



**Herefordshire
Council**

HEREFORDSHIRE COUNCIL

STATEMENT OF ACCOUNTS

2011-2012

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1. INTRODUCTION

- 1.1 The Statement of Accounts for 2011/12 is the key financial report that presents the council's overall revenue and capital position for the year.
- 1.2 2011/12 was a very challenging year. The 2010 Comprehensive Spending Review had a significant impact on funding from central government in 2011/12 and Herefordshire Council's 2011/12 budget included £10.3 million of cuts. At the same time the economic downturn continues to impact on Herefordshire as well as continuing pressures within Adult Social Care.
- 1.3 The council has responded to these challenges through a transformation programme 'Rising to the Challenge'. This included major changes to the way we deliver services in 2011/12. An integrated care organisation, Wye Valley NHS Trust, has been established as the provider arm of the council and Herefordshire PCT and mental health services are now delivered through an established specialist, 2gether. From April 2011 back-office functions have been delivered by a newly formed joint venture company, Hoople Ltd, to facilitate the sharing of support services with Herefordshire PCT and Wye Valley Trust.
- 1.4 The final position on the council's revenue account was an overspend of £236,000 leaving general reserves at £6.1m at 31st March 2012 compared to £6.3 million at 31st March 2011. This is in excess of the council's policy of maintaining a minimum working balance of £4.5 million. Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks, which stood at £13.5 million at 31st March 2012.

Cllr Philip Price
Cabinet member for Corporate and Education

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 2012 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand.
- 2.1.2 This is the second year that the Code has been based on reporting to International Financial Standards (IFRS). The move to IFRS resulted in a number of significant changes in accounting practice for 2010/11. Some further changes for 2011/12 include:
- a) Heritage assets are to be recognised as a separate class of assets for the first time in the 2011/12 financial statements. These assets were grouped under 'Community Assets' in 2010/11. The assets are initially recognised at cost and the carrying amount will be reviewed regularly to ensure that the valuation remains current. However, operational heritage assets will not be included in this classification.
 - b) The Code requires the disclosure of Exit Packages analysed between compulsory redundancies and other departures. Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

2.2 Revenue Expenditure and Income

- 2.2.1 The out-turn position on the council's revenue account was an over spend of £236,000 after transfers from reserves.
- 2.2.2 The following table summarises the overall position.

| | Under/ (Over) £000 |
|---|-----------------------------------|
| Directorate over spends | (2,929) |
| Treasury management including borrowing and investment income | 1,410 |
| Centrally held budgets | 552 |
| Use of reserves | 659 |
| Other changes (net) | 72 |
| NET POSITION | (236) |

2.2.3 As part of the year end process one new reserve was created relating to the Three Elms Industrial Estate. Prior to the abolition of Advantage West Midlands (AWM) Herefordshire Council entered into a management agreement with AWM for the council to take over the general estate and property management. Any surplus income is held for future major capital expenditure/improvements on the estate. The surplus funds amounted to £362,000 as at 31st March 2012.

Service Area Outturn Position

2.2.4 The net over spend for the council's directorates of £2.9 million was made up as follows:

| * | Budget * | Actual * | Under/(Over) Spends |
|------------------------|----------------|----------------|------------------------|
| | £000 | £000 | £000 |
| Directorate | | | |
| People's Services | 91,365 | 95,486 | (4,121) |
| Places and Communities | 53,012 | 52,307 | 705 |
| Corporate Service | 6,994 | 6,507 | 487 |
| TOTAL | 151,371 | 154,300 | (2,929) |

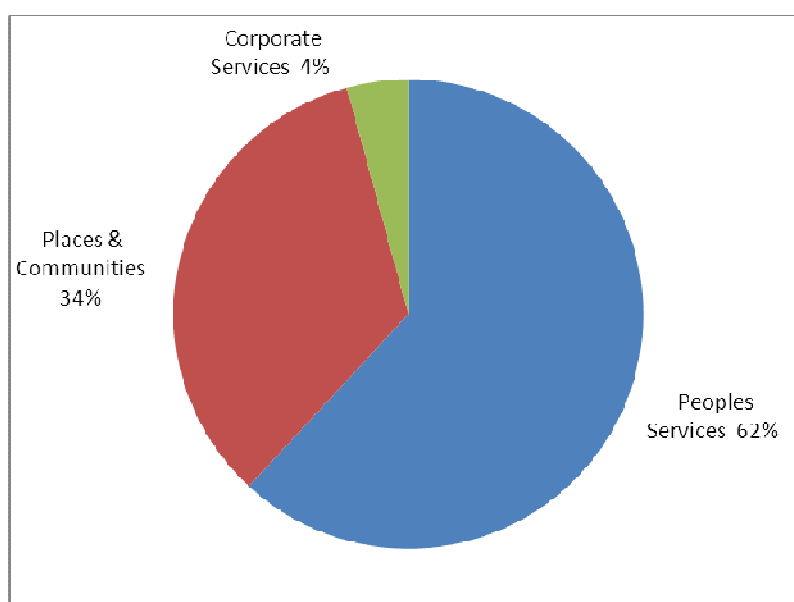
* These figures include reallocated support services, overheads, capital charges and IAS 19 pension adjustments.

2.2.5 The most significant overspend related to commissioning of adult services, which had been anticipated and included in budget monitoring reports throughout the year. The final position was an overspend of £5.54m

2.3 Analysis of Revenue Expenditure and Income

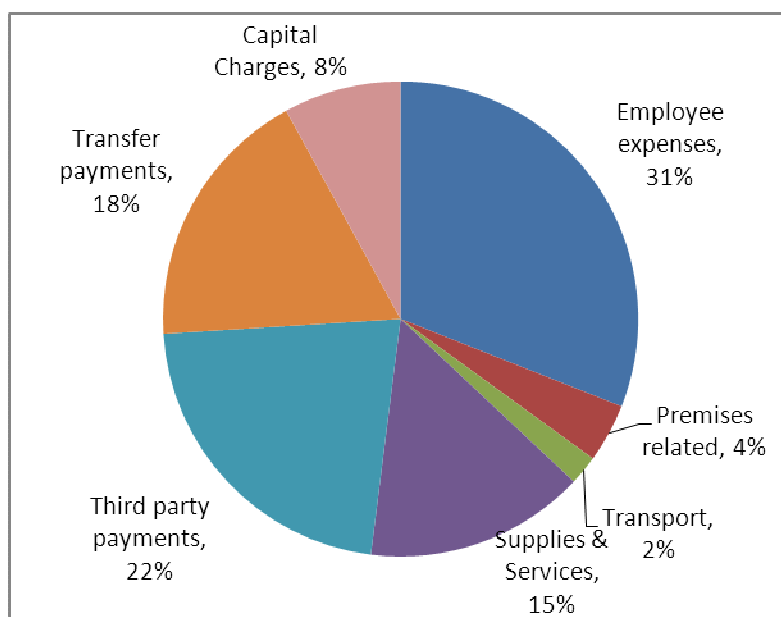
2.3.1 The net cost of services within the Income and Expenditure Account is £156 million, made up of the following directorates.

