



*Herefordshire
Council*

HEREFORDSHIRE COUNCIL

STATEMENT OF ACCOUNTS

2009-2010

CONTENTS

	Page No.
1. INTRODUCTION	4
2. EXPLANATORY FOREWORD	5
3. STATEMENT OF ACCOUNTING POLICIES	14
4. STATEMENT OF RESPONSIBILITIES	22
5. INCOME AND EXPENDITURE ACCOUNT	23
6. STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE	25
7. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	26
8. BALANCE SHEET	27
9. CASH FLOW STATEMENT	28
10. NOTES TO THE CORE STATEMENTS	30
11. THE COLLECTION FUND	69
12. GLOSSARY	73

1. INTRODUCTION

The Statement of Accounts for 2009/10 is the key financial report that presents the council's overall revenue and capital position for the year.

The accounts have been compiled to comply with the CIPFA Statement of Recommended Practice (SORP) 2009. The most significant change this year relates to the way we account for PFI and similar contracts, which now follow international financial reporting standards (IFRS) with the assets shown on our balance sheet. The format of the accounts is heavily prescribed; this is intended to promote good practice by local authorities and a consistency of approach.

Within the notes, to comply with a new legal requirement to publish information on senior officers' remuneration, and to demonstrate greater transparency and accountability we have listed all remuneration for senior managers earning above £50,000.

The 2009/10 financial year has been challenging and some frontline services areas have had to meet increasing demands. Overall the council delivered a balanced budget aided by the use of surpluses within corporate budgets and use of general and specific reserves.

There have been additional reserves established this year, predominantly the insurance reserve to ensure funding is available for any potential current and future year insurance claims. There is also funding to deliver the Local Development Plan "Shaping our Place 2026", utilising Local Development Framework monies for this purpose.

During the year the council maximised the use of both revenue and capital grants, offsetting all relevant expenditure to minimise call on core funds. Subsequently there was an under spend on borrowing costs due to the slippage on capital schemes, thus reducing the funding requirement.

Financial information to our customers has improved. Budget holders now receive automated reports every month, which are a basis for estimating the forecast outturn. This provides Cabinet and Scrutiny Committees with regular updates allowing them time to challenge and instigate recovery plans where necessary. Scrutiny Committee reports have been expanded to include non financial activity and trend information to provide a broader understanding of what the budget funds and delivers.

Cllr Harry Bramer
Cabinet Member for Resources
June 2010

2. EXPLANATORY FOREWORD

2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council presents the overall financial position for the Authority for the year ended 31st March 2010 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 council achieved a balanced position against budget on the revenue account by use of corporate items such as treasury management and reserves transfers. The following table summarises the overall position.

	£000
Directorate over spends	2,595
Savings on 2009 pay award	(553)
Treasury management including borrowing and investment income	(642)
Additional central government funding	(87)
Use of winter maintenance reserve	(500)
Use of social care reserve	(772)
Other changes	(41)
Net position	<u>(0)</u>

2.2.2 The overall position includes a number of transfers to and from revenue reserves. In addition to the budgeted use of £1 million of general reserves, £500,000 was transferred from the winter maintenance reserve and £772,000 from the social care contingency reserve.

2.2.3 As part of the year end process new reserves were also created:

- Insurance Reserve (£544,000)
In previous years a provision has been created for outstanding insurance claims. To comply with Audit recommendations this has now been amended, keeping a provision based on the level of claims outstanding at the end of 2009/10 and a reserve which represents the potential of future years' claims.
- Pool Car Reserve (£10,000)
This reserve was created from the surplus generated from running the fleet of pool cars. It will enable a replacement programme to commence, funding new vehicles in future years and sustaining pool car availability.
- Local Development Framework (£270,000)
The under spend on the Housing Planning Delivery Grant will be allocated towards the costs to deliver the Local Development Plan "Shaping our Place 2026", and has been approved by the funding body.
- Area Based Grant (£53,000)
A small amount of the ABG grant identified for the Children's Trust was unspent. Approval was given to utilise the funding in 2010/11, thus the money has been ring-fenced for this purpose.

Service Area out-turn position

2.2.4 The net over spend for the council’s directorates of £2.59 million was made up as follows:

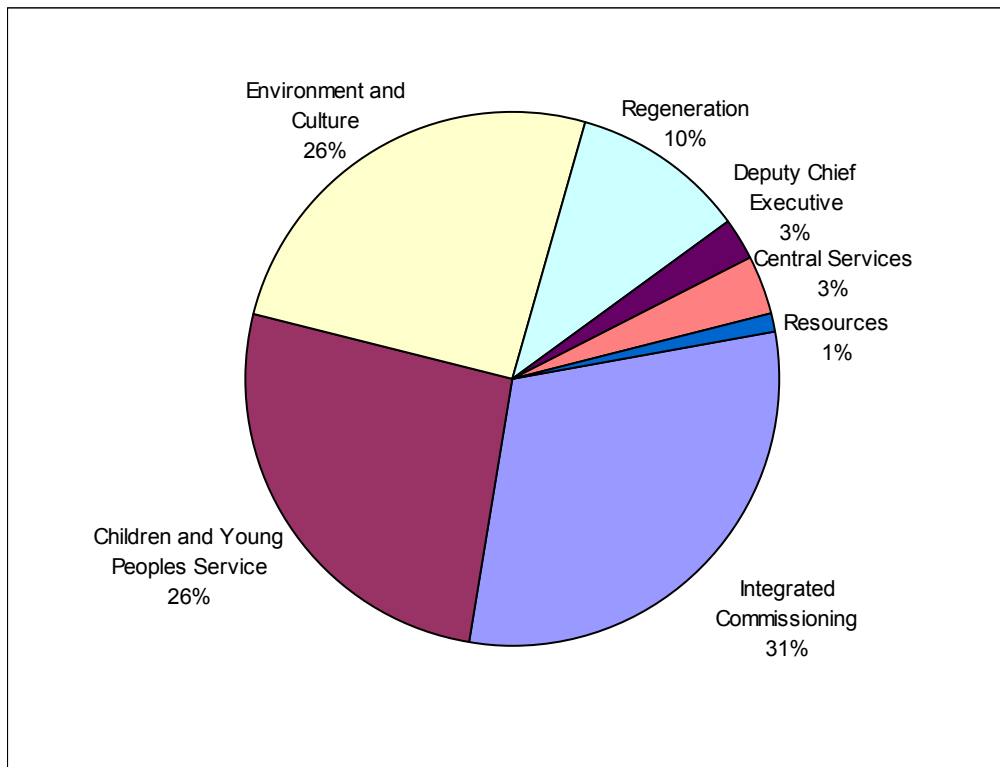
Directorate	Budget *	Actual *	(Under)/Over Spends
	£000	£000	£000
Integrated commissioning	45,243	47,974	2,731
Children and Young People	41,695	41,832	137
Deputy Chief Executive	4,299	4,210	(89)
Environment and Culture	40,343	40,585	242
Regeneration	16,554	16,488	(66)
Resources	991	631	(360)
Central Services	5,482	5,482	0
Total	154,607	157,202	2,595

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

2.3 Analysis of Revenue Expenditure and Income

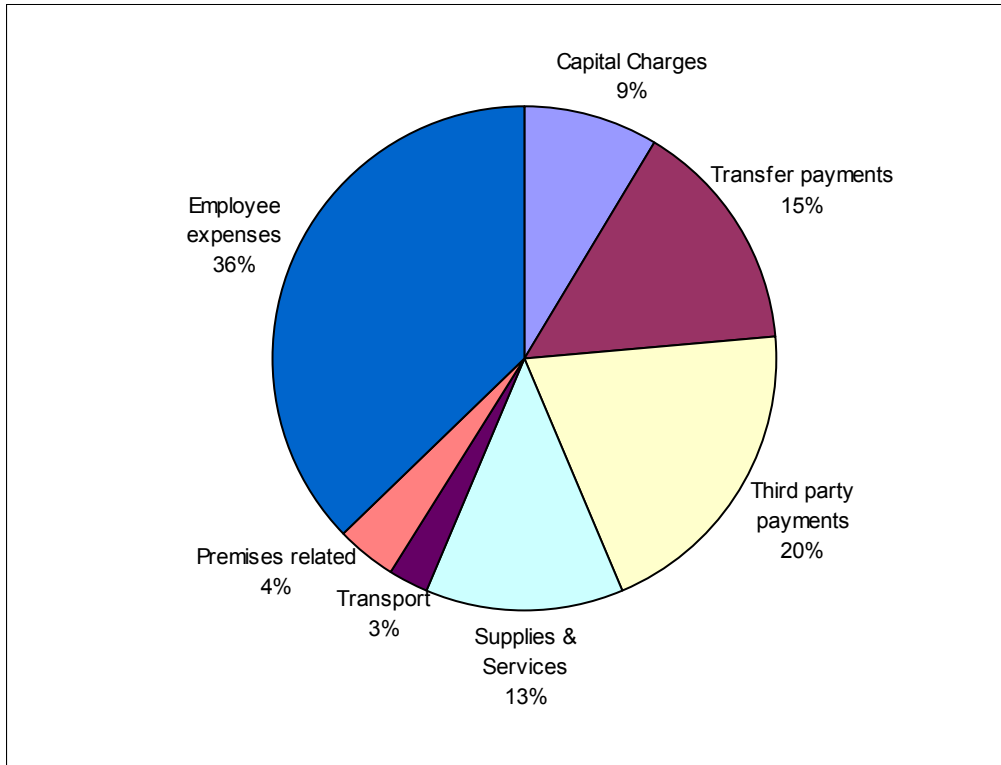
2.3.1 The net cost of services within the Income and Expenditure Account is £158.4 million, made up of the following directorates:

Analysis of Net Expenditure by Directorates



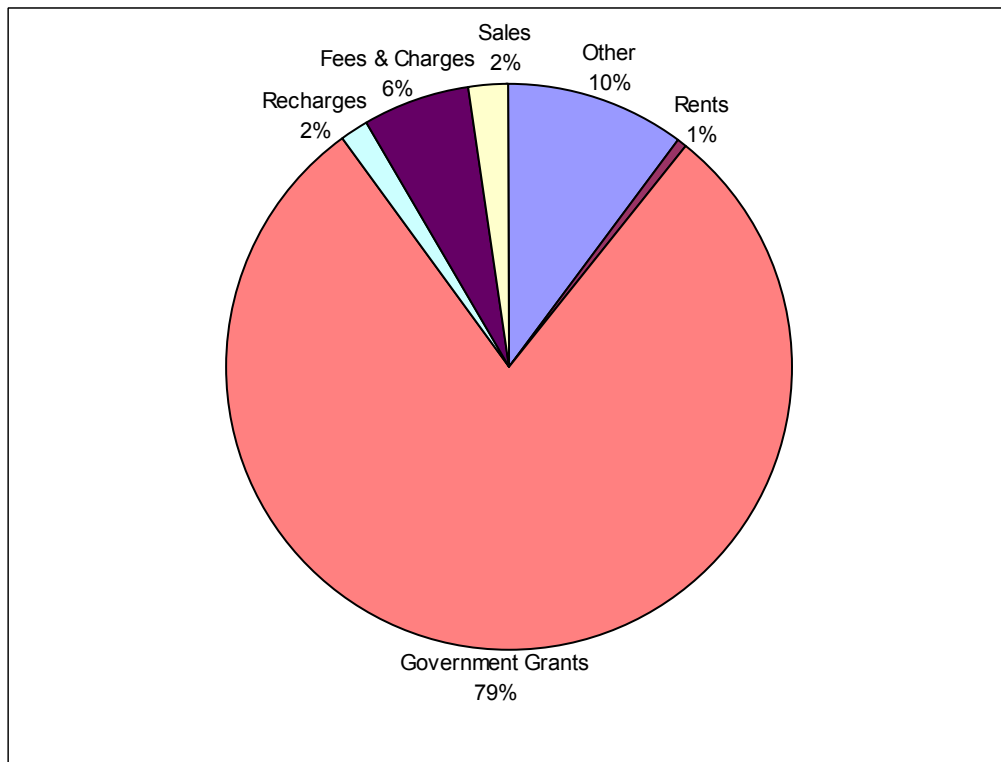
2.3.2 The gross cost of services was £385.8 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £227.4 million and came from the following sources:

