,000	8/9	12,399.60
D	£68,001 to £88,000	9/9	11,382.50
E	£88,001 to £120,000	11/9	12,116.20
F	£120,001 to £160,000	13/9	8,317.50
G	£160,001 to £320,000	15/9	5,141.30
H	Over £320,000	18/9	304.00
Crown			
			68,572.20
	Other adjustments		801.90
	Council Tax Base		69,374.10
Council Taxpayer Income		£000	£000
Council Tax debit at 1 st April			108,311
Add:			
Redebits		70,093	
Banding Change		443	
Additional – Second Homes		502	
Additional – Empty Properties		476	71,514
Less:			
Discounts		9,263	
Exemptions		3,464	
Benefits – Statutory		10,993	
Benefits – Non Statutory		0	
Disablement Relief		131	
Transitional Relief		(4)	
Void Assessments		62	
Empty Assessments		69,750	93,659
			86,166

Note 2 - Non-domestic rates

- 11.6 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. The relevant figures for 2008/09 are as follows:

	£000
NNDR Contribution to the Pool	40,020
Cost of Collection Allowance	296
Income from Business Ratepayers	<u>40,316</u>

- 11.7 The contribution due to the NNDR pool for 2008/09 paid by Herefordshire Council to central government was £40,019,601. 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 an NNDR entitlement of £46,793,393, which is its redistributed share. This figure is calculated on a per head of population basis. The key facts and figures for 2008/09 are summarised below:

Business rateable value as at 31 st March 2009	£105,030,383	
Business rate multiplier	46.2p	
Non-domestic Ratepayers Income	£000	£000
Non-domestic debit at 1 st April		47,139
Add:		
Transitional Premium		(249)
Less:		
Empty Allowances	1,458	
Transitional Relief	206	
Discretionary Relief	239	
Mandatory Relief	4,455	
Write-offs	172	
Interest on Refunds	44	6,574
Income due from non-domestic ratepayers		<u>40,316</u>

Note 3 - Collection Fund Surplus/Deficit

- 11.8 The following summarises the movements on the Collection Fund deficit in the year:

Council Tax	£000	£000
Deficit at 31.3.08		(298)
Less: Payments		
Hereford & Worcester Fire Brigade	0	
West Mercia Police Authority	0	
Herefordshire Council	0	
		<u>(298)</u>
Surplus financial year 2008/09		47
Deficit at 31.3.09		(251)

12. 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.

Amortised Cost

A method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows.

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.

Effective Interest Rate

The rate of interest that will discount all the cash flows that will take place throughout the expected life of a financial instrument down to the fair value of the asset calculated at initial measurement.

Fair Value

The amount for which an asset could be exchanged, or a liability settled in an arm's length transaction.

Financial Instruments

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another, such as trade payables and receivables, borrowings, bank deposits and investments.

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.

Money Market Funds

A fund managed by an experienced investment house investing in a wide range of high quality sterling money market instruments, enabling the council to spread risk through diversification. Such money market instruments include certificates of deposit, gilts and other bonds. The structure of the fund minimises capital fluctuations due to restrictions laid down by the credit rating agencies.

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.