Analysis of Net Expenditure by Directorates



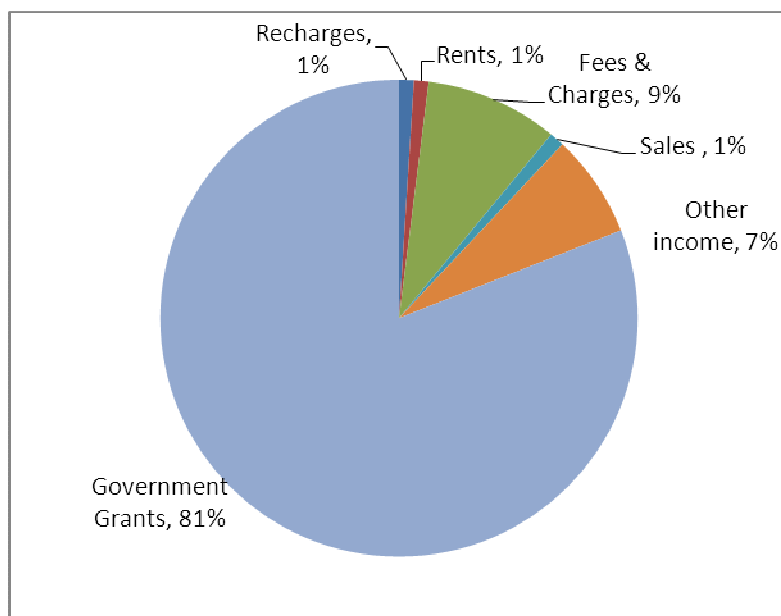
2.3.2 The gross cost of services was £367 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £211 million and came from the following sources:

Analysis of Income within Services

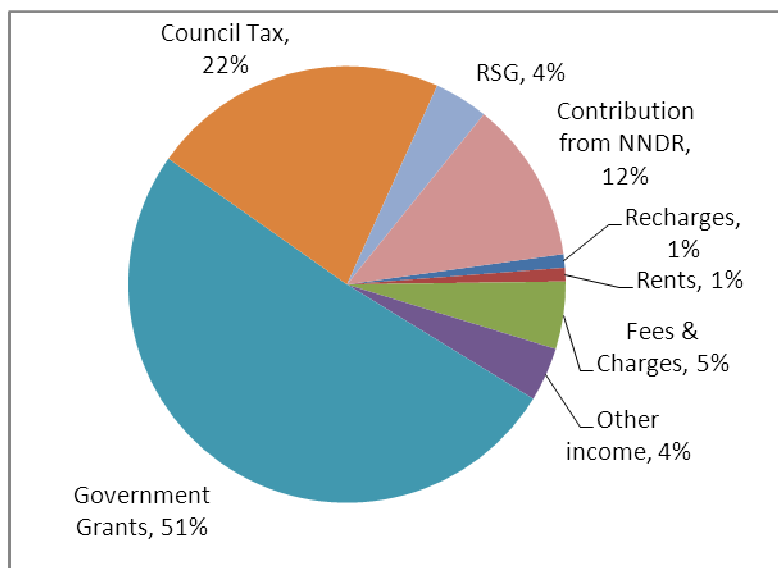


2.3.4 The figure for government grants includes £86.2 million Dedicated Schools Grant, which is a grant towards schools expenditure. The grants figure also includes £58.3 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £14.2 million Revenue Support Grant (RSG), and £46 million in redistributed non-domestic rates towards financing the council's net expenditure. Council tax income totalled £88.7 million in 2011/12, including parish and town councils' precepts.

2.3.6 The total sources of income, including service income and income received centrally, is shown in the pie chart below. This excludes capital grants and contributions of £32.9 million, which are shown in the Comprehensive Income and Expenditure account but are reversed out through the Movement in Reserves Statement to fund capital schemes.

Total Revenue Income



2.4 Capital Programme

2011/12 Out-turn

2.4.1 £49.4 million was incurred on capital spending funded through the utilisation of capital receipts reserve funding of £4.5 million, grants of £34.6 million and prudential borrowing of £10.3 million.

Summary of Capital Expenditure

2.4.2 Capital expenditure for the year can be summarised as follows:

| | £000 |
|--------------------------------|---------------|
| Local Transport Plan | 10,506 |
| Hereford Academy | 5,187 |
| New livestock market | 2,052 |
| Devolved school expenditure | 2,779 |
| Yazor flood alleviation scheme | 3,252 |
| Hereford Leisure Pool | 2,669 |
| Rural Enterprise Grant Scheme | 2,120 |
| School estate works | 2,148 |
| St Owens Centre | 1,203 |
| Corporate accommodation | 1,730 |
| Grange Court | 1,061 |
| ICT efficiencies | 1,156 |
| Other capital schemes | 13,574 |
| | 49,437 |

Prudential Borrowing

- 2.4.3 When capital grants cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2011/12 the council utilised £10.3 million of prudential borrowing to fund the capital programme. The table below summarises the out-turn position:

| | £000 | £000 |
|--------------------------------------|----------------|--------|
| 2011/12 Planned Prudential Borrowing | | 10,920 |
| Add: New Funding Allocations | 4,109 | |
| Less: Slippage into future years | <u>(4,727)</u> | |
| | | 10,302 |

- 2.4.4 Included in the £4.7 million slippage is forecast spend in relation to corporate accommodation and Ledbury library.

Future years' capital programme

- 2.4.5 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 set out below.

| | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 |
|---------------------------|-----------------|-----------------|-----------------|
| Sources of funding | | | |
| Grants and Contributions | 30,027 | 22,287 | 18,367 |
| Prudential Code Borrowing | 11,905 | 23,787 | 10,100 |
| Capital Receipts Reserves | 2,097 | 503 | - |
| | 44,029 | 46,577 | 28,467 |

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 2011/12 the council took out new borrowing of £10.5 million from the Public Works Loan Board.

- 2.5.3 Amounts borrowed were as follows:

| New Loans | | | | | |
|---|-------------------------|---------------|----------------|--------------|----|
| Date | Amount Borrowed £000 | Interest Rate | Period of Loan | Type of Loan | of |
| 14/07/11 | 7,500 | 3.59% | 15 years | EIP | |
| 03/11/11 | 3,000 | 3.35% | 20 years | EIP | |
| EIP= Loan repayable in equal instalments every 6 months over period of loan | | | | | |

- 2.5.4 Principal of £6.1 million was repaid to the Public Works Loan Board under existing EIP and annuity loan agreements.
- 2.5.5 £5.5 million of short-term loans from other local authorities which were outstanding as at 31st March 2011 had all been repaid by 4th May 2011 and no new short-term loans were taken out during the year.
- 2.5.6 At 31st March 2012 total borrowing stood at £144.5 million of which £12 million, relating to two potentially long-term bank loans, is shown as being repayable within 12 months. Accounting convention dictates that these two loans are shown as current liabilities because the lenders have an annual option to increase the interest rates being charged. If a lender did increase the rate (from 4.50%) the council would then have the option to repay the loan.
- 2.5.7 The amounts noted above relate to principal outstanding at the end of the year. The borrowing figures in the Balance Sheet are higher as they include accrued interest and other accounting adjustments.
- 2.5.8 The council is only allowed to borrow to support capital projects. The borrowing supports fixed assets valued at more than £442 million at the balance sheet date.

2.6 The Council's Reserves

General reserves

- 2.6.1 The council has a policy of maintaining a minimum of £4.5 million of general reserves as contingency against unforeseen emergencies and events. At the end of 2011/12 the council held general reserves of £6.1 million compared with a position of £6.3 million in 2010/11.

Earmarked reserves

- 2.6.2 Specific reserves totalled £13.5 million (£17.6 million in 2010/11), which are detailed in Note 8.8 to the Statements.

2.7 Significant provisions, contingencies and write-offs

- 2.7.1 The council held provisions of £1.5 million at 31st March 2012, as detailed in Note 8.22 to the Statements.
- 2.7.2 The most significant provision is the insurance provision of £1.1 million. Herefordshire Council pays the first £5,000 to £50,000 of most insurance claims (depending on the type or class of the claim), known as the deductible. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was used as the basis of the provision. However, as a large proportion of the liability was in respect of capital work relating to school's flooding, £558,000 of these works were funded from the schools capital programme.
- 2.7.3 At 31st March 2012 the council also held a provision of £141,000 for redundancies, including schools, based on the number of planned redundancies and staff identified at risk of redundancy at 31st March 2012.
- 2.7.4 A list of contingent liabilities are set out in Note 8.44 to the Statements. Although contingent liabilities are not specifically accounted for there is a provision of £300,000 in the 2012/13 budget as a contingency against future spend.
- 2.7.5 There were no significant write-offs of income to the General Fund in the year.

2.8 Pensions

- 2.8.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.43 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.
- 2.8.2 The net deficit shown as at 31st March 2012 is £159.3 million, which is approximately 76% of the fair value of the assets (57% at 31st March 2011). 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. In addition the balance sheet deficit also includes £1.1 million relating to ex-Hereford and Worcester teachers' unfunded benefits.
- 2.8.3 The pension fund position is reviewed every three years and was last revalued as at 31st March 2010. Further to the revaluation, the council's employers' contribution will increase from 20.4% of pensionable pay in 2010/11 to 25% by 2016/17.