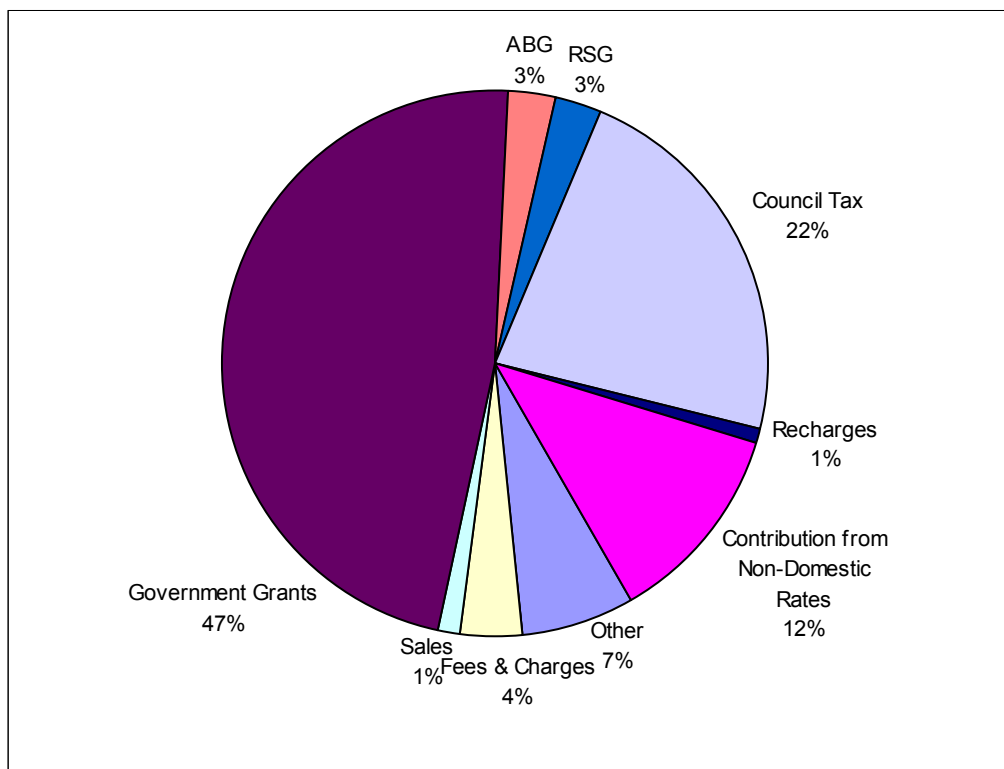
Analysis of Income within Services



2.3.4 The figure for government grants includes £84.5 million Dedicated Schools Grant, which is a ring-fenced grant towards schools expenditure. The grants figure also includes £52 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 £10.4 million Revenue Support Grant (RSG) £10.3 million Area Based Grant (ABG) and £45 million in redistributed non-domestic rates towards financing the council's net expenditure. Council tax income totalled £84.8 million in 2009/10, including parish and town councils' precepts.

Total Revenue Income



2.4 Capital Programme

2009/10 Out-turn

2.4.1 With regard to capital spending some £69.7 million was incurred compared to the original forecast of investment in the council's assets of £67.6 million. The increase reflects the receipt of additional Department of Children, Families and Schools (DCFS) capital grants to accelerate capital schemes in the Children's Services Directorate.

2.4.2 Herefordshire Council utilised supported borrowing of £13.5 million, capital receipts reserve funding of £4.9 million, revenue of £0.3 million, grants of £40.6 million and prudential borrowing of £10.4 million to fund capital expenditure in 2009/10.

2.4.3 Summary of Capital Expenditure

Capital expenditure for the year is summarised as follows:

	£000
Highways, footways and bridges	11,770
Education new build, refurbishment and improvements to existing schools	26,208
Corporate Accommodation	4,301
Ross on Wye Flood Alleviation	2,320
Affordable Housing Grants and Private Sector Renewal	3,593
Children's Centers and Extended Schools Provision	2,892
Purchase of learning disability properties	2,600
Hereford Connects	2,492
Rotherwas Futures	2,322
Other schemes	11,209
	<u>69,707</u>

Prudential Borrowing

2.4.4 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 2009/10 the council utilised £10.4 million of prudential borrowing to fund the capital programme. The table below summarises the out-turn position:

	£000	£000
2009/10 Planned Prudential Borrowing		16,588
Add: Slippage from 2008/09	5,127	
New Funding Allocations	3,136	
Less: Slippage into future years	(13,281)	
No longer required	(1,202)	(6,220)
		<u>10,368</u>

2.4.5 Included in the £13.3 million slippage into future years is £4.2 million for corporate accommodation, £2.8 million for the Herefordshire Connects/Shared Services programme and £2.5 million for Masters House in Ledbury.

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.

	2010/11	2011/12	2013/14
	£000	£000	£000
Sources of funding			
Grants and Contributions	40,254	7,362	0
Prudential Code Borrowing	18,601	2,814	559
Capital Receipts Reserves	5,820	500	0
Supported Capital Expenditure (Revenue)	13,230	13,000	13,000
	<u>77,905</u>	<u>23,676</u>	<u>13,559</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 2009/10 a new loan of £10 million was taken out as follows:

Date	Amount £	Period of loan	Rate of Interest
05/03/10	10,000,000	10 years	2.96%

2.5.4 The new loan is repayable in equal instalments of £500,000 every six months over the next ten years.

2.5.5 In addition, on two occasions in March 2010 the council borrowed funds from other local authorities to meet short-term cash flow requirements. On both occasions the loans were for one week only and the interest rates paid varied from 0.40% to 0.55%.

2.5.6 The council had a total of £125.15 million outstanding loan debt at 31st March 2010 of which £13.27 million is treated as repayable within twelve months. Of this amount £12 million relates to two long-term market loans where the lenders have an annual option to increase the rates of interest being charged and, if a lender did increase the rate, the council would then have the option to repay the loan.

2.6 The Council's Reserves

2.6.1 The council has a policy of maintaining a minimum of £4.5 million of general reserves as a contingency against unforeseen emergencies and events. At the end of 2009/10 the council held general reserves of £5.39 million compared with a position of £6.39 million in 2008/09. Specific reserves totalled £14.2 million (£16.06 million in 2008/09), which are detailed in paragraph 10.20 in 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.

2.7.2 2009/10 was a year of great volatility for pension funds with large movements on the assessment of the schemes assets and liabilities. The net deficit shown as at 31st March 2010 is £163.4 million, which is approximately 76% of the fair value of the assets (89% at 31st March 2009). 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.

2.7.3 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. A revaluation exercise is now underway as at 31st March 2010 with the results expected in the autumn of 2010.

- 2.7.4 Following a recommendation from the Audit Commission arising from the 2008/09 accounts audit the pension fund liability in the balance sheet now includes the liability to fund ex-Hereford and Worcester teachers' unfunded benefits. This totals £1.2m, which will be paid over a number of years.

2.8 Private Finance Initiatives (PFIs and Similar contracts)

- 2.8.1 The most significant change to the accounts in 2009/10 is in respect of PFI and similar contracts. From 2009/10 PFIs and similar contracts are no longer accounted for under UK accounting standards but on International Financial Reporting Standards (IFRS).
- 2.8.2 The requirements are based on IFRIC 12 *Service Concession Arrangements*. In general, where properties used to deliver PFI services were previously off balance sheet they are likely to be brought on-balance sheet under IFRS with a corresponding liability to pay for the assets over the life of the contracts. Prior period adjustments are required back to the start of the contracts. This has resulted in changes to the 2008/09 comparative figures in the current statement of accounts.
- 2.8.3 The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract.
- 2.8.4 The value of the assets on balance sheet at 31 March 2010 relating to these contracts totalled £26.2 million. Further details on the PFI contracts are shown in Note 10.4 to the accounts.

2.9 Impact of Economic Climate

- 2.9.1 The impact of the economic downturn was reflected in the council's medium-term financial strategy when setting the 2009/10 budget. It was clear that levels of income would be less in 2009/10, particularly in the areas of planning, car parking and land charges. A reduction of £500,000 was built into the budget to meet this shortfall in income, but the actual reduction exceeded this by around £347,000.
- 2.9.2 The economic downturn has had a significant impact on the council's investment income due to the reduction in interest rates and £1.5 million was taken out of the 2009/10 investment income budget. The out-turn position on investment income was £5,000 more income than budgeted.

2.10 The 2009/2010 Statement of Accounts

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

The Income and Expenditure Account

- 2.10.1 The Income and Expenditure account brings together all income receivable and expenditure incurred in delivering services during 2009/10. The account includes all day-to-day expenses, related income and transactions covering the value of the council's fixed assets consumed. It also includes the value of retirement benefits earned by employees in 2009/10.
- 2.10.2 The Income and Expenditure account shows a net deficit of £29.54 million in 2009/10 as compared to a restated deficit of £31.4 million in 2008/09. This figure does not take into account a number of items which are included or excluded from the final position on revenue (as explained in paragraph 2.10.3 below).

The Statement of Movement on the General Fund Balance

- 2.10.3 This statement reconciles the differences between the council's deficit of £29.54 million on the Income and Expenditure account and the transfer from General Fund balances of £1 million. In effect this statement shows how financial performance (Income and Expenditure Account) compares with all amounts required legally to be debited or credited to the General Fund. Paragraph 10.3 of the Statement of Accounts provides a detailed analysis.

The Statement of Total Recognised Gains and Losses

- 2.10.4 The statement brings together in one place all the gains and losses of the council for 2009/10 so that the aggregate position is shown. In 2009/10 there was an overall decrease (loss) of £15.06 million including three key areas:

- A £29.54 million deficit on the income and expenditure account.
- A £43.47 million surplus arising from the revaluation of fixed assets.
- A £28.99 million actuarial loss on pension fund assets and liabilities.

The 2009/10 position compares with a £7.04 million decrease in net worth for 2008/09 (after restating the balance sheet for PFI accounting arrangements).

- 2.10.5 The £43.47 million revaluation figure includes £37.4 million for smallholdings due to a change in the method of valuation. Previously the smallholdings were valued as an agricultural estate in perpetuity taking into account the tenanted interests and only valuing on the basis of open market value where a property was vacant and either ready to re-let or to sell. Now they are valued as open market properties with a discount for the tenanted land depending upon the type and length of tenancy.
- 2.10.6 The movement on the pension fund position reflects changes against the actuary's previous assumptions, amounting to £86.25 million on the schemes liabilities offset by £58.46 million on the schemes assets. In addition, £1.2 million was added to the liabilities in respect of former Hereford and Worcester teachers' pensions (as referred to in paragraph 2.7.3). Further details are set out in Note 10.29 to the accounts.

The Balance Sheet

- 2.10.7 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.
- 2.10.8 The value of fixed assets on the balance sheet has increased with PFI and similar contracts coming on-balance sheet. This has to be done retrospectively and therefore the 31st March 2009 comparative figures have been increased by £25.01 million. Further details can be found in Note 10.1.7 to the statements. The initial recognition of PFI assets in the balance sheet is matched by a liability to pay for these assets over the life of the contract.
- 2.10.9 The council's long-term assets increased from £427.94 million to £499.85 million during the year. Major additions in the year include the purchase of Plough lane Offices and the transfer of learning disability properties from the PCT. The council has a 5 year rolling programme of revaluation of properties which resulted in an increase in value fixed assets of £43.47 million, of which £37.4 million related to smallholdings (see paragraph 2.10.5 above). Note 10.10 to the statements details the movements to fixed assets in the year.

- 2.10.10 Current assets reduced from £61.27 million to £52.58 million. The main movement was a reduction in short-term investments by £13.65 million in line with the council's treasury management strategy (see paragraph 2.10.11). The current liability position increased only slightly from £59.32 million to £59.59 million.
- 2.10.11 The balance sheet also confirms the long-term borrowing of the council has increased to fund its capital programme. However, the council has delayed some external borrowing and used internal reserves due to the effect of the economic downturn on interest rates for investment income and the reduction in the number of safe counterparties. The council had £125.15 million loan debt at 31 March 2010 compared with £118.4 million at 31 March 2009.
- 2.10.12 Another significant movement on the balance sheet was the increase in the pension liability from £130.11 million to £164.59 million due to changes in actuarial assumptions. Further details are included on note 10.29 to the accounts.