2.9 Impact of Economic Climate

- 2.9.1 The economic climate has had an impact on the 2011/12 accounts in a number of areas:
- 2.9.2 **Children's Services:** The current economic climate continues to affect the lives of children and young people in Herefordshire. Financial pressures continue to affect all families. In line with national trends Herefordshire has continued to see increased numbers of children needing to be looked after in 2011/12 creating cost pressures for the service.
- 2.9.3 Additional funding for social care means less funding is available for other services. Other services were cut back in 2011/12 in order to deliver savings to cover the increasing cost of providing children's social care.
- 2.9.4 In line with council policy to reduce and eliminate subsidies on non-statutory services prices charged for denominational and post 16 schools transport were increased above inflation from September 2011. The decision was taken to reduce but not fully remove the subsidy due to the potential adverse impact on young people struggling to find jobs, many of whom are electing to continue in education to improve their prospects for future career opportunities.
- 2.9.5 In line with national trends there were increases in NEET's (Not in Education, Employment or Training) as the young people of Herefordshire are struggling to find jobs, apprenticeships, and training opportunities when they leave education. The participation age will be raised to 17 in September 2012 and the council is preparing for the impact of this.
- 2.9.6 **Adult Services:** The growing needs of the population have continued to cause financial pressure in particular aiding early discharge from hospital due to the reduction in beds due to ward closure. This has led to increased community equipment issued and domiciliary care support.
- 2.9.7 The increased financial burdens on families have meant that more people are having difficulties undertaking their caring role and are seeking social care support.
- 2.9.8 Reduction in grant funding has meant a number of housing related support contracts have ended which provided low level support for independent living. Those who benefited from these services now meet the council's eligibility criteria and are funded through social care support plans.

- 2.9.9 **Places and Communities:** Fee income continued to be adversely affected by the current economic downturn in relation to Planning and Car Parking, although parking charges were increased from 1st November to help address the pressure.
- 2.9.10 **Corporate:** Local land charges income also continues to be low due to the current economic climate.
- 2.9.11 **Treasury Management activities:** In the continuing fragile economic climate the government maintained the Bank Base Rate at 0.50% all year. This low interest rate meant that the council's investment income also remained low. During the first part of the year, the council maximised its income by investing for longer periods, but during the second part of the year, the problems in the Eurozone caused the credit rating agencies to downgrade the banks and building societies. This caused the council's counterparty list to shrink and the maturity limits for new investments were shortened.
- 2.9.12 The government used Quantitative Easing (QE) to try to stimulate the economy. This is a process whereby the Bank of England purchases assets from the private sector, which is designed to inject money directly into the economy and fill the gap caused by the fall in spending by businesses and consumers. Most of the assets purchased are government bonds or gilts. The increased demand for sterling gilts, as a result of QE and because of the troubled Eurozone, caused interest rates to fall, which in turn led to a fall in the interest rates available on loans from the Public Works Loan Board (which are set at 1% above the equivalent gilt yields). The council took out two loans in the first half of year (as at that time the forecast was for rates to rise). Further loans were not taken out although rates fell further because of the lack of good quality investment counterparties and the revised expectation that low PWLB interest rates would continue for some months to come.

2.10 Academy schools

- 2.10.1 Academies are publicly funded local schools that are independent of the council, responsible to, and funded directly by, government. They are freed from national restrictions such as the teachers' pay and conditions documents, the national curriculum and Ofsted inspection requirements. Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.
- 2.10.2 In May 2010 the Secretary of State for Education, announced legislation which allows the Secretary of State to approve schools to become academies through a simplified streamlined process.
- 2.10.3 Many schools in Herefordshire are investigating the benefits of converting to academy schools and as at 1st June 2012 there are 18 academies with 6,463 pupils (32% of total pupils) and it is expected that by 1st October 2012 there may be a further five academies (23 in total) educating 40% of the county's pupils. Included in this number is Whitecross High School, a PFI school. A further increase in the number of academies is expected over the next few years.
- 2.10.4 Reduction from formula grant for schools moving to academy status was £650,000 in 2011/12 and is £500,000 in 2012/13, which is irrespective of the number of academies commencing. The Department for Education is consulting on the introduction of a national school funding formula from April 2013 and subject to further consultation with local authorities, further changes are proposed to academy funding in 2013/14.
- 2.10.5 With both Foundation Schools and Academies, the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a

peppercorn rent. The assets are removed from the Balance Sheet when the legal agreement is completed.

2.10.6 In 2010/11 St Peters Primary and Queen Elizabeth Humanities College (both in Bromyard) and Brockhampton Primary and Bredenbury Primary all became foundation schools and the assets were legally transferred to the school in 2011/12.

2.10.7 In addition, in 2011/12 the following schools converted to Academies:

| | |
|-------------------------------------|----------------|
| Ashperton Primary School | April 2011 |
| Lord Scudamore Foundation School * | June 2011 |
| Kings Cagle Primary School | June 2011 |
| Sutton Primary School | June 2011 |
| John Masefield High School | June 2011 |
| Kingstone High School | August 2011 |
| Kingstone & Thrupton Primary School | September 2011 |
| Brockhampton Primary School* | November 2011 |
| Lady Hawkins' School, Kington | November 2011 |
| Holmer CE Primary School | December 2011 |
| Queen Elizabeth Humanities College* | December 2011 |

*Assets already transferred on becoming foundation schools

2.10.8 As a result of the above schools converting to foundation schools or academies £69 million has been written out of the council's balance sheet as fixed asset disposals.

2.10.9 Schools that converted to academies after the year end (in April 2012) were Lugwardine Primary School, St Paul's CofE Primary School and Stretton Sugwas CofE Primary School.

2.10.10 Possible further conversions to academy status in 2012/13 are Burghill Community Primary School, Canon Pyon CofE Primary School, Kington Primary School, Ledbury Primary School, Llangrove CofE Primary School, Mordiford CofE Primary School (already a foundation school) and Whitecross High School.

2.10.11 If all these schools convert to academy status in 2012/13, further fixed assets totalling at least £26 million will be removed from the council's balance sheet.

2.11 The 2011/2012 Financial Statements

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

Movement in Reserves Statement

2.11.1 This statement shows the movement in the year on the different reserves held by the authority.

Comprehensive Income and Expenditure Statement

2.11.2 This statement shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax.

Balance Sheet

2.11.3 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.

Cash Flow Statement

2.11.4 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.

Notes to the Financial Statements

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

The Collection Fund

2.11.6 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.

2.11.7 The Statement of Accounts, which takes into account events up to 13th September 2012, was authorised for issue on 13th September 2012 by the Chief Officer (Finance and Commercial Services).

2.11.8 Further information about the council's finances is available from the Chief Officer (Finance and Commercial Services), Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

Chief Officer (Finance and Commercial Services)

3. STATEMENT OF RESPONSIBILITIES

3.1 The Council's Responsibilities

3.1.1 The council is required to:

- a. Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Officer (Finance and Commercial Services).
- b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- c. Approve the statement of accounts.

3.2 The Chief Officer (Finance and Commercial Services) - Responsibilities

3.2.1 The Chief Officer (Finance and Commercial Services) 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 Code).

3.2.2 In preparing this statement of accounts, the Chief Officer (Finance and Commercial Services) has:

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

3.2.3 The Chief Officer (Finance and Commercial Services) has also:

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

Certificate of the Chief Officer (Finance and Commercial Services)

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31st March 2012 and its income and expenditure for the year ended 31st March 2012.

4 MOVEMENT IN RESERVES STATEMENT

4.1 This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

| | General fund balance £000 | Earmarked reserves £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Total usable reserves £000 | Unusable reserves £000 | Total reserves £000 |
|---|------------------------------------|-------------------------------|--|--|-------------------------------------|------------------------------|---------------------------|
| Balance as at 31st March 2010 | 5,349 | 19,242 | 13,565 | 6,321 | 44,477 | 133,712 | 178,189 |
| <u>Movement in reserves during 2010/11</u> | | | | | | | |
| Surplus or (deficit) on the provision of services | 24,366 | | | | 24,366 | | 24,366 |
| Other comprehensive income and expenditure | | | | | | (15,156) | (15,156) |
| Total comprehensive income and expenditure | 24,366 | 0 | 0 | 0 | 24,366 | (15,156) | 9,210 |
| Adjustments between accounting basis and funding basis under regulations (note 8.7) | (25,036) | | (6,811) | 6,782 | (25,065) | 25,065 | 0 |
| Net increase or decrease before transfers to earmarked reserves | (670) | 0 | (6,811) | 6,782 | (699) | 9,909 | 9,210 |
| Transfers to or from earmarked reserves (note 8.8) | 1,670 | (1,670) | | | 0 | | 0 |
| Increase or (decrease) in 2010/11 | 1,000 | (1,670) | (6,811) | 6,782 | (699) | 9,909 | 9,210 |
| Balance as at 31st March 2011 | 6,349 | 17,572 | 6,754 | 13,103 | 43,778 | 143,621 | 187,399 |

| | General fund balance £000 | Earmarked reserves £000 | Capital receipts reserve £000 | Capital grants unapplied £000 | Total usable reserves £000 | Unusable reserves £000 | Total reserves £000 |
|---|--------------------------------------|------------------------------------|--|--|---------------------------------------|-----------------------------------|--------------------------------|
| Balance as at 31st March 2011 | 6,349 | 17,572 | 6,754 | 13,103 | 43,778 | 143,621 | 187,399 |
| <u>Movement in reserves during 2011/12</u> | | | | | | | |
| Surplus or (deficit) on the provision of services | (57,376) | | | | (57,376) | | (57,376) |
| Other comprehensive income and expenditure | | | | | 0 | (20,340) | (20,340) |
| Total comprehensive income and expenditure | (57,376) | 0 | 0 | 0 | (57,376) | (20,340) | (77,716) |
| Adjustments between accounting basis and funding basis under regulations (note 8.7) | 53,026 | | (3,985) | 2,576 | 51,617 | (51,617) | 0 |
| Net increase or decrease before transfers to earmarked reserves | (4,350) | 0 | (3,985) | 2,576 | (5,759) | (71,957) | (77,716) |
| Transfers to or from earmarked reserves (note 8.8) | 4,114 | (4,114) | | | 0 | | 0 |
| Increase or (decrease) in 2011/12 | (236) | (4,114) | (3,985) | 2,576 | (5,759) | (71,957) | (77,716) |
| Balance as at 31st March 2012 | 6,113 | 13,458 | 2,769 | 15,679 | 38,019 | 71,664 | 109,683 |

5. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| 2010/11 | | | 2011/12 | | |
|----------------|------------------|-----------------|------------------------|------------------|----------------|
| Expenditure | Income | Net | Expenditure | Income | Net |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| 74,666 | (14,245) | 60,421 | 75,327 | (17,702) | 57,625 |
| 184,566 | (137,928) | 46,638 | 146,490 | (111,107) | 35,383 |
| 15,852 | (3,887) | 11,965 | 12,579 | (2,590) | 9,989 |
| 20,715 | (4,894) | 15,821 | 22,171 | (4,885) | 17,286 |
| 14,123 | (6,359) | 7,764 | 13,232 | (6,366) | 6,866 |
| 22,362 | (7,685) | 14,677 | 25,211 | (4,613) | 20,598 |
| 49,691 | (45,989) | 3,702 | 48,487 | (45,840) | 2,647 |
| 6,838 | (302) | 6,536 | 8,687 | (976) | 7,711 |
| 4,034 | (2,371) | 1,663 | 3,004 | (954) | 2,050 |
| (22,540) | 0 | (22,540) | (5,749) | 0 | (5,749) |
| 17,458 | (15,233) | 2,225 | 17,760 | (16,535) | 1,225 |
| 387,765 | (238,893) | 148,872 | 367,199 | (211,568) | 155,631 |
| 13,546 | | 13,546 | 71,309 | | 71,309 |
| 17,352 | (4,792) | 12,560 | 16,563 | (1,021) | 15,542 |
| 0 | (199,344) | (199,344) | | (185,106) | (185,106) |
| | | (24,366) | | | 57,376 |
| | | 28,687 | | | (11,428) |
| | | (13,531) | (Note 8.24.4 and 8.43) | | 31,768 |
| | | 15,156 | | | 20,340 |
| | | (9,210) | | | 77,716 |

6 BALANCE SHEET

- 6.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories.
- 6.2 The first category of reserves are usable reserves i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).
- 6.3 The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

BALANCE SHEET

| Restated 1.4.10 £000 | Restated 31.3.11 £000 | | Notes | 31.3.12 £000 | 31.3.12 £000 |
|----------------------------|-----------------------------|------------------------------------|-------|-----------------|------------------|
| 464,195 | 453,618 | Property, plant and equipment | 8.12 | 402,958 | |
| 1,787 | 1,787 | Heritage Assets | 8.13 | 2,820 | |
| 24,934 | 23,955 | Investment property | 8.14 | 26,954 | |
| 4,955 | 5,657 | Intangible assets | 8.15 | 5,867 | |
| 2,538 | 2,538 | Assets held for sale | 8.20 | 0 | |
| 4 | 4 | Long-term investments | 8.16 | 4 | |
| 1,333 | 1,754 | Long-term debtors | | 2,335 | |
| 499,746 | 489,313 | Long-term Assets | | | 440,938 |
| 5,016 | 11,052 | Short-term Investments | | 9,589 | |
| 700 | 0 | Assets held for sale | 8.20 | 4,132 | |
| 128 | 655 | Inventories | 8.17 | 342 | |
| 35,074 | 32,218 | Short-term Debtors | 8.18 | 27,341 | |
| 703 | 445 | Intangible current asset | 8.15 | 10 | |
| 11,662 | 19,444 | Cash and cash equivalents | 8.19 | 3,200 | |
| 53,283 | 63,814 | Current Assets | | | 44,614 |
| (4,855) | (6,727) | Cash and cash equivalents | 8.19 | (3,341) | |
| (14,704) | (24,769) | Short term borrowing | 8.16 | (17,562) | |
| (35,983) | (34,790) | Short-term creditors | 8.21 | (31,326) | |
| (3,194) | (6,530) | Capital grants receipts in advance | 8.25 | (933) | |
| (1,205) | (1,252) | Provisions | 8.22 | (424) | |
| (59,941) | (74,068) | Current Liabilities | | | (53,586) |
| (1,463) | (1,463) | Provisions | 8.22 | (1,124) | |
| (111,880) | (122,266) | Long-term borrowing | 8.16 | (128,532) | |
| (194,657) | (162,302) | Other long-term liabilities | 8.43 | (189,545) | |
| (6,899) | (5,629) | Capital grants receipts in advance | 8.25 | (3,082) | |
| (314,899) | (291,660) | Total Long-term liabilities | | | (322,283) |
| 178,189 | 187,399 | Net Assets | | | 109,683 |
| 44,477 | 43,778 | Usable reserves | 8.23 | | 38,019 |
| 133,712 | 143,621 | Unusable reserves | 8.24 | | 71,664 |
| 178,189 | 187,399 | Total reserves | | | 109,683 |

Prior years' figures have been restated to reflect the inclusion of a new category of asset, heritage assets (note 8.1.41)

7 CASH FLOW STATEMENT

- 7.1 The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the year. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows arising as operating, investing and financing activities.
- 7.2 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.
- 7.3 Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery.
- 7.4 Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