Cash Flow Statement

- 2.10.13 This statement 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.
- 2.10.14 In 2009/10 cash outflows totalled £405.11 million compared with cash inflows of £415.59 million on revenue activities, including payments for operational activities and income from central government grants. Our revenue (day to day activity) cash flow saw £10.48 million more cash received than we spent. Note 10.32 to the statements shows a reconciliation of the £10.48 million to the deficit of £29.54 million on the Income and Expenditure Account. The overall position including treasury management and capital transactions saw an increase in the net cash position of £1.08 million.

Notes to the Statements

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

The Collection Fund

- 2.10.16 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.
- 2.10.16 The Statement of Accounts, which take into account events up to 18th June 2010, was authorised for issue on 18th June 2010 by the Director of Resources.
- 2.10.17 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
18th June 2010

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 2009: 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.

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, built up during the time 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 pension's 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 pension's 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 financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

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 or enhancement of tangible fixed asset is capitalised on an accruals basis, providing that it yields benefits to the council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standard of performance of an asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement

3.9.3 Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- a. **Investment properties and assets surplus to requirements** - the lower of net current replacement cost or net realisable value.

- b. **Dwellings, other land and buildings, vehicles, plant and equipment** – the lower of net current replacement cost or net realisable value in existing use.
- c. **Infrastructure and community assets** - depreciated historical cost.

Net current replacement cost is assessed as:

- i. Non-specialised operational properties – existing use value
- ii. Specialised operational properties – depreciated replacement cost
- iii. Investment properties and surplus assets – market value.

3.9.4 During the year the council undertook a review of its operational and non-operational properties. As a result of this review the council's tenanted farms have now been reclassified as operational assets in accordance with CIPFA's capital accounting guidance. The farms were previously valued as agricultural estate in perpetuity but have now been valued on an open market basis. The change in basis resulted in an increase in value of £37.4 million.

3.9.5 Similarly, the council is holding a number of properties for the Edgar Street Grid development. In previous years all such buildings were treated as investment properties, even though one of the office buildings and part of a second are currently occupied whilst awaiting development. This year these latter properties (Blueschool House and part of Franklin House) have been transferred to operational properties. The value transferred was £1.3 million.

Revaluations

3.9.6 Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains may 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 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

3.9.8 The values of each category of assets, and of material individual assets that are not being depreciated, are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

- a. Where attributable to the clear consumption of economic benefits the loss is charged to the relevant service revenue 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.
- b. Otherwise the loss is written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess being charged to the service revenue account.

Disposals

3.9.9 When an asset is disposed of or decommissioned, 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.

3.9.10 The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Statement of Movement on the General Fund Balance.

Depreciation

3.9.11 Depreciation is provided for on all fixed assets with a determinable finite useful life (except for investment properties). The council depreciates its fixed assets by allocating the value of the asset in the Balance Sheet on a straight-line basis over the periods expected to benefit from their use, but applying a maximum 50 year limit. The council's valuer makes an informed assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. 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.

3.9.12 Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Grants and Contributions

3.9.13 Where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to balance depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

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.

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 from the Statement of Movement on the General Fund reverses this out so that there is no impact on 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 (plus accrued interest) 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 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 are no premiums or discounts in the 2009/10 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 (plus accrued interest) 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 or 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 the lower of cost and net realisable value.

3.16 Private Finance Initiative

3.16.1 Up until 2009/10 PFI transactions were based on *Application Note F Private Finance Initiative and Similar Contracts* of *FRS5 Reporting the Substance of transactions*. From 2009/10 these contracts are accounted for under the principles of *IFRIC 12 Service Concession Arrangements*, a year ahead of the general switch to International Financial Reporting Standards (IFRS).

3.16.2 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. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

3.16.3 The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

3.16.4 Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

3.16.5 The amounts payable to the PFI contractors each year are analysed into five elements:

- a. Fair value of the services received during the year – debited to the relevant service in the Income and Expenditure Account.
- b. Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Income and Expenditure Account.
- c. Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Income and Expenditure Account.
- d. Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.
- e. Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as fixed assets when the contractor incurs the expenditure.

3.16.5 The council has two traditional PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross secondary school. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services.

3.17 Landfill Allowances Scheme

3.17.1 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.

3.17.2 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 2009/10 usage.

3.18 Estimation Techniques

3.18.1 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.

3.18.2 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.

3.18.3 There are no estimates in the 2009/10 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 ensure that an officer 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 2010 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 presents a true and fair view the financial position of Herefordshire Council at 31st March 2010 and its income and expenditure for that period.

Mr David Powell
Director of Resources
18th June 2010

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 2009/10 is set out below:

2008/09 Net £000	Note	2009/10 Expenditure £000	2009/10 Income £000	2009/10 Net £000
Directorate				
50,995		69,461	21,487	47,974
36,357		164,697	122,885	41,812
44,623		53,521	12,889	40,632
19,393		28,111	11,623	16,488
2,684		5,912	1,703	4,209
4,214		6,048	760	5,288
4,417		58,055	56,092	1,963
162,683		385,805	227,439	158,366
(365)				4,495
2,547				2,579
0	10.2			(1,379)
7,081	10.18			7,288
21				16
6,729	10.29			9,902
(2,868)	10.18			(905)
175,828				180,362
Sources of Finance				
(346)				(87)
(334)				8
(80,903)				(84,820)
(15,346)	10.7			(20,928)
(46,793)				(44,994)
(143,722)				(150,821)
32,106				29,541
(Surplus) or Deficit for the year				

5.3 The net cost of services is shown above analysed by the council's management accounting structure, which is how the council's budgets are compiled and monitored. In 2009/10 the directorates were restructured and the comparative 2008/09 figures have been restated to reflect this. The directorate figures shown in paragraph 2.2.4 of the Foreword 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:

2008/09 Net £000		2009/10 Expenditure £000	2009/10 Income £000	2009/10 Net £000
	BVACOP Analysis of Services			
50,970	Adult Social Care	69,461	21,487	47,974
43,204	Cultural, Environmental, Regulatory and Planning	53,109	14,642	38,467
36,383	Children and Educational Services	165,404	123,592	41,812
17,204	Highways and Transport Services	23,061	7,749	15,312
7,781	Housing Services	48,869	43,695	5,174
3,727	Corporate and Democratic Core	6,381	760	5,621
950	Non-distributed Costs	933	0	933
2,391	Central Services	17,350	14,774	2,576
280	Court Services	337	0	337
(207)	Other Services	900	740	160
<u>162,683</u>	Net Cost of Services	<u>385,805</u>	<u>227,439</u>	<u>158,366</u>

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 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.

5.7 For 2009/10 the council's industrial estates, retail units and markets are shown below the net cost of services as trading accounts. In previous years they have been included in the net cost of services with a note to the accounts detailing the expenditure and turnover. This change was an audit recommendation in the 2008/09 accounts audit.

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.

2008/09	2009/10
£000	£000
32,106 (Surplus)/Deficit on the Income and Expenditure Account	29,541
(31,768) Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(28,541)
338 Decrease /(Increase) in General Fund Balance for the Year	1,000
(6,728) General Fund Balance brought forward	(6,390)
<u>(6,390)</u> General Fund Balance carried forward	<u>(5,390)</u>

6.4 Paragraph 10.3 in the notes 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 2009/10 is set out below.

2008/09	2009/10
£000	£000
32,106 (Surplus)/Deficit for the year on the Income and Expenditure Account	29,541
(12,153) Surplus arising on revaluation of fixed assets	(43,470)
377 Adjustment to Opening Balance on Pensions Reserve	0
(50) Prior year adjustment for Collection Fund	0
(4,220) Prior year adjustment for PFIs	0
(9,022) Actuarial (gains)/losses on pension fund assets and liabilities	28,987
7,038	15,058

7.3 The 2008/09 adjustment in relation to the pension reserve reflects a change in the valuation method for assets. Details of the 2009/10 movement on the pension fund assets and liabilities are set out in Note 10.29 in the statements.

7.4 The 2008/09 adjustment for the Collection Fund reflects a change of accounting policy, as described in Note 10.1 to the accounts.

7.5 The 2008/09 adjustment relating to PFIs reflects the retrospective adjustment to the balance sheet required by the introduction of IFRS accounting for PFIs and similar contracts. Further details are included in Note 10.1 to the statements.

8. BALANCE SHEET AS AT 31ST MARCH 2010

31.3.09 £000		Note	31.3.10 £000	31.3.10 £000
	Fixed Assets	<i>10.10, 10.13</i>		
3,492	Intangible Fixed Assets	<i>10.11</i>	4,955	
	Operational Assets			
251,447	- Land and buildings		305,041	
11,720	- Vehicles, plant, furniture and equipment		11,516	
107,520	- Infrastructure assets		118,842	
2,944	- Community Assets		2,565	
<u>50,821</u>	Non-operational Assets		<u>56,930</u>	
427,944				499,849
1,240	Long-term debtors			1,333
<u>4</u>	Long-term investments	<i>10.18</i>		<u>4</u>
429,188	Total Long-term Assets			501,186
	Current Assets			
102	Stocks and work-in-progress		128	
31,135	Debtors	<i>10.26</i>	35,074	
26,595	Short-term Investments	<i>10.18</i>	12,947	
4	Landfill Allowance	<i>10.31</i>	703	
<u>3,438</u>	Cash and bank		<u>3,731</u>	
61,274				52,583
	Current Liabilities			
37,916	Creditors	<i>10.25</i>	40,034	
15,757	Short term borrowing	<i>10.18</i>	14,704	
<u>5,646</u>	Cash overdrawn		<u>4,855</u>	
59,319				59,593
431,143	Total Assets less Current Liabilities			494,176
104,068	Long-term borrowing	<i>10.18</i>	111,880	
62,833	Capital contributions deferred - applied		90,672	
7,327	Capital contributions deferred - unapplied		13,466	
4	Debt liability		3	
28,530	Finance lease liability	<i>10.4</i>	29,711	
130,114	Pensions liability	<i>10.29</i>	164,594	
2,029	Provisions	<i>10.19</i>	2,668	
<u>334,905</u>			<u>412,994</u>	
96,238	Total Assets less Liabilities			81,182
	Financed by;			
163,703	Capital adjustment account	<i>10.14</i>		147,948
23,116	Revaluation reserve	<i>10.15</i>		65,322
(498)	Financial instruments adjustment account	<i>10.20</i>		(494)
(130,114)	Pensions reserve	<i>10.20, 10.29</i>		(164,594)
17,558	Usable capital receipts	<i>10.20</i>		13,296
228	Deferred credits			195
(209)	Collection Fund adjustment account			(117)
16,064	Earmarked reserves	<i>10.20</i>		14,236
<u>6,390</u>	Revenue balances	<i>10.20</i>		<u>5,390</u>
96,238	Total net worth			81,182

9. CASH FLOW STATEMENT

2008/09 £000		2009/10 £000	2009/10 £000
	Revenue Activities		
	Cash outflows		
137,397	Cash paid to and on behalf of employees	138,738	
177,086	Other operating cash payments	224,306	
32,958	Housing Benefit paid out	39,673	
23	Payments to the Capital Receipts Pool	4	
2,393	Precepts paid	2,389	
349,857			405,110
	Cash inflows		
(72,846)	Council Tax income	(75,757)	
(46,793)	National non-domestic rate receipts from national pool	(44,994)	
(6,514)	Revenue Support Grant	(10,385)	
(32,760)	DWP grants for benefits	(38,185)	
(145,862)	Other government grants	(156,731)	
(44,821)	Other operating cash receipts	(89,536)	
(349,596)			(415,588)
261	Revenue Activities Cash Flow		(10,478)
	Servicing of Finance		
	Cash outflows		
4,906	Interest paid	5,165	
2,117	Interest element of finance lease payments	2,109	
	Cash inflows		
(2,724)	Interest/discount received	(393)	
4,299			6,881
	Capital Activities		
	Cash outflows		
41,857	Purchase of fixed assets	55,910	
251	Other capital cash payments	256	
42,108			56,166
	Cash inflows		
(5,854)	Sale of fixed assets	(474)	
(15,781)	Capital grants received	(32,956)	
(3,516)	Other capital cash receipts	(5,448)	
(25,151)			(38,878)
21,517	Net cash (inflow)/outflow before financing		13,691
	Management of Liquid Resources		
(14,700)	Net decrease in short term investments		(13,510)
3,117	Net increase in other liquid resources		4,527
	Financing		
	Cash outflows		
486	Repayments of amounts borrowed		18,055
628	Capital element of finance lease payments		953
	Cash inflows		
(13,000)	New loans raised		(24,800)
(1,952)	Net decrease/(increase) in cash		(1,084)

- 9.1 The 2008/09 comparative figures have been amended to exclude Trust Fund cash (see note 10.1.9)
- 9.2 Further information can be found in paragraph 10.32 to the Statements. The comparatives for 2008/09 have been amended due to a change in accounting policy in accounting for Council Tax, NNDR and PFI schemes.