CASH FLOW STATEMENT

| 2010/11 £000 | | 2011/12 £000 | 2011/12 £000 |
|------------------|--|-----------------|-----------------|
| | Operating Activities | | |
| | Cash inflows | | |
| (78,402) | Taxation | (78,626) | |
| (247,257) | Grants | (238,088) | |
| (456) | Interest received | (493) | |
| (114,162) | Other receipts from operating activities | (82,712) | |
| <u>(440,277)</u> | Cash inflows generated from operating activities | | (399,919) |
| | Cash outflows | | |
| 140,723 | Cash paid to and on behalf of employees | 115,834 | |
| 41,684 | Housing benefit paid out | 44,721 | |
| 2,488 | Precepts paid | 2,558 | |
| 11 | Payments to the Capital Receipts Pool | 9 | |
| 7,726 | Interest paid | 8,198 | |
| 236,388 | Other payments and operating activities | 218,874 | |
| <u>429,020</u> | Cash outflows generated from operating activities | | 390,194 |
| (11,257) | Net cash flows from operating activities | | <u>(9,725)</u> |
| | Investing Activities | | |
| 62,192 | Purchase of PPE, investment property and intangible assets | 44,907 | |
| 50,550 | Purchase of investments (<i>not cash equivalents</i>) | 25,500 | |
| 267 | Other payments for investing activities | 281 | |
| (1,855) | Proceeds from the sale of PPE, investment property and intangible assets | (1,014) | |
| (44,550) | Proceeds from investments (<i>not cash equivalents</i>) | (27,000) | |
| <u>(45,548)</u> | Other receipts from investing activities | <u>(25,045)</u> | |
| 21,056 | Net cash flows from investing activities | | 17,629 |
| | Financing Activities | | |
| (56,500) | Cash receipts of short and long term borrowing | (10,500) | |
| | Cash payments for the reduction liabilities for finance leases and PFI contracts | 909 | |
| 36,045 | Repayments of short and long term borrowing | 11,586 | |
| 3,928 | Other payments for financing activities | 2,959 | |
| <u>(15,709)</u> | Net cash flows from financing activities | | 4,954 |
| <u>(5,910)</u> | Net decrease/(increase) in cash and cash equivalents | | <u>12,858</u> |
| | 6,807 Cash and cash equivalents at 1st April | | 12,717 |
| | 12,717 Cash and cash equivalents at 31st March | | (141) |
| <u>(5,910)</u> | Net decrease/(increase) in cash and cash equivalents | | <u>12,858</u> |

8 NOTES TO THE FINANCIAL STATEMENTS

8.1. Accounting Policies

General Principles

- 8.1.1 The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice (SERCOP) 2011/12, supported by International Financial Reporting Standards.

Accruals of Income and Expenditure

- 8.1.2 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.

Borrowing Costs

- 8.1.3 Borrowing costs that can be directly attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Qualifying assets are assets that take a substantial period of time to get ready, which is sufficiently long enough for a material balance of borrowing to accrue. This will be applied to schemes lasting more than 12 months and with at least £10,000 of interest associated with the project.
- 8.1.4 During 2011/12 £113,000 of borrowing costs have been capitalised relating to spend on Hereford Leisure Pool and Ledbury Library in year.

Cash and cash equivalents

- 8.1.5 Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are deemed to be 'on-call' investments, where investments can be recalled immediately.

Contingent assets

- 8.1.6 Contingent assets are not recognised in the financial statements but disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable. If it becomes virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, then the debtor and related revenue are recognised in the financial statements in the year the change occurs.

Contingent liabilities

- 8.1.7 A contingent liability arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the authority. Contingent liabilities are not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits

or service potential will be required then a provision is recognised in the year in which the probability occurs.

Employee benefits

Benefits payable during employment

- 8.1.8 Employment benefits are accounted for according to the principles of accruals of expenditure. Short-term compensated absences, such as annual leave and flexi-time, are recognised when employees render services that increase their entitlement to future compensated absences. These are measured as the additional amount that the authority expects to pay as a result of unused entitlement at the balance sheet date, including employer's national insurance and pension contributions. The accumulated benefits are included in the balance sheet as a provision for accumulated absences. The amounts charged to the General Fund are reversed out through the Movement of Reserves Statement to the accumulated absences account in the balance sheet.

Termination benefits

- 8.1.9 Termination benefits are payable as a result of either:

- a) An employer's decision to terminate an employee's employment; or
- b) An employee's decision to accept voluntary redundancy

Termination benefits are recognised immediately in the Surplus or Deficit on the Provision of Services

Post-employment benefits

- 8.1.10 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 Education; and
 - b) The Local Government Pension Scheme administered by Worcestershire County Council.
- 8.1.11 Pension schemes are classed as either defined contribution or defined benefit plans. Both schemes provide defined benefits to members, built up during the time employees work for the council. However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.
- 8.1.12 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 Comprehensive 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 Comprehensive Income and Expenditure Account.
 - 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 the Financing and Investment Income section of the Comprehensive 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 the Financing and Investment Income section of the Comprehensive 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 Comprehensive Income and Expenditure Account.
 - 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 Other Comprehensive Income and Expenditure.
 - vii. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

8.1.13 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 Movement in Reserves Statement 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.

8.1.14 Further information on accounting for the pension fund is set out in Note 8.43 to the Statements.

Events after the balance sheet date

8.1.15 Events after the Balance Sheet date are those that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. There are two types;

- a. Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and

- b. Those that relate to conditions after the reporting period, which are not adjusted in the accounts, rather disclosed in the notes to the statements.

Exceptional items

- 8.1.16 Where items of income and expenditure are material, the nature and amount is disclosed separately in the Income and Expenditure Statement or in the notes to the accounts.
- 8.1.17 A number of schools transferred to Academy status during 2011/12, resulting in the net book value of the schools of £69 million being written out of the council's assets through the 'Other Operating Expenditure' section of the Comprehensive Income and Expenditure Statement.

Prior period adjustments, changes in accounting policies and estimates and errors

- 8.1.18 Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
- 8.1.19 In 2011/12 there was one change in the accounting policies. This relates to heritage assets and is detailed in the relevant paragraphs in the accounting policies.

Financial Instruments

- 8.1.20 Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity.

Financial liabilities

- 8.1.21 A financial liability is an obligation to deliver cash (or another financial asset) to another entity.
- 8.1.22 Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument and are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. 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 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.
- 8.1.23 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement 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 is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

- 8.1.25 A financial asset is a right to future economic benefits that is represented by cash, an equity instrument of another entity (e.g. shares held) or a contractual right to receive cash (or another financial asset) from another entity.
- 8.1.26 Financial assets are classified into two types:
- a. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or
 - b. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

- 8.1.27 **Loans and receivables** are recognised in the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans the council has made the amount presented in the balance sheet as the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

- 8.1.28 The council has no available-for-sale assets.

Government grants and other contributions

- 8.1.29 Grants and contributions are recognised in the accounts when there is reasonable assurance that;
- The authority will comply with any conditions attached to them, and
 - The grants or contributions will be received.
- 8.1.30 Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has conditions that the authority has not satisfied.
- 8.1.31 General grants and contributions e.g. Revenue Support Grant, are disclosed on the face of the Comprehensive Income and Expenditure Statement.

8.1.32 Grants and contributions funding capital expenditure that have been credited to the Comprehensive Income and Expenditure Statement are not proper income to the General Fund according to the capital control regime. These amounts are accounted for as follows;

- Where conditions of the grant are outstanding at the balance sheet date, they are recognised as Capital Grants Receipts in Advance. Once the conditions have been met the grant or contribution is transferred to the Comprehensive Income and Expenditure Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, no conditions remain outstanding and the expenditure has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account. This reflects the application of capital resources to finance expenditure and is reported in the Movement in Reserves Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account. When the expenditure is incurred the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.

Heritage assets

8.1.33 Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

8.1.34 Heritage assets are recognised as a separate class of assets for the first time in the 2011/12 financial statements. These assets were grouped under 'Community Assets' in 2010/11.

8.1.35 Heritage assets continue to be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment (see note 8.1.69).

8.1.36 The council has recognised as heritage assets the museum exhibits held by Heritage Services and the collection was professionally valued at the year end. The collection is shown in the balance sheet at open market value.

8.1.37 In addition to the museum collection the council has capitalised new heritage assets purchased during the year although, in line with the council's general capitalisation policy, purchases less than £10,000 are not recognised in the Balance Sheet.

8.1.38 As recommended in Financial Reporting Standard 30, operational assets continue to be recognised under Property, Plant and Equipment notwithstanding any historical or other heritage qualities.

8.1.39 Heritage assets, assumed to have indefinite lives, will not be depreciated although the carrying amount will be reviewed at least every five years to ensure that the valuation remains current.

- 8.1.40 In addition the carrying amount of an asset will be reviewed if there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.
- 8.1.41 Changes to the accounting policy for heritage assets has resulted in the following changes being made to the 2010/11 comparative figures in the balance sheet:

| | 2010/11 Statements | Adjustments made |
|------------------------------|---------------------------|-------------------------|
| | £000 | £000 |
| Property Plant and Equipment | 455,405 | (1,787) |
| Heritage Assets | 0 | 1,787 |

Intangible assets

- 8.1.42 Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the council (e.g. computer software licences) is capitalised when it will bring benefits to the council for more than one financial year. Intangible assets are normally carried at cost less accumulated amortisation and impairment losses. Where an intangible asset is acquired by way of government grant, it is recognised initially at fair value.
- 8.1.43 An intangible asset with a finite useful life is amortised to the relevant service revenue account over its economic life to reflect the pattern of consumption of benefits.
- 8.1.44 Gains or losses on derecognition of an intangible asset are recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.
- 8.1.45 Neither amortisation, gains nor losses are permitted to have an impact on the General Fund Balance and so all are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Inventories

- 8.1.46 Inventories are measured at the lower of cost and net realisable value, except where they are held for distribution at no charge in which case they are measured at the lower of cost and net current replacement cost.

Investment property

- 8.1.47 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.
- 8.1.48 Investment property is measured initially at cost, and subsequently at market value. Properties are not depreciated but are revalued annually reflecting market conditions at the year end.
- 8.1.49 Gains and losses on revaluation are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Gains or losses on disposal of an investment property are treated in the same way.

8.1.50 Gains or losses recognised in the Comprehensive Income and Expenditure Statement are not proper charges to the General Fund and are reversed out through the Movement in Reserves Statement as follows;

- a) On derecognition of an investment property the disposal proceeds are credited to the Capital Receipts Reserve and the carrying amount of the property is debited to the Capital Adjustment Account.
- b) Gains or losses are reversed out to the Capital Adjustment Account.

Landfill allowances scheme

8.1.51 The Waste and Emissions Trading Act 2003 places a duty on waste disposal authorities (WDAs) to reduce the amount of biodegradable municipal waste (BMW) disposed to landfill. It provides the legal framework for the Landfill Allowance Trading Scheme (LATS), which commenced operation on 1 April 2005 in England.

8.1.52 LATS is a 'cap and trade' scheme. The scheme gives rise to;

- an asset for allowances held
- LATS grant income
- A liability for actual BMW

8.1.53 Landfill allowances are recognised as assets and measured initially at fair value. The landfill allowances issued free by DEFRA are treated as a government grant.

8.1.54 As landfill is used a liability in the form of a provision is recognised for actual BMW landfill usage. The liability is discharged by using allowances to meet the liability, paying a cash penalty to DEFRA or a combination of both. The liability is measured at the best estimate of the expenditure required to meet the obligation at the reporting date. After initial measurement the value of landfill allowances is re-measured at the lower of cost or net realisable value.

Leases

8.1.55 Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of a leased asset lie with the lessor or the lessee.

8.1.56 Finance leases

- a) Where the council is **lessee** - finance leases are recognised as assets and liabilities at the fair value of the property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. Assets recognised under a finance lease are depreciated over the shorter of the lease term and the asset's useful economic life. Assets recognised under a finance lease are subject to revaluation in the same way as any other asset.
- b) Where the council is **lessor** - assets held under a finance lease are recognised as a debtor equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and interest.

Operating leases

- 8.1.57 a) Where the council is **lessee** – an operating lease is recognised as an expense on a straight line basis over the lease term.
- b) Where the council is **lessor** – the asset is recognised under the relevant category of assets. Costs, including depreciation, are recognised as an expense and income is recognised on a straight-line basis over the lease term.

Arrangements containing a lease

8.1.58 Arrangements that do not take the legal form of a lease but convey the right to use an asset in return for payments, are assessed under IFRIC 4 to determine whether the arrangement contains a lease. This requires an assessment of whether;

- a) The arrangement depends on use of a specific asset
- b) The arrangement conveys the right to use the asset.

If the arrangement contains a lease, that lease shall be classified as a finance or operating lease.

Non-current assets held for sale

8.1.59 An asset is classified as held for sale if;

- a) The asset is available for immediate sale in its present condition
- b) The sale is highly probable.
- c) The asset is being actively marketed.
- d) The sale should be expected to be completed within one year

8.1.60 Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated.

8.1.61 Assets held for sale are presented separately on the face of the Balance Sheet.

Overheads and Support Services

8.1.62 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 Service Reporting Code of Practice (SERCOP). 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; and
- b. **Non Distributed Costs:** The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

Several bases are used for the allocation overheads, using the most appropriate basis for each service. Financial services are allocated on time allocation of staff, Human Resources on a per employee basis, Technology Solutions per PC, Revenues on invoices raised, paid and income received and Property services on a per desk basis.

PFI schemes

- 8.1.63 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.
- 8.1.64 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.
- 8.1.65 Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.
- 8.1.66 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 Comprehensive Income and Expenditure Statement.
 - b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
 - 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 Comprehensive Income and Expenditure Statement.
 - 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
- 8.1.67 Under the Shaw Healthcare contract the rent and service charges paid to Shaw by residents for the council's extra care flats at Leadon Bank have been treated as a contribution to the revenue costs of the units.
- 8.1.68 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

Property, plant and equipment

- 8.1.69 Property, plant and equipment are tangible assets that are held for use on the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used for more than a year.

Recognition

- 8.1.70 Property, plant and equipment is only recognised as an asset on the balance sheet if;

- a) it is probable that the future economic benefits or service potential will flow to the council, and
- b) the cost of the asset can be measured reliably.

8.1.71 Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise fixed assets costing less than £10,000.

8.1.72 Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount.

8.1.73 With reference to schools, whether or not the school land and buildings are included in the balance sheet will depend upon the type of school:

- Community Schools

Assets relating to state-funded, council controlled community schools are included in the balance sheet.

- Academy Schools

When a school is granted Academy status the land and buildings are transferred to the school and removed from the council's balance sheet in the year when the legal transfer takes place. This is also the case with foundation schools, although most of Herefordshire's foundation schools have now become Academies.

- Voluntary Schools

Voluntary schools are schools which are run by private organisations such as a foundation or a trust (usually a religious organisation) who own the land and buildings. There are two types.

Voluntary controlled schools have all their costs met by central government and are controlled by the council. Their land and buildings are included in the council's balance sheet (on a Depreciated Cost Basis) on the assumption that replacement falls to the council.

Voluntary aided schools are not fully funded with the foundation being at least partly responsible for financing capital expenditure and they retain greater influence over the school. The land and buildings are not recognised in the council's balance sheet. The exception is playing fields which are required to be provided by the council.

Measurement

8.1.74 Assets are initially recognised at cost and accounted for on an accruals basis. The measurement of cost comprises:

- a) purchase price;

- b) any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management; and
 - c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located
- 8.1.75 Assets are then carried in the Balance Sheet using the following measurement bases:
- a) **Infrastructure, community assets and assets under construction** – historical cost.
 - b) **Land and buildings** – fair value. Where there is no market-based evidence of fair value because of the specialist nature of the asset fair value may need to be estimated using a depreciated replacement cost approach (DRC).
 - c) **Vehicles, plant and equipment** – depreciated historical cost (as a proxy for fair value)

Revaluations

- 8.1.76 Assets included in the Balance Sheet at fair 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. The Revaluation Reserve was created with a zero balance on 31 March 2007. Gains may be credited to the Provision of Services where they arise from the reversal of an impairment loss or revaluation decrease previously charged to a service revenue account.
- 8.1.77 Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation that is not specific to the asset the decrease is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.
- 8.1.78 Revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund and are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.
- 8.1.79 When an asset is revalued, any accumulated depreciation and impairment is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Depreciation

- 8.1.80 Depreciation is provided for on all assets classified as property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).
- 8.1.81 The council's valuer makes a professional 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. New assets are not subject to a depreciation charge in the year of acquisition.