10. NOTES TO THE CORE STATEMENTS

10.1 Prior Period Adjustments

10.1.1 The Balance Sheet figures for 31 March 2009 have been adjusted for 2 changes in accounting requirements in respect of the Collection Fund and Private Finance Initiative (PFI) accounting.

Collection Fund

10.1.2 Under the SORP 2009 the accounting treatment for the transactions between the Collection Fund and the General Fund have been revised. Under the new accounting arrangements Herefordshire Council (the billing authority) acts as an agent collecting council tax on behalf of the West Mercia Police Authority and the Hereford and Worcester Fire Authority (major preceptors) and itself. Consequently council tax transactions and balances are therefore allocated between the billing authority and major preceptors. The SORP 2009 also confirms that the collection of National Non-Domestic Rates (NNDR) is carried out by authorities as an agent activity on behalf of central government and any balances should be shown as payable or receivable from central government.

10.1.3 The changes to the 31 March 2009 Balance Sheet for Collection Fund were;

	31.3.09	Council Tax	NNDR	Adjusted
	£000	£000	£000	31.3.09
				£000
Debtors	31,883	(99)	(649)	31,135
Creditors	(38,706)	141	649	(37,916)
Collection Fund	251	(251)	0	0
Collection Fund Adjustment Account	0	209	0	209

These changes reflect;

- Any balances on the balance sheet relating to NNDR collection have now been consolidated to create just one overall debtor with central government.
- The balances on the Balance Sheet relating to council tax collection now only represent the council's share. A debtor has been created to represent the other major preceptor's share of the money due to the collection fund.

10.1.4 The changes to the 2008/09 Income and Expenditure Account and Statement of Movement in General Fund Balance for Collection Fund were;

	2008/09	Council Tax	Adjusted
	£000	£000	2008/09
			£000
Deficit for Year	21,926	(39)	21,887
Statutory Adjustments	(21,588)	39	(21,549)

The adjustment of £39,000 represents the council's share of the movement on the collection fund deficit in 2008/09 which is now required to be brought into the I & E Account.

PFI and Similar Contracts

10.1.5 The accounting requirements for PFI and similar contracts are no longer based on UK accounting standards but on International Reporting Standards (IFRS). The requirements apply to contracts existing at 31 March 2009 and prior period adjustments are required.

10.1.6 The council has 3 contracts which fall under this definition, Whitecross school PFI contract with Stepnell Ltd, Waste management PFI with Mercia Waste Management Ltd and the Shaw Healthcare contract for the provision of residential and ancillary services.

10.1.7 The changes to the 31 March 2009 Balance Sheet for PFI and similar contracts were;

	31.3.09 £000	Whitecross School £000	Mercia Waste £000	Shaw Healthcare £000	Adjusted 31.3.09 £000
Fixed Assets	402,929	18,908	518	5,589	427,944
Long-term debtors	1,173	145	(97)	19	1,240
Long-term liability	0	(16,552)	(3,118)	(8,860)	(28,530)
Revaluation reserve	(20,587)	(2,382)	558	(705)	(23,116)
Capital Adjustment Account	(169,680)	(119)	2,139	3,957	(163,703)

These changes reflect;

- the initial recognition of the assets used in the contract on the council's balance sheet based on the contract and matched by a long-term liability to pay the contractor.
- subsequent revaluation and depreciation of the assets, with opposite entries through the revaluation reserve and capital adjustment account.
- reversal of previous entries relating to the recognition of the residual value of the assets as long-term debtors.
- recognition of prepayment for life-cycle replacement costs.

10.1.8 The changes to the 2008/09 Income and Expenditure Account and Statement of Movement in General Fund Balance for PFI and similar contracts were;

	Adjusted 2008/09 £000	Whitecross School £000	Mercia Waste £000	Shaw Healthcare £000	Adjusted 2008/09 £000
Net cost of services	154,581	(999)	5,160	3,941	162,683
Net operating expenditure	165,609	259	5,298	4,662	175,828
Deficit for the year	21,887	259	5,298	4,662	32,106
Statutory adjustments	(21,549)	(259)	(5,298)	(4,662)	(31,768)

These changes reflect the requirement to split contract payments between service costs, financing costs and payments towards the balance sheet liability. Also included are depreciation and impairment charges on the assets.

Trust funds

- 10.1.9 In previous accounts trust fund balances invested with the council have been included in the cash balance in the balance sheet with an equivalent amount in the council's short-term borrowing. Following an Audit Commission recommendation these balances are no longer shown in the accounts. This amounted to £1.04 million in 2008/09 and £1.21 million in 2009/10.

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. In previous years these were accounted for in the net cost of services, but for 2009/10 are included in the net operating expenditure section of the Income and Expenditure account

- 10.2.2 Significant trading accounts are summarised as follows:

		2009/10 £000	2009/10 £000
Markets The council owns and manages open and closed markets, generating income from letting of premises and market stalls. The deficit in 2008/09 was £1.684 million, including impairment charges arising from the fall in property values during the economic down-turn.	Turnover	(732)	
	Expenditure	521	
	Surplus		(211)
Industrial Estates The council owns and manages a number of industrial estates in the county. The deficit in 2008/09 was £68,000, including impairment charges arising from the fall in property values during the economic down-turn	Turnover	(1,350)	
	Expenditure	559	
	Surplus		(791)
Retail Properties The council owns retail premises in Hereford City centre from which it receives commercial rents. The surplus in 2008/09 was £501,000.	Turnover	(673)	
	Expenditure	296	
	Surplus		(377)

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:

2008/09 £000	2009/10 £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	
(735) Amortisation of intangible fixed assets	(913)
(30,736) Depreciation and impairment of fixed assets	(25,090)
2,718 Government Grants deferred amortisation	3,589
(7,357) Revenue Expenditure Funded from Capital under Statute	(10,873)
2,392 Grant Supporting Revenue Expenditure Funded from Capital under Statute	7,627
4 Effective Interest Rate adjustment	4
39 Collection fund adjustment account	91
496 Surplus or loss on the sale of fixed assets (non-revenue)	(4,495)
<u>(16,225)</u> Net charges made for retirement benefits in accordance with FRS17	<u>(16,474)</u>
(49,404)	(46,534)
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	
7,443 Statutory provision for repayment of debt	8,308
378 Capital expenditure charged to the General Fund Balance	548
(21) Transfer of usable capital receipts to meet payments to the Housing Capital Receipts Pool	(16)
10,344 Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners	10,981
<u>18,144</u>	<u>19,821</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	
(508) Net transfer to/(from) earmarked reserves	(1,828)
<u>(31,768)</u>	<u>(28,541)</u>

10.4 Private Finance Initiative (PFI) and Similar Contracts

10.4.1 From 2009/10 PFIs and similar contracts are no longer accounted for under UK accounting standards but on International Financial Reporting Standards (IFRS).

10.4.2 The council has 2 formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract. Further details of these arrangements are set out in Note 10.16.

10.4.3 The value of assets held under PFI and similar contracts at the balance sheet date is as follows;

	£000
Net book value 31.3.09	26,806
Additions	2,255
Revaluations and impairments	(1,520)
Depreciation	(1,256)
Net book value 31.3.10	<u>26,285</u>

10.4.4 The value of liabilities arising from PFI and similar contracts at the balance sheet date is as follows;

	£000
Liabilities at 31.3.09	(28,531)
Additions	(2,133)
Write-down of liability in the year	953
Liabilities at 31.3.10	<u>(29,711)</u>

10.4.5 The table below shows an estimate of the payments to be made under PFI and similar contracts.

	Service Charges £000	Lifecycle Costs £000	Finance liability £000	Interest & similar £000	Total £000
Within one year	10,961	309	823	2,263	14,356
Within two to five years	46,187	1,299	4,091	9,123	60,700
Within six to ten years	64,218	1,776	6,819	11,072	83,885
Within eleven to twenty years	76,570	4,147	15,910	16,166	112,793
Within twenty-one to twenty-five years	19,346	731	4,321	4,600	28,998

10.5 Financial Relationships with Companies

- 10.5.1 The council has some interests in companies, but no material interests that would require group accounts to be prepared.
- 10.5.1 The council holds 1.05% of shares in West Midlands Transport Information Services. The council does not have the benefits of future economic benefits or exposure to the risks inherent in the benefits, nor can it control decision making. Therefore the relationship does not require group accounts.
- 10.5.2 The council has a 20% non-voting shareholding in Amey Wye Valley for the provision of a number of services, the largest being highways maintenance. The council does not have control over decision making or exercise dominant influence. Therefore there is no group relationship requiring group accounts. This is conducted as a contractual arrangement with the transactions included in the Income and Expenditure account and capital accounts
- 10.5.3 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 has a 25% holding in WMS and 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 cash flow is not considered material to the accounts.
- 10.5.4 The council has an interest in the Edgar Street Grid company, whose role is to steer the Edgar Street redevelopment. Edgar Street Grid is a company limited by guarantee and the council is a member. However, this relationship does not require group accounts as the company provides an independent role in the redevelopment. Contracts with third parties are entered into by the council and the financial transactions relating to these are included in the council's accounts.
- 10.5.5 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss through transactions or collapse, and therefore there is no requirement to complete group accounts.

10.6 Partnership Schemes Under Section 75 of the Health Act 2006

- 10.6.1 There are six Section 75 agreements between the council and Primary Care Trust (PCT).
- 10.6.2 Three are hosted by the PCT:
- a. Mental Health.
 - b. Hillside Intermediate Care.
 - c. Blanchworth Contract, Kington.
- 10.6.3 The three agreements hosted by the council are:
- a. Learning Disabilities.
 - b. Integrated Community Equipment Store (ICES).
 - c. Joint Agency Management for Out of County Placements.

Mental Health

10.6.4 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.

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

- a. Herefordshire Primary Care Trust - £21.7 million.
- b. Herefordshire Council - £7.3 million.

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

2008/09		2009/10
£000		£000
(25,263)	Gross Income	(28,977)
26,488	Gross Expenditure	31,576
<u>1,225</u>	Net over / (under) spend	<u>2,599</u>

10.6.7 The council's element of the overspend on mental health is £178,000, which was due to high numbers of residential and nursing packages and domiciliary care partially offset by savings in mental health intermediate care.

Hillside Intermediate Care

10.6.8 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.

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

- a. Herefordshire Primary Care Trust - £919,000
- b. Herefordshire Council - £378,000

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

2008/09		2009/10
£000		£000
(1,276)	Gross Income	(1,297)
1,283	Gross Expenditure	1,404
<u>7</u>	Net over / (under) spend	<u>107</u>

10.6.11 The council's gross overspend for Hillside intermediate care is £31,000.

Blanchworth Contract, Kington

10.6.12 Blanchworth Care is a contract monitored by the PCT to provide beds at Kington Court, predominantly for older people, of which the council has access to a proportion of the beds.