8.1.82 Each part of an asset with a cost significant in relation to the total cost is depreciated separately where the useful lives or depreciation methods of the components are different. The council reviews assets of £3 million and over for componentisation and treats components worth at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

8.1.83 Depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account. This is reported in the Movement in Reserves Statement. 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.

Impairments

8.1.84 An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year assets are assessed for any indications of impairment and if there are then the recoverable amount shall be estimated. Circumstances that indicate an impairment may have occurred include;

- a) A significant decline in an asset's value during the year, which is specific to the asset
- b) Evidence of obsolescence or physical damage of an asset
- c) A commitment by the council to undertake a significant re-organisation
- d) A significant adverse change in the statutory or other regulatory environment in which the council operates.

8.1.85 General Fund service revenue accounts, central support services and trading accounts are charged with impairment losses (in excess of any balance on the revaluation reserve). An impairment on revalued assets is recognised in the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset and thereafter in the Surplus or Deficit on the Provision of Services. An impairment loss on a non-revalued asset shall be recognised in the Surplus or Deficit on the Provision of Services.

8.1.86 At the end of each financial year an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. The reversal of an impairment loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.

8.1.87 Impairment losses and subsequent reversals are charged to the Surplus or Deficit on the Provision of Services, they are not proper charges to the General Fund. These amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Disposals

8.1.88 The carrying amount of an asset is derecognised on disposal and the gain or loss on disposal of the asset is included in the Surplus or Deficit on the Provision of Services. This is not a proper charge to the General Fund and is reversed out by;

- a) Crediting the Capital Receipts Reserve with the disposal proceeds; or
- b) Debiting the Capital Adjustment Account with the carrying amount of the asset on disposal.

Any balance on the Revaluation Reserve is written off to the Capital Adjustment Account on disposal of the asset.

8.1.89 Where appropriate the costs of disposing of non-current assets are financed from the capital receipts generated up to a maximum of 4% of the capital receipt.

Provisions

8.1.90 A provision is recognised when:

- a) An authority has a present obligation (legal or constructive) as a result of a past event;
- b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- c) A reliable estimate can be made of the amount of the obligation.

8.1.91 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.

Reserves

8.1.92 The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the Cost of Services. The reserve is then appropriated back through the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

Revenue funded from capital under statute

8.1.93 Where legislation allows expenditure to be classified as capital for funding purposes, which does not result in a fixed asset on the balance sheet (generally grants), it is charged to the Surplus or Deficit on the Provision of Services in accordance with proper practice. A transfer to the Capital Adjustment Account from the Statement of Movement in Reserves reverses this out so that there is no impact on council tax.

Value added tax

8.1.94 Revenue included in the Comprehensive Income and Expenditure Statement is only the amount relating to the authority on its own behalf and therefore excludes VAT that must be passed on the HM Revenue and Customs. VAT is only included in the accounts to the extent that it is irrecoverable. The net amount due to or from HM Revenue and Customs in respect of VAT is included as part of creditors or debtors.

Revenue recognition

8.1.95 Revenue is measured at the fair value of the consideration received or receivable.

8.1.96 **The sale of goods**; revenue is recognised when all the following conditions have been satisfied:

- a) the significant risks and rewards of ownership have been transferred to the purchaser.
- b) the council retains neither continuing managerial involvement nor effective control over the goods sold
- c) the amount of revenue can be measured reliably.
- d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

8.1.97 **The rendering of services**; when the outcome of a transaction can be estimated reliably, associated revenue is recognised according to the percentage completed at the reporting date. The following conditions need to be satisfied;

- a) the amount of revenue can be measured reliably;
- b) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- c) the stage of completion at the balance sheet date can be measured reliably; and
- d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

8.1.98 **Interest**; revenue is recognised when;

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and
- b) the amount of the revenue can be measured reliably.

8.1.99 **Non-exchange transactions**; revenue is recognised when;

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and
- b) the amount of the revenue can be measured reliably.

Interests in Companies and Other Entities

8.1.100 The council has a 20% non-voting shareholding in Amey Wye Valley. The council does not have control over decision making, although it does have the right to veto certain key decisions for the company. Amey appoints its own directors and the council has observer status only on the board. The council does not exercise dominant influence and therefore there is no group relationship requiring group accounts. This is conducted as a contractual arrangement with the transactions included in the council's Income and Expenditure Statement and capital accounts. The amount included in the accounts for the investment is £200, which is the initial amount paid for the share.

- 8.1.101 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.
- 8.1.102 The council has an interest in a company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. This 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.
- 8.1.103 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.
- 8.1.104 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. It is constituted as a Joint Committee and Herefordshire Council is one of four constituent authorities. The other three Councils are Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. WMS exists in order to provide joint procurement services to the four constituent authorities. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. The council's share is not considered material to the accounts. At 11.7%, based on the proportion of the surplus attributable to the council, the council's share of WMS net assets of £2.979m amounted to £349,000 at 31 March 2012.
- 8.1.105 The council holds 62% shareholding in Hoople Ltd. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture is to increase efficiency and reduce back office costs for all partners. However, the balance sheet value of Hoople Ltd at 31 March 2012 was insignificant to justify the preparation of group accounts.

8.2. Accounting standards that have been issued but have not yet been adopted

- 8.2.1 Authorities are required to disclose the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted in the CIPFA Accounting Code of Practice for the relevant financial year.
- 8.2.2 There have been amendments to IFRS 7 – Financial Instruments: Disclosures (transfers of financial assets), which are intended to assist users of the financial statements to evaluate the risk exposures that relate to transfers of financial assets and the effect of those risks on the authority's financial position. However, CIPFA/LASAAC is of the view that the transfers described by the standard do not occur frequently in local authorities. Relevant circumstances would arise where an authority retains ownership of a financial asset but contracts to reassign or otherwise pay over the cash flows generated by the instrument, at the same time as retaining substantially all the risks and rewards of ownership.

8.3 Critical Judgements in Applying Accounting Policies

8.3.1 In applying the accounting policies set out in Note 8.1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

8.3.2 The critical judgements made in the Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement.
- The council has relationships with a number of companies as detailed in Note 8.1 but it has been determined that group accounts are not required.

8.4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

8.4.1 The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

8.4.2 There is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2012:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|--|--|
| Pensions liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied. | Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. |
| Property, plant, equipment and investment properties | Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. | There is a risk of material adjustment in the year when the property is revalued. |

8.5 Material Items of Income and Expense

- 8.5.1 There were two material items of income and expense in the Comprehensive Income and Expenditure Account:
- 8.5.2 A number of schools transferred to Academy status during 2011/12, resulting in the net book value of the schools of £69 million being written out of the council's assets through the 'Other Operating Expenditure' section of the Comprehensive Income and Expenditure Statement.
- 8.5.2 There were exceptional items relating to the council's pension fund liabilities. The 2010/11 comparative figures include an adjustment in the council's liabilities in the pensions fund, which reduced by £22.5 million following the change in the pensions uplift from RPI to CPI. In 2011/12 there was an adjustment of £5.7 million for the transfer of staff to Academies and Hoople.
- 8.5.3 These entries are reversed out in the Movement in Reserves Statement and do not have an impact on the General Fund.