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

- a. Herefordshire Primary Care Trust - £597,000
- b. Herefordshire Council - £363,000

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

2008/09		2009/10	
£000		£000	
(871)	Gross Income	(960)	
871	Gross Expenditure	960	
<u>0</u>	Net over / (under) spend	<u>0</u>	

Learning Disabilities

10.6.14 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.

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

- a. Herefordshire Primary Care Trust - £3.5 million
- b. Herefordshire Council - £11.8 million

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

2008/09		2009/10	
£000		£000	
(13,696)	Gross Income	(15,312)	
14,397	Gross Expenditure	16,727	
<u>701</u>	Net over / (under) spend	<u>1,415</u>	

10.6.17 The council's gross over spend for integrated Learning Disabilities service was £1,415,000. The main areas of overspend relate to the increased number of expensive nursing and residential packages, along with increased number of clients requiring domiciliary care, supported accommodation and personal budgets.

Integrated Community Equipment Service

10.6.18 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.

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

- a. Herefordshire Primary Care Trust - £271,000
- b. Herefordshire Council - £271,000

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

2008/09		2009/10	
£000		£000	
(534)	Gross Income	(543)	
534	Gross Expenditure	560	
<u>0</u>	Net over / (under) spend	<u>17</u>	

JAM Out of County Placements

10.6.21 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.

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

2008/09		2009/10
£000		£000
	Gross Funding	
(206)	Herefordshire PCT	(264)
(619)	Herefordshire Council (DSG)	(791)
(619)	Herefordshire Council	(791)
<u>(1,444)</u>	Total Funding	<u>(1,846)</u>
1,444	Total Expenditure	1,846
<u>0</u>	Net over / (under)spend	<u>0</u>

10.7 General Government Grants

10.7.1 The General Government Grants of £20.9 million within the Income and Expenditure Account (paragraph 5.2) is made up of £10.4 million Revenue Support Grant (£6.5 million 2008/09), £10.3 million for the Area Based Grant (ABG) (£8.8 million 2008/09) and £0.2 million Housing and Planning Grant.

10.8 Members Allowances

10.8.1 Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2009/10 members were paid a total of £701,528 under these regulations (£664,336 in 2008/09). This was made up of £424,241 basic allowances, £229,878 special responsibility allowances and £47,409 for travelling and subsistence.

10.9 Employees remuneration

10.9.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. These regulations have been amended for the 2009/10 accounts to introduce a new legal requirement to publish information about senior officers' remuneration.

10.9.2 Remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash' (e.g. benefits in kind).

10.9.3 In previous years the note to the accounts showed numbers of employees with remuneration over £50,000 in pay bands in multiples of £10,000. This has been changed to bands of £5,000. For the banding note remuneration excludes employer's pension contributions.

10.9.4 The 2009/10 banding information is set out below. Where no employees fell within a particular band, this band is not shown in the table;

From	To	<u>No of employees</u>		<u>2009-10</u>		<u>2008-09</u>	
		<u>2009-10</u>	<u>2008-9</u>	<u>Non School</u>	<u>School</u>	<u>Non School</u>	<u>School</u>
£50,000	£55,000	50	42	18	32	13	29
£55,000	£60,000	18	17	1	17	1	16
£60,000	£65,000	9	7	3	6	3	4
£65,000	£70,000	8	9	2	6	3	6
£70,000	£75,000	13	11	10	3	8	3
£75,000	£80,000	6	4	4	2	1	3
£80,000	£85,000	4	3	2	2	3	0
£85,000	£90,000	1	2	0	1	1	1
£90,000	£95,000	1	0	0	1	0	0
£95,000	£100,000	2	0	2	0	0	0
£100,000	£105,000	0	1	0	0	1	0
£105,000	£110,000	3	2	3	0	2	0
£115,000	£120,000	0	2	0	0	2	0
£120,000	£125,000	1	1	1	0	1	0
£180,000	£185,000	1	1	1	0	1	0
		117	102	47	70	40	62

10.9.5 The amended regulations introduce an additional requirement to disclose details for senior employees whose salary is £50,000 or more. For senior employees whose full-time equivalent salary is between £50,000 and £150,000 the disclosure is by way of job title and for those whose salary is £150,000 or more they are identified by name.

10.9.6 For the purposes of the regulations a 'senior employee' is defined as an employee whose remuneration is at least £50,000 and who is:

- a) The designated head of paid service or chief officer; or
- b) Any person having responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

10.9.7 The disclosure for the council for 2009/10 is set out below. The employees included are Directors and staff who report to Directors who are employed on Head of Service pay grades. These staff are also included in the table at 10.9.4. For this note employer's pension contributions are included.

Post holder information	Notes	Salary (inc. fees and allowances) £	Benefits in kind £	Total remuneration excluding pension contributions 2009-10 £	Pension contributions £	Total remuneration including pension contributions 2009-10 £
Employees with salaries £150,000 or more						
Chief Executive - C Bull	45% recharged to the PCT	183,724	0	183,724	36,010	219,734
		183,724	0	183,724	36,010	219,734
Employees with salaries between £50,000 and £150,000						
Director of Children's Services		122,940	0	122,940	24,096	147,036
Director of Regeneration		109,212	167	109,379	21,405	130,784
Director of Resources		106,193	0	106,193	20,813	127,006
Director of Environment	left 19/3/10	105,689	0	105,689	20,715	126,404
Associate Director of Integrated Commissioning		83,032	0	83,032	16,274	99,306
Assistant Director, Planning Performance & Development		80,602	0	80,602	15,798	96,400
Head of Community Operations		78,355	0	78,355	15,357	93,712
Head of Inclusion & Improvement		78,332	0	78,332	15,353	93,685

Post holder information	Notes	Salary (inc. fees and allowances) £	Benefits in kind £	Total remuneration excluding pension contributions 2009-10 £	Pension contributions £	Total remuneration including pension contributions 2009-10 £
Head of Service - Adult Services		75,520	0	75,520	14,801	90,321
Assistant Director Environment & Culture		72,414	0	72,414	14,193	86,607
Head of Asset Management		72,414	0	72,414	14,193	86,607
Head of Benefit & Exchequer		72,414	0	72,414	14,193	86,607
Head of Communications		72,414	0	72,414	14,193	86,607
Head of Planning Services		72,414	0	72,414	14,193	86,607
Head of Policy & Research		72,414	0	72,414	14,193	86,607
Head of Strategic Housing		72,414	0	72,414	14,193	86,607
Head of Economic & Community Services		71,442	0	71,442	14,193	85,635
Assistant Director Environment & Culture		70,481	0	70,481	13,814	84,295
Assistant Director Environment & Culture		70,477	0	70,477	13,813	84,290
Acting Head of Policy & Performance	Acting HoS 1/1/10 to 31/3/10. Left 31/3/10.	69,949	0	69,949	13,066	83,015
Regulatory Services Manager	Acting HoS 11/5/09 to 31/3/10	65,753	212	65,965	12,887	78,852
Technical Accounting Manager	Acting HoS 1/4/09 to 30/9/09	64,014	0	64,014	12,546	76,560

Post holder information	Notes	Salary (inc. fees and allowances) £	Benefits in kind £	Total remuneration excluding pension contributions 2009-10 £	Pension contributions £	Total remuneration including pension contributions 2009-10 £
Head of Safeguarding & Vulnerable Children Corporate Programmes & Shared Services Lead	Started 8/6/09 - Annualised salary was £74,173	60,368	742	61,110	11,832	72,942
Officer	Acting HoS 1/4/09 to 31/5/09	54,700	0	54,700	10,728	65,428
Head of Customer Services	Acting HoS 1/7/09 to 31/3/10	53,136	0	53,136	10,785	63,921
Head of Financial Services	Started 1/10/09 - Annualised salary was £74,173	37,086	0	37,086	7,268	44,354
Assistant Chief Executive - Legal & Democratic	10% recharged to the PCT. Left 26/6/09	20,558	0	20,558	4,029	24,587
		1,984,737	1,121	1,985,858	388,924	2,374,782

In addition to the employees above the council contributed towards some senior staff employed by the PCT as follows;

Director of Public Health	30%
Director of Clinical Health and Quality	30%
Assistant Chief Executive - HR	50%
Joint Director of ICT	33%

10.10 Summary of Capital Expenditure and Fixed Asset disposals

10.10.1 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	Comm-unity assets	Held for Invest-ment	Under Constr-uction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 st April 2009	258,312	15,832	116,777	2,944	35,719	12,030	3,073	6,403	451,090
Additions	18,995	3,132	17,123	247	196	18,575	445	2,376	61,089
Disposals/deletions	(5,772)	(30)	-	-	(2)	(1,039)	-	-	(6,843)
Revaluations*	2,240	-	-	-	37,744	-	425	-	40,409
Impairments*	(9,331)	(287)	-	(546)	(192)	-	-	-	(10,356)
Reclassifications	50,123	-	-	(80)	(44,791)	(5,343)	91	-	-
At 31st March 2010	314,567	18,647	133,900	2,565	28,674	24,223	4,034	8,779	535,389
Depreciation and Impairments									
At 1 st April 2009	(6,865)	(4,112)	(9,257)	-	-	-	(1)	(2,911)	(23,146)
Charge for 2009/10	(5,895)	(3,038)	(5,801)	-	-	-	-	(913)	(15,647)
Disposals	173	19	-	-	-	-	-	-	192
Reclassifications	-	-	-	-	-	-	-	-	-
Revaluations	3,061	-	-	-	-	-	-	-	3,061
At 31st March 2010	(9,526)	(7,131)	(15,058)	-	-	-	(1)	(3,824)	(35,540)
Balance Sheet amount at 31st March 2009	251,447	11,720	107,520	2,944	35,719	12,030	3,072	3,492	427,944
Balance Sheet amount at 31st March 2010	305,041	11,516	118,842	2,565	28,674	24,223	4,033	4,955	499,849
Nature of asset holding:									
Owned	282,547	7,725	118,842	2,565	28,674	24,223	4,033	4,955	473,564
PFI Finance lease	22,494	3,791	-	-	-	-	-	-	26,285
	305,041	11,516	118,842	2,565	28,674	24,223	4,033	4,955	499,849

*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, where there is no revaluation reserve available to cover it (so that the loss is charged to the Income and Expenditure Account).

10.10.2 Due to a change in accounting requirements the cost or valuation brought forward at 1st April 2009 represents the net book value of fixed assets as at 1 April 2007 plus adjustments for capital movements (expenditure, disposals and revaluations) in the two years to 31 March 2009. Similarly, the depreciation provision brought forward relates only to depreciation charged in the two years since 1 April 2007.

Significant changes during the year

10.10.3 Opening balances

The net book values brought forward for land and buildings and also for vehicles plant and equipment are higher than those reported in last years accounts by £25 million. This is because of accounting adjustments made, in accordance with recommended practice, to include PFI schemes. Further detail is provided in note 10.1.7.

10.10.4 Additions

Of the total additions of £61.09 million, the largest amounts were spent on the construction of Minster School (£11.67 million) and Wyebridge Academy (£5.79 million), the purchase of the council's Plough Lane offices (£4.31 million) and amounts spent on highways maintenance (9.64 million) and other schemes under the council's Transport Strategy (£2.67 million).

10.10.5 Disposals

Barrs Court School in Hereford, Wigmore High School and Wigmore Primary School all achieved Foundation Status during the year. As a result of the schools no longer being controlled by the council, the schools have been removed from the council's balance sheet. The net book values written off were £2.3 million for Barrs Court School, £3.3 million for Wigmore High School and £1.0 million for Wigmore Primary School.

10.10.6 Revaluations

Smallholdings were previously valued as agricultural estates in perpetuity but have now been valued on an open market basis (adjusting for the tenants interests). The change in valuation resulted in an increase in value from £4.4 million last year to £41.8 million this year.

10.10.7 Reclassifications

Smallholdings were previously classified as investment properties but were reclassified this year as operational properties in accordance with recommended accounting practice. Following the revaluation of the smallholdings noted above, this led to £41.8 million being reclassified

Capital Expenditure and Financing

10.10.8 The following table shows capital expenditure in the year and how it was financed, including a reconciliation to the council's capital financing requirement.

2008/09 £000	Capital Expenditure & Financing	2009/10 £000
136,270	Opening capital financing requirement	150,375
	Opening adjustment for PFI and Service Concessions	28,530
		<u>178,905</u>
	<u>Capital Investment</u>	
32,907	Operational assets	36,995
5,965	Non-operational assets	19,463
2,190	Intangible assets	2,376
162	PFI asset prepayment	256
7,357	Revenue expenditure funded from capital under statute	10,873
	PFI finance liabilities	2,133
	<u>Sources of finance</u>	
(21,153)	Grants and Contributions	(40,566)
(6,217)	Capital Receipts	(4,914)
(7,106)	Sums set aside from revenue	(8,856)
<u>150,375</u>	Closing capital financing requirement	<u>196,665</u>
	<u>Explanation of movements in year</u>	
12,750	Borrowing – Supported Capital Expenditure (Revenue)	13,567
8,170	- Prudential Borrowing	10,368
	Finance lease liability	2,133
(6,815)	Minimum revenue provision	(8,308)
<u>14,105</u>		<u>17,760</u>

10.11 Intangible Assets

10.11.1 Movement in Intangible Fixed Assets in the year were:

	Purchased software licences £000
Original cost	6,403
Amortisation to 1 April 2009	(2,911)
Balance at 1 April 2009	<u>3,492</u>
Expenditure in year	2,376
Amortisation for year	(913)
Balance at 31 March 2010	<u>4,955</u>

10.11.2 All intangible assets relate to software which is being written off over its estimated useful life of either 3 years or 5 years.

10.12 Significant Commitments Under Capital Contracts

10.12.1 The significant commitments in respect of capital contracts due to be met in 2010/11 and 2011/12 are as follows:

Scheme	2010/11 £000	2011/12 £000
Minster Replacement School (August 2010)	3,292	0
Herefordshire Connects (December 2011)	684	0
Hereford Academy (December 2011)	12,463	4,552
	<u>16,439</u>	<u>4,552</u>

10.13 Fixed Assets

10.13.1 The major fixed assets held by the council as at 31st March 2010 includes:

31.03.10

Children and Young People's Services

Primary Schools	71
Secondary Schools	13
Special Schools	4
Pupil Referral Units	2
Other Educational Establishments	3
Children and Family Centres	7
Youth Centres	8

Adult and Community Services

Homes for Older People	6
Other Social Care Homes	10
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	380km
Distributor/Access roads	2918km
Cemeteries	4
Crematorium	1
Public Conveniences	29
Travellers Sites	6
Bus Stations	2
Car Parks	42
Open Markets	2
Household Waste Sites	5

Other

Smallholdings (non-operational assets)	58
General Buildings and Offices	29
Operational Depots	5
Registrars offices	2
Industrial Estates – Units	245
Commons, Parks and Other Open Spaces	76
Other Non-operational Assets	337

Valuations

10.13.2 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.

10.13.3 The council's assets are revalued on a 5 year rolling programme. The following table shows the fixed assets by the year they were valued.

	Land & Buildings – Operational £'000	Other Operational £'000	Non- Operational £'000	Intangible Assets £'000	Total £'000
Valued at historical cost	0	155,112	24,223	8,779	188,114
Valued at current value in:					
2005/06	43,197	0	3,974	0	47,171
2006/07	31,205	0	1,557	0	32,762
2007/08	13,278	0	583	0	13,861
2008/09	31,140	0	533	0	31,673
2009/10	195,747	0	26,061	0	221,808
Cost or valuation at 31 st March 2010	314,567	155,112	56,931	8,779	535,389

10.13.4 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

10.13.5 The depreciation methods used are set out in the Accounting Policies (paragraph 3.9.10). In 2009/10 the total depreciation on fixed assets was £14.7 million, plus amortisation of intangible assets of £913,000.

10.14 Capital Adjustment Account

10.14.1 The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system. It is matched by fixed assets within the balance sheet and does not represent resources available to spend.

10.14.2 Below is a breakdown of the movement on the Capital Adjustment Account:

	£000
Restated Balance as at 1st April 2009	(163,703)
Reversal of;	
Depreciation charges	14,734
Amortisation of intangible assets	913
Amortisation of grants supporting assets	(3,589)
Impairment charges	10,356
Revenue charged to capital under statute	10,873
Grant supporting Revenue charged to capital under statute	(7,627)
Minimum revenue provision	(8,308)
Net book value of assets disposed in year	6,651
Write-off of grants on disposed assets	(1,510)
Transfers to revaluation reserve	
For depreciation of assets	(478)
For disposal of assets	(786)
Revenue contribution to capital	(548)
Capital receipts applied	(4,914)
Credit arrangements and debt written off	(12)
Balance as at 31st March 2010	<u>(147,948)</u>

10.15 Revaluation Reserve

10.15.1 The Revaluation reserve records unrealised revaluations arising from holding fixed assets from 1 April 2007, when it was introduced. Below is a breakdown of the movement on the Revaluation Reserve:

	£000
Balance as at 1st April 2009	(23,116)
2009/10 Revaluations	(43,470)
Transfers to capital adjustment account	
For depreciation of assets	478
For disposal of assets	786
Balance as at 31st March 2010	<u>(65,322)</u>

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 2010, 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. To secure LATS compliance Mercia Waste have submitted a planning application for an Energy from Waste Plant for 200,000 tonnes per annum at Hartlebury in Worcestershire to deal with waste from the two counties.

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.

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. Amey Herefordshire Managing Agent Contract (MAC)

During 2009 elements of the two contracts above (c and d) with Amey were re-negotiated to form a ‘Managing Agent Contract’ (MAC) through which Amey Herefordshire deliver an ‘end to end’ highways, parks and public right of way service for the council and the people of Herefordshire. Through this partnership Amey also deliver a range of ancillary support services to the council, including printing, catering, courier and fleet maintenance. The above contracts remain in place for the delivery of all ‘Non-MAC’ services.

Under these arrangements which commenced on 1st September 2009, council staff from highways, parks, and public rights of way services transferred to Amey Herefordshire. The estimated annual value of the works and services delivered through MAC is £20 million and the arrangements guarantee a minimum saving of £1 million each year and link the reward of contract extension to continuous improvement in service delivery and value for money for the people of Herefordshire.

f. 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. 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 2009/10 totalled £5 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:

2008/09		2009/10
£000		£000
	The amount of lease rentals paid to lessors	
908	Other Land & Buildings	731
314	Vehicle, Plant & Equipment	261
	Rental received in the year for operating leases	
2,555	Other Land & Buildings	2,635

10.17.2 The council was committed at 31st March 2010 to making payments of £823,000 under operating leases in 2010/11, comprising the following elements:

	Other Land & Buildings	Vehicles, Plant & Equipment
	£000	£000
Leases expiring in 2010/11	50	107
Leases expiring between 2011/12 and 2015/16	179	24
Leases expiring after 2015/16	463	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 £148.29 million as valued at 1st April 2009 and subject to £1.95 million depreciation to 31st March 2010.

10.18 Financial Instruments Balances

Investments

10.18.1 The investments disclosed in the Balance Sheet are classified as follows:

	Current		Long-Term	
	2008/09	2009/10	2008/09	2009/10
	£000	£000	£000	£000
Loans and receivables	26,595	12,947	4	4

10.18.2 Current investments consist of deposits with banks and building societies. The long-term investments consist mainly of UK government stocks held.

Borrowing

10.18.3 The borrowings disclosed in the Balance Sheet are classified as follows:

	Current		Long-Term	
	2008/09 £000	2009/10 £000	2008/09 £000	2009/10 £000
Financial liabilities at amortised cost:				
Loans from the Public				
Works Loan Board	258	2,210	104,068	111,880
Bank Loans	12,498	12,494	0	0
Other Loans	3,001	0	0	0
Total borrowings	15,757	14,704	104,068	111,880

10.18.4 In accordance with recommended accounting practice, the above figures for both investments and borrowing include the year end accruals for interest receivable and payable.

10.18.5 No assets have been pledged as collateral for any of the council's liabilities and the council does not hold any collateral in support of amounts due to the council.

Financial Instruments Gains and Losses

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

	Financial Liabilities Measured at amortised cost £000		Financial Assets Loans and receivables £000	
	2008/09	2009/10	2008/09	2009/10
Interest and similar charges:				
Loan interest payable	4,964	5,178		
PFI interest	2,117	2,110		
Interest and investment income			(2,225)	(254)
Loss/(Gain) for the year on financial instruments	7,081	7,288	(2,225)	(254)
West Mercia Supplies surplus redistribution			(643)	(651)
Total per Income and Expenditure Account	7,081	7,288	(2,868)	(905)

Fair Value of Assets and Liabilities carried at amortised cost

10.18.7 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 2009		31 March 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Liabilities	119,825	122,232	126,584	129,549
Short term loans and receivables	26,595	26,632	12,947	12,916

10.18.8 The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. At the point at which the asset or liability was initially recognised the fair value would have been the same as cost, but subsequent interest rate changes result in the fair value of fixed-rate financial instruments changing. For example, a fall in interest rates will cause the fair value of fixed-rate borrowing to increase and the fair value of fixed-rate investments to fall.

10.18.9 The fair values above have been assessed by Arlingclose, the council's treasury management advisors. The largest part of the above balances consists of the council's loans with the Public Works Loan Board (PWLB). The fair values of the PWLB loans have been calculated using the premature repayment rates for these loans. The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity.

10.18.10 The fair value of the financial liabilities is higher than the carrying amount because the authority's portfolio of loans are all fixed rate and the interest payable on these loans is slightly higher than the relatively low rates prevailing at the Balance Sheet date. The commitment to pay interest rates at above current market rates increases the redemption premium that the council would have to pay if the lender agreed to early repayment of the loans.

10.18.11 The fair value of the council's investments was assessed using market rates but, because all are short-term, there is little difference between the carrying amount and the fair value.

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

10.18.12 The council'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 associated with financial instruments.
- c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.

10.18.13 The council 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.

10.18.14 The council's exposure to the three types of risk is no greater than the previous year and the council's approach to risk management is fundamentally unchanged.

The council regards the effective management and control of risk as the prime objective of its treasury management activities. In the current economic climate, market risk continues to be the most significant risk as the interest rate payable on the council borrowings continues to be significantly higher than the interest rate earned on investments.

Credit Risk

- 10.18.15 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).
- 10.18.16 From 1 April 2010 the council changed its treasury advisors from Sector to Arlingclose. One of the main reasons was that Arlingclose have an excellent reputation for their market research enabling them to provide timely and sound financial advice concerning eligible counterparties. For example, they were the only public sector advisor to have issued warnings to their clients well in advance of the Icelandic crisis with the result that none of their clients had funds invested in Icelandic banks at the time of the banks collapse. In addition to monitoring credit ratings, the counterparties recommended by Arlingclose are selected after considering other available market information such as share prices and the strength and stability of the country concerned.
- 10.18.17 During the year ended 31st March 2010 new investments have only been placed with the larger of the UK banks, AAA-rated Money Market Funds and the government's Debt Management Office.
- 10.18.18 Credit risk has also been minimised by running down the council's investments in preference to taking out external borrowing.
- 10.18.19 At the year end the council's investments consisted of a £5 million one year term deposit with the Bank of Scotland (maturing January 2011); £5 million invested in an instant access account with National Westminster Bank and £2.92 million invested in an instant access account with Clydesdale Bank. (The figure in the balance sheet for short-term investments includes an additional £27,000 of accrued interest receivable)
- 10.18.20 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31st March 2010	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2010	Estimated maximum exposure to default and uncollectability
	£000	%	%	£000
Deposits with banks and financial institutions	12,947	Nil	Nil	Nil
Council debtors per Debtors System (note 10.26)	10,843	0.40%	0.45%	49

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

	£000
Less than 3 months	9,949
3 to 6 months	268
6 months to 1 year	229
More than 1 year	397
	<u>10,843</u>

Liquidity Risk

10.18.22 The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to spread the maturity of the council's loans so that a significant proportion does not require repayment or refinancing at the same time.

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

	£000	Upper Limit Allowed by Prudential Indicators
		%
Less than 1 year	13,268	50
Between 1 and 2 years	3,781	50
Between 2 and 5 years	3,875	100
More than 5 years	104,223	100
	<u>125,147</u>	

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

Interest rate risk

10.18.25 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 would fall
- b. Borrowings at fixed rates – the fair value of borrowings will rise
- c. Investments at variable rates - the interest income credited to the Income and Expenditure Account would fall
- d. Investments at fixed rates – the fair value of the assets will rise

10.18.26 Because of the differential between the interest rates payable on the council's borrowing and the interest rates receivable on its investments (and also because of the limited number of good quality counterparties), the council postponed taking out new external borrowing for as long as possible and reduced the level of its investments.

- 10.18.27 Debt rescheduling (replacing existing loans with new ones at lower interest rates) was investigated but was postponed until the new financial year. This was due to an impending change in the regime for setting interest rates at the PWLB (which took effect from the end of April 2010) which was anticipated would reduce the cost of loan redemption.
- 10.18.28 Borrowings and investments are not carried at fair value in the Balance Sheet and so nominal gains and losses on fixed rate financial instruments would have no impact in the Income and Expenditure Account. The impact is made by changes in interest payable and receivable.
- 10.18.29 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered 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 and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

Sensitivity analysis of interest rates

- 10.18.30 Movement in interest rates would have had the following impact on the council's borrowings and investments in 2009/10.

	1% Increase in Interest Rates £000	1% Fall in Interest Rates £000
Interest payable on new borrowing	7	(7)
Interest receivable on average investment balances	508	(172)

- 10.18.31 The impact on new borrowing is fairly small as the only new borrowing in the year was taken out in March 2010.
- 10.18.32 For investments, as the bank base rate has been 0.50% throughout 2009/10, a 1% fall has been assumed to take the bank base rate to 0% and take the average annual rate earned on the council's investments from 0.74% to 0.24%. With a bank base rate at 1% or higher a 1% fall would have the same effect as a 1% increase but with the movement being reversed.

10.19 Provisions

- 10.19.1 The provisions at 31.3.10 are listed below:

2008/09 £000	2009/10 £000
51 Former Hereford and Worcester liabilities	0
1,759 Insurance	1,463
63 Redundancies	469
152 Pay provision	0
0 PC Replacement	33
4 Landfill Allowances liability	703
<u>2,029</u>	<u>2,668</u>

10.19.2 In order for the council to ensure that it holds sufficient funds to pay insurance claims that fall within policy excesses an external review of the insurance provision was carried out by the council's insurance brokers Marsh UK Ltd in February 2010. The review assessed the outstanding liability to the end of 2009/10 to be £1.46m. In addition a reserve of £544,000 has been set up for potential claims in 2010/11.

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 2009/10:

Reserve	1 April 2009 £000	Net (Decrease) Increase £000	1 April 2010 £000	Purpose of Reserve
Capital Adjustment Account	163,703	(15,755)	147,948	Store of capital resources set aside to meet past expenditure
Revaluation Reserve	23,116	42,206	65,322	Store of gains on revaluation of fixed assets not yet realised through sales
Financial Instruments Reserve	(498)	4	(494)	Balancing account to allow differences in statutory requirements and proper accounting practices for borrowings and investments
Collection Fund adjustment account	(209)	92	(117)	The council's share of the Collection Fund deficit.
Usable Capital Receipts	17,558	(4,262)	13,296	Proceeds of fixed asset sales available to meet future capital investment
Pensions Reserve	(130,114)	(34,480)	(164,594)	Balancing account to Pensions Liability in the Balance Sheet
General Fund	6,390	(1,000)	5,390	Resources available to meet future costs
Earmarked Reserves	16,064	(1,828)	14,236	Set aside for specific purposes
TOTAL	96,010	(15,023)	80,987	

10.20.3 The council held the following earmarked reserves of £14.2 million at 31st March 2010.

Reserve	31.03.09	Transfer	31.3.10
	£000	(to)/from	£000
		revenue	
		£000	
Commuted sums	78	0	78
Schools balances in hand	5,476	21	5,497
Industrial Estates - maintenance	333	39	372
Support Services & Equipment renewals	80	(80)	0
Schools Balance of Risk	85	88	173
Winter maintenance	500	(500)	0
Planning	24	0	24
College Hill Community Centre	180	0	180
Waste Disposal	2,774	0	2,774
LSC	32	(32)	0
Wye Valley AONB	104	(10)	94
Invest to Save	1,079	252	1,331
Contingent liabilities	300		300
Social care contingency	926	(772)	154
Modernisation plans	454	(454)	0
Edgar Street Grid	150	541	691
Whitcross school PFI	202	79	281
LPSA 2 reward grant	1,482	(1,258)	224
Carbon Reserve	30	(10)	20
Schools Redundancies	294	(284)	10
Service Delivery Review	112	(112)	0
Schools Rates Reserve	869		869
Economic Development	346	(80)	266
Herefordshire Safeguarding Children Board	21		21
Accommodation	133	(133)	0
Insurance reserve	0	544	544
Pool car reserve	0	10	10
Local development framework	0	270	270
Area based grant	0	53	53
	16,064	(1,828)	14,236

10.21 Schools Balances – Local Management of Schools

10.21.1 A sum of £5,497,000 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 (£2,882,000), High schools (£1,853,000), Special schools (£179,000) and Pupil Referral Units (£120,000). Additionally a sum of (£463,000) 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 2009/10 are as follows:

Total 2008/09 £000	Central Expenditure 2009/10 £000	Individual Schools Budget 2009/10 £000	Total 2009/10 £000
(83,612) Final DSG allocation			(84,526)
(1,199) Brought forward from previous year			(1,343)
(84,811) Agreed budgeted distribution in year	(8,536)	(77,333)	(85,869)
8,021 Actual central expenditure	8,407	0	8,407
75,447 Actual Individual School Budget deployed to schools	0	76,734	76,734
(1,343) Carry forward	(129)	(599)	(728)

During 2008/09 rates rebates of £1,054,205 were received and these will be distributed to schools over the three year period from April 2010. An amount of £868,537 is included in reserves and the remaining £185,668 is included within the £598,703 under spend on the ISB. The remaining £413,035 is the balance of the 2008/09 under spend which Schools Forum agreed to allocate to schools and will be distributed over the two year period from April 2010 according to individual school choices.

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 Amey, Midland Heart 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 a specified level of contribution based on that operating on the date of transfer, but only in respect of staff transferring on this date.

- 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 There is a potential problem regarding safety issues at an old landfill site at Stretton Sugwas
- 10.23.5 The council has a potential legal issue arising from the termination of a software contract.
- 10.23.6 Compulsory Purchase order/Compensation payments are outstanding on 9 plots relating to the Rotherwas Access Road. The amount payable is under negotiation and will be funded from the capital programme when settled.

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 2009/10 are not material. In addition, one member was the owner of a residential care home, to which the council made payments in the year £62,000 and another the partner in a company with which the council made payments of £39,000 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, Herefordshire College of Arts, Connexions Board, ESG Herefordshire and the Hereford City Centre Partnership. One of the senior officers is related to the owner of a local production company to which the council has made payments of £11,000.
- 10.24.5 During the year the council paid £14.5 million to the Local Government Pension scheme administered by Worcestershire County Council and £10.3 million to the Teachers Pension Scheme. These figures include employee and employer contributions.
- Other Public Bodies**
- 10.24.6 During the year the council made payments of £24 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 2009/10 totalled £15 million and invoices raised to the PCT were £17 million.

Significant Partners

10.24.7 The council paid £22.1 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 £3.2 million in 2009/10. Payments of £5 million were made to Shaw Healthcare for the provision of care in residential homes and for day centres in 2009/10.

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 2009/10 the council paid £2.5 million to Halo Leisure Trust. In 2009/10 the council paid £462,000 to the Courtyard Trust. The council has a commissioning agreement with the Trust based on agreed outcomes.

During the year the council made payments totalling £1.4 million to Herefordshire Housing Ltd including a final payment of £176,000 towards the costs of subsidence on properties previously transferred from the council and £646,000 of Supporting People Grant.

Payments were made to Edgar Street Grid towards their office running costs amounting to £700,000, of which £516,063 was funding from Advantage West Midlands.

10.25 Creditors

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

	2008/09	2009/10
	£000	£000
Directorate Service Areas	12,018	12,426
Receipts in Advance	10,254	9,801
Joint Funding	42	57
Capital	2,651	3,336
Section 106 Monies	2,106	3,019
Creditors System	9,103	8,174
Treasury Management	136	136
Collection Fund	702	718
Purchase Ordering System Accruals	528	2,117
Other	376	250
	<u>37,916</u>	<u>40,034</u>

10.26 Debtors

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

	2008/09	2009/10
	£000	£000
Directorate Service Areas	7,123	4,747
Payments in advance	3,223	4,028
Joint Funding	523	384
Capital	4,015	6,760
VAT	3,013	3,545
Treasury management	11	11
Leased Cars	65	66
Debtors System	8,936	10,843
Housing benefit overpayments	1,045	1,157
Fairer Charging	225	273
Collection Fund	3,848	4,347
Other	<u>2</u>	<u>1</u>
	32,029	36,162
Provision for Bad Debts	<u>(894)</u>	<u>(1,088)</u>
	<u>31,135</u>	<u>35,074</u>

The 2008/09 have been adjusted to reflect the restated collection fund balances in the 2008/09 restated Balance Sheet.

10.27 External Audit Fees

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

	2008/09	2009/10
	£000	£000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	284	255
Fees payable to the Audit Commission in respect of statutory inspection	23	0
Fees payable to the Audit Commission for the certification of grants claims and returns	56	61

10.28 Amounts due to or from related parties

10.28.1 As at 31st March 2010 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	3,013	2,057
Department for Works and Pensions	6	2,677
Department for Children, Schools and Families	3,164	5,637
Department for Food, Agriculture & Rural Affairs	0	38
Learning & Skills Council	637	33
Advantage West Midlands	226	1,386
Department of Transport	25	118
Government Office For West Midlands	313	4
Home Office	26	80
Lottery	4	15
Arts Council	9	0
Teachers Development Agency	76	0
Teachers Pension	874	14
Worcestershire County Council	3,725	82
Herefordshire Primary Care Trust	1,542	7,770
Courtyard Trust	2	0
Amey Wye Valley	3,326	98
Shaw Healthcare	49	24
Halo	301	19
West Mercia Supplies	370	16
Amey OW Ltd	29	0
Edgar Street Grid	15	1
Herefordshire Housing Ltd	286	385
Connexions	15	31
North Somerset County Council	0	94
West Mercia Police	32	178
Hereford and Worcester Fire Authority	0	175
The Hereford Academy	0	326
Hereford Hospital Trust	0	24
HM Revenue and Customs	2752	543
Worcestershire PCT	0	63
Ministry of Justice	0	100
Environment Agency	20	0
Audit Commission	25	0
Sport England	199	0
Powys CC	0	116
Monmouth CC	14	105
Wychavon DC	120	0
Tameside MBC	85	0
Hereford City Council	0	27
Birmingham City Council	96	49
English Heritage	58	19
Natural England	40	42

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

10.28.3 In addition, there were capital grants of £13.3 million from government departments held in the Capital Grants Deferred Unapplied Account not yet applied to capital spend.

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 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The actuary has valued the ongoing liability as £1.2 million, which has been added to the pension fund liability in the balance sheet in 2009/10.

10.29.4 In 2009/10 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 2009/10 these amounted to £114,912 representing 0.24% of pensionable pay. At the year-end there were contributions of £874,436 remaining payable, which related to the March 2010 contributions paid to the scheme in April 2010.

Local Government Pension Scheme

10.29.5 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 pension's liabilities with investment assets.

10.29.6 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.

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

	2008/09	2009/10
	£000	£000
Income and Expenditure Account		
Net Cost of services		
Current Service cost	8,673	5,815
Past service cost/(gain)	24	457
Curtailment cost	799	300
Net Operating Expenditure		
Interest cost	19,745	19,523
Expected return on assets in the scheme	(13,016)	(9,621)
Net charge to Income and Expenditure Account	<u>16,225</u>	<u>16,474</u>
Statement of Movement in General Fund Balance		
Reversal of net charges under FRS 17	(16,225)	(16,474)
Employer's contribution payable to the scheme	10,344	10,981
Net charge to Statement of Movement in General Fund Balance	<u>(5,881)</u>	<u>(5,493)</u>

10.29.8 In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial gains and losses of £27.787 million (£9.022 million in 2008/09) were included in the Statement of Total Recognised Gains and Losses.

10.29.9 For 2009/10 the current service costs have reduced substantially compared to those for 2008/09. This is a result of a large change in financial assumptions by the actuary, resulting in an increase of the discount rate used from 6.1% to 7.1% and a reduction in inflation expectations.

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:

	2008/09	2009/10
	£000	£000
1 st April	323,459	276,935
Current Service Cost	8,673	5,815
Interest Cost	19,745	19,523
Contributions by scheme participants	3,211	3,315
Actuarial (gains)/losses	(67,540)	86,254
Curtailments	799	300
Benefits Paid	(11,436)	(13,055)
Past Service Costs	24	457
31 st March	<u>276,935</u>	<u>379,544</u>

Reconciliation of fair value of the scheme assets:

	2008/09	2009/10
	£000	£000
1 st April	190,204	146,821
Expected rate of return	13,016	9,621
Actuarial gains/(losses)	(58,518)	58,467
Employer contributions	10,344	10,981
Contributions by scheme participants	3,211	3,315
Benefits Paid	(11,436)	(13,055)
31 st March	<u>146,821</u>	<u>216,150</u>

- 10.29.11 The scheme liabilities have increased by around 37% and this is due to the financial assumptions by the actuary being more conservative at 31st March 2010 than 31st March 2009, driven by yields on corporate bonds falling substantially. The asset returns for 2009/10 has been exceptionally good with the council achieving an investment return of 27% of assets. The actual return on scheme assets in the year was £68.1 million (£45.5 million in 2008/09).

Scheme History

	2005/06	2006/07	2007/08	2008/09	2009/10
	£m	£m	£m	£m	£m
Present value of liabilities	(292.3)	(293.9)	(323.5)	(276.9)	(379.5)
Value of Scheme assets	191.7	205.1	190.2	146.8	216.1
Surplus/(Deficit) in scheme	<u>(100.6)</u>	<u>(88.8)</u>	<u>(133.3)</u>	<u>(130.1)</u>	<u>(163.4)</u>

Actuarial assumptions

- 10.29.12 The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	3.3%	3.3%
Rate of increase in salaries	4.8%	4.8%
Rate of increase in pensions	3.3%	3.3%
Discount rate	7.1%	5.6%
Longevity at 65 for current pensioners	21.2 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 2009		31 March 2010	
	£000	%	£000	%
Equities	125,679	85.6	199,506	92.3
Government Bonds	12,333	8.4	6,052	2.8
Other Bonds	4,698	3.2	8,430	3.9
Cash/Liquidity	4,111	2.8	2,162	1.0
	<u>146,821</u>		<u>216,150</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	4.0%	4.5%
Other Bonds	6.0%	5.2%
Cash/Liquidity	0.5%	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:

	2005/06	2006/07	2007/08	2008/09	2009/10
	%	%	%	%	%
Differences between the expected and actual return on assets	15	0.2	(16.2)	(39.9)	27.0
Experience gains and losses on liabilities	1.9	0	2	0	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 1/04/09	Revenue Transactions		New funds, Investment Sales and Revaluations	Balance at 31/03/10
	£	£	£	£	£
Education (small funds)	23,394	146	(17,857)	517	6,200
Sylvia Short Trust	998,403	22,417	(58,997)	130,059	1,091,882
Buchanan Trust	2,102,626	76,345	(161,554)	68,107	2,085,524
Other Funds	61,242	1,178			62,420
	<u>3,185,665</u>	<u>100,086</u>	<u>(238,408)</u>	<u>198,683</u>	<u>3,246,026</u>

10.30.2 The Sylvia Short Educational Charity was established to provide children with learning experience outside the curriculum. In 2009/10 the administration of the fund was transferred to an independent investment manager.

10.30.3 The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. The 1/4/09 balance has been adjusted from the amount on the last published accounts as the valuation of properties were changed following the audit of the 2008/09 accounts.

10.30.4 Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits.

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

	2008/09	2009/10
	£000	£000
Fixed Assets	1,250	942
Investments	891	1,095
Cash temporarily invested with Herefordshire Council	1,045	1,209
	<u>3,186</u>	<u>3,246</u>
Represented by Trust Funds	<u>3,186</u>	<u>3,246</u>

10.31 Accounting for LATS

10.31.1 The council's estimated landfill usage for the year is 42,421 tonnes. The council received allowances of 35,508 tonnes for 2009/10 from DEFRA and has utilised allowances of 6,913 tonnes transferred from Worcestershire County Council at nil cost. DEFRA has advised that the average traded value for 2009/10 was £16.57 per tonne and therefore the balance sheet shows assets and liabilities of £702,916 at 31st March 2010.

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:

2008/09	2009/10	
£000	£000	£000
32,106 (Surplus)deficit on the Income & Expenditure Account		29,541
(4,299) Interest/discount		(6,881)
Non-cash Transactions		
412 Contributions from/(to) provisions		(639)
(28,753) Capital charges		(22,414)
(5,881) FRS 17 pension adjustments		(5,493)
496 Surplus on sale of assets (non-revenue)		(4,495)
(234) LATS adjustment		699
6 Other		(16)
<u>(33,954)</u>		<u>(32,358)</u>
Items on an Accruals basis		
(104) Increase/(Decrease) in stocks and WIP		26
3,566 Increase/(Decrease) in revenue debtors		(1,925)
2,946 (Increase)/Decrease in revenue creditors		1,119
<u>6,408</u>		<u>(780)</u>
261 Net cash flow from revenue activities		<u>(10,478)</u>

The 2008/09 comparative figures have been amended for accounting changes relating to the Collection Fund and PFI contracts.

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

2008/09	2009/10	
£000	£000	£000
1,952 Increase/(decrease) in cash in the period	1,084	
(12,515) (Increase)/decrease in debt financing	(5,820)	
(14,700) Increase/(decrease) in liquid resources	(13,510)	
<u>(463) Non-cash movements</u>	<u>(1,077)</u>	
(25,726)		(19,323)
<u>(69,712) Net debt at 1st April</u>		<u>(95,438)</u>
<u>(95,438) Net debt at 31st March</u>		<u>(114,761)</u>

10.32.3 Liquid resources have been defined as the short-term investments on the balance sheet. Accruals of interest on borrowing are added to short-term loans in the balance sheet from 2009/10.

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

	1.4.09	Cash flow	Non cash	31.3.10
	£000	£000	£000	£000
Cash in hand and at bank	(2,208)	1,084		(1,124)
Debt due within 1 year	(15,757)	3,259	(2,206)	(14,704)
Debt due after 1 year	(104,068)	(9,079)	1,267	(111,880)
Short term investments	26,595	(13,510)	(138)	12,947
	<u>(95,438)</u>	<u>(18,246)</u>	<u>(1,077)</u>	<u>(114,761)</u>

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

2008/09	2009/10	
Total	Revenue	Capital
£000	£000	£000
29,171 CLG	33,068	2,406
45,173 Department for Works and Pensions	52,081	0
109,586 Department for Children, Schools and Families	108,455	27,932
970 Department of Health	1,109	0
456 Home Office	94	0
5,430 Department for Environment, Food & Rural Affairs	709	440
318 Lottery	151	932
3,667 Advantage West Midlands	3,016	618
588 Government Office for West Midlands	278	139
1,202 Department for Transport	1,871	489
3,907 Learning and Skills Council	3,716	0
17 Arts Council	13	0
173 Sport England	270	0
38 European Regional Development Fund	0	0
4 Department for Constitutional Affairs	203	0
217 Teachers development agency	267	0
<u>200,917</u>	<u>205,301</u>	<u>32,956</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 2009/10 is summarised below:

2008/09 £000	Note	2009/10 £000 £000	
Income			
Council Tax:			
86,166	Income from council taxpayers	1	89,730
<u>10,993</u>	Council Tax benefits		<u>12,298</u>
97,159			102,028
<u>40,316</u>	Income from business ratepayers	2	<u>41,918</u>
<u>137,475</u>	Total Income		<u>143,946</u>
Expenditure			
11,478	West Mercia Police Authority Precept		12,164
4,732	Hereford & Worcester Fire Authority		5,014
80,864	Herefordshire Council Precept		84,729
121	Bad debt write offs - Council Tax		90
(83)	Provision for bad debts - Council Tax (decrease)		(79)
Non Domestic Rates			
40,020	Contribution to national pool	2	41,616
<u>296</u>	Cost of collection allowance		<u>302</u>
<u>137,428</u>	Total Expenditure		<u>143,836</u>
(47)	(Surplus)/Deficit for the year	3	(110)
298	Balance brought forward	3	251
0	Surplus Distribution	3	0
251	Balance carried forward	3	141

11.3 The Herefordshire Council precept figure includes £2.389 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 2009/10 was £1,454.53 with a range between £1,420.43 to £1,518.64. The council tax base used for setting the council tax in 2009/10 was £70,061.66.

11.5 The key facts and figures for 2009/10 are summarised below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,498.60
B	£40,001 to £52,000	7/9	12,727.20
C	£52,001 to £68,000	8/9	12,600.20
D	£68,001 to £88,000	9/9	11,476.50
E	£88,001 to £120,000	11/9	12,211.20
F	£120,001 to £160,000	13/9	8,467.70
G	£160,001 to £320,000	15/9	5,183.80
H	Over £320,000	18/9	300.0
Crown			224.90
			<hr/> 69,690.10
	Other adjustments		371.56
	Council Tax Base		<hr/> 70,061.66

Council Taxpayer Income	£000	£000
Council Tax debit at 1 st April		113,633
Add:		
Redebits	85,166	
Banding Change	343	
Additional – Second Homes	490	
Additional – Empty Properties	474	86,473
	<hr/>	
Less:		
Discounts	9,534	
Exemptions	3,561	
Benefits – Statutory	12,297	
Disablement Relief	133	
Transitional Relief	(3)	
Void Assessments	44	
Empty Assessments	84,810	110,376
	<hr/>	
		<hr/> 89,730

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 2009/10 are as follows:

	£000
NNDR Contribution to the Pool	41,616
Cost of Collection Allowance	<u>302</u>
Income from Business Ratepayers	<u>41,918</u>

- 11.7 The contribution due to the NNDR pool for 2009/10 paid by Herefordshire Council to central government was £41,616,070. 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 £44,993,662 which is its redistributed share. This figure is calculated on a per head of population basis. The key facts and figures for 2009/10 are summarised below:

Business rateable value as at 31 st March 2010	£105,107,337	
Business rate multiplier	48.5p	
Non-domestic Ratepayers Income	£000	£000
Non-domestic debit at 1 st April		49,430
Add:		
Transitional Premium		(144)
Less:		
Empty Allowances	2,487	
Transitional Relief	(272)	
Discretionary Relief	272	
Mandatory Relief	4,534	
Write-offs	287	
Interest on Refunds	60	7,368
Income due from non-domestic ratepayers		<u>41,918</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 31.3.09		251
Less: Payments		
Hereford & Worcester Fire Brigade	0	
West Mercia Police Authority	0	
Herefordshire Council	<u>0</u>	
		251
Surplus financial year 2009/10		(110)
Deficit at 31.3.10		141

11.9 The following shows the share of the Collection Fund deficit as at 31st March 2010:

	%	£'000
Herefordshire Council	83.10	117
West Mercia Police Authority	11.97	17
Hereford & Worcester Fire Authority	4.93	7
	100	141

The deficit has been apportioned on the basis of the 2010/11 demands on the fund.

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.

Actuarial Gains and Losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because;

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed.

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.

Contingent Liability

A contingent liability is either;

- (a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the authority's control, or
- (b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

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.

Depreciation

The measure of the cost or revalued amount of the benefits of the fixed asset that been consumed during the period.

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.

Private Finance Initiative

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

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.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

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.