8.6 Events after the Balance Sheet Date

- 8.6.1 The Statement of Accounts was authorised for issue on 13th September 2012 by the Chief Finance and Commercial Services Officer. Events taking place after this date are not reflected in the financial statements or notes.
- 8.6.2 In September 2011 the owners of West Mercia Supplies appointed a sales agent to pursue the sale of the organisation. Since then a buyer has been found for the stationery division of WMS with the sale completing on 19th April 2012. The WMS name and most of the staff transferred as part of the sales agreement, with the energy side of the organisation remaining with the four Member Authorities. The energy division will continue in operational existence under the trading name of "West Mercia Energy" for the foreseeable future.
- 8.6.3 Many schools in Herefordshire are becoming Foundation Schools or Academies. It is council policy to remove the associated fixed assets from the balance sheet on the date that the assets are legally transferred. In April 2012 3 schools transferred to Academy status with a net book value of £2.6 million and there is potential for a further £23.4 million to be transferred in 2012/13.
- 8.6.4 In November 2009 Herefordshire Council entered into a Development Agreement with Stanhope for the redevelopment of the old market site. Following the report to the council's Cabinet on the 5th April 2012 the parties have been proactive in addressing the pre-conditions contained within the Development Agreement to the point where most have now been met and we are moving to a position where the Development Agreement will go unconditional and works start on site shortly.

8.7 Adjustments between Accounting Basis and Funding Basis under Regulations

- 8.7.1 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2011/12

| | Usable Reserves | | | Unusable reserves £000 |
|--|------------------------------|----------------------------------|----------------------------------|---------------------------|
| | General Fund Balance £000 | Capital Receipts Reserve £000 | Capital Grants Unapplied £000 | |
| Adjustments involving the Capital Adjustment Account: | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Charges for depreciation on non-current assets | 16,534 | | | (16,534) |
| Revaluation losses and impairment on Property, Plant and Equipment | 6,272 | | | (6,272) |
| Movements in the market value of investment properties | 6,487 | | | (6,487) |
| Amortisation of intangible assets | 1,694 | | | (1,694) |
| Capital grants and contributions | (27,313) | | | 27,313 |
| Revenue expenditure funded from capital under statute | 1,809 | | | (1,809) |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 69,058 | | | (69,058) |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Statutory provision for the financing of capital investment | (10,514) | | | 10,514 |
| Capital expenditure charged against the General Fund balance | (281) | | | 281 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (5,300) | | 5,300 | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | (2,724) | 2,724 |
| Adjustments involving the Capital Receipts Reserve: | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (504) | 504 | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | (4,492) | | 4,492 |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool. | 9 | (9) | | |
| Recognition of new deferred capital receipts | (281) | | | 281 |

| | | | |
|---|---------------|----------------|-----------------------|
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | 12 | (12) | |
| Adjustments involving the Financial Instruments Adjustment Account: | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 4 | (4) | |
| Adjustments involving the Pensions Reserve: | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43) | 5,627 | (5,627) | |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (9,953) | 9,953 | |
| Adjustments involving the Collection Fund Adjustment Account: | | | |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 467 | (467) | |
| Adjustment involving the Accumulated Absences Account | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (789) | 789 | |
| Total Adjustments | 53,026 | (3,985) | 2,576 (51,617) |

2010/11 Comparative Figures

| | Usable Reserves | | | Unusable reserves |
|--|----------------------|--------------------------|--------------------------|-------------------|
| | General Fund Balance | Capital Receipts Reserve | Capital Grants Unapplied | |
| | £000 | £000 | £000 | £000 |
| Adjustments involving the Capital Adjustment Account: | | | | |
| <u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Charges for depreciation on non-current assets | 15,774 | | | (15,774) |
| Revaluation losses and impairment on Property, Plant and Equipment | 13,755 | | | (13,755) |
| Movements in the market value of investment properties | 1,170 | | | (1,170) |
| Amortisation of intangible assets | 1,383 | | | (1,383) |
| Capital grants and contributions | (30,302) | | | 30,302 |
| Revenue expenditure funded from capital under statute | 522 | | | (522) |
| Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 12,910 | | | (12,910) |
| <u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u> | | | | |
| Statutory provision for the financing of capital investment | (9,645) | | | 9,645 |
| Capital expenditure charged against the General Fund balance | (772) | | | 772 |
| Adjustments primarily involving the Capital Grants Unapplied Account: | | | | |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement | (9,358) | | 9,358 | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | (2,576) | 2,576 |
| Adjustments involving the Capital Receipts Reserve: | | | | |
| Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (2,083) | 2,083 | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | (8,868) | | 8,868 |
| Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals | 29 | (29) | | |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool. | 11 | (11) | | |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash | | | 14 | (14) |

Adjustments involving the Financial Instruments Adjustment Account:

| | | |
|---|------|----|
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | (82) | 82 |
|---|------|----|

Adjustments involving the Pensions Reserve:

| | | |
|---|----------|--------|
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43) | (6,721) | 6,721 |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (11,430) | 11,430 |

Adjustments involving the Collection Fund Adjustment Account:

| | | |
|--|-----|-------|
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | 177 | (177) |
|--|-----|-------|

Adjustment involving the Accumulated Absences Account

| | | |
|---|-------|-----|
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (374) | 374 |
|---|-------|-----|

| | | | | |
|--------------------------|-----------------|----------------|--------------|---------------|
| Total Adjustments | (25,036) | (6,811) | 6,782 | 25,065 |
|--------------------------|-----------------|----------------|--------------|---------------|

8.8 Transfers to/from Earmarked Reserves

8.8.1 This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund in 2011/12.

| | 1 April 2010 | Transfer (out) 2010/11 | Transfer in 2010/11 | 31 Mar 2011 | Transfer (out) 2011/12 | Transfer in 2011/12 | 31 Mar 2012 |
|-------------------------|-----------------|------------------------------|---------------------------|----------------|------------------------------|---------------------------|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| School balances | 5,497 | (1,102) | 1,607 | 6,002 | (2,097) | 1,884 | 5,789 |
| Grange Court | 0 | | 41 | 41 | | 42 | 83 |
| Commuted sums | 78 | (42) | | 36 | | | 36 |
| Industrial Estates | 372 | | 28 | 400 | | 13 | 413 |
| Schools Insurance | 74 | (51) | 77 | 100 | | 343 | 443 |
| Schools sickness | 99 | (24) | | 75 | | 61 | 136 |
| ICT | 0 | | 595 | 595 | (504) | | 91 |
| Members ICT | 0 | | 40 | 40 | | | 40 |
| Planning | 24 | | | 24 | | | 24 |
| Community Centre | 180 | | | 180 | | | 180 |
| Waste Disposal | 2,774 | | 133 | 2,907 | (500) | | 2,407 |
| Invest to Save | 1,331 | (1,026) | | 305 | (305) | | 0 |
| Contingent liabilities | 300 | | | 300 | (300) | | 0 |
| Social care contingency | 154 | (154) | | 0 | | | 0 |
| Modernisation plans | 0 | | | 0 | | | 0 |
| Hereford Futures | 691 | (209) | | 482 | (357) | | 125 |
| Whitecross school PFI | 281 | | 50 | 331 | (10) | | 321 |
| LPSA 2 reward grant | 224 | (14) | | 210 | (210) | | 0 |
| Carbon Reserve | 20 | (20) | | 0 | | | 0 |
| Schools Redundancies | 10 | (10) | | 0 | | | 0 |
| Schools Rates Reserve | 869 | (652) | | 217 | (111) | | 106 |
| Economic Development | 266 | (98) | | 168 | (5) | | 163 |
| Safeguarding Board | 21 | (21) | | 0 | | | 0 |
| Insurance reserve | 544 | (248) | | 296 | (296) | | 0 |
| Pool car reserve | 10 | | | 10 | | | 10 |
| Local Dev. framework | 270 | (270) | | 0 | | | 0 |
| Area based grant | 53 | (53) | | 0 | | | 0 |
| Three Elms Ind. Estate | 0 | | | 0 | | 362 | 362 |
| Unused Grants cfwd | 5,100 | (4,058) | 3,811 | 4,853 | (3,521) | 1,397 | 2,729 |
| | 19,242 | (8,052) | 6,382 | 17,572 | (8,216) | 4,102 | 13,458 |

8.9 Other Operating Expenditure

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|--|-----------------|
| 2,488 | Parish council precepts | 2,558 |
| 191 | Levies | 188 |
| 11 | Payments to the Government Housing Capital Receipts Pool | 9 |
| 10,856 | (Gains)/losses on the disposal of non current assets | 68,554 |
| 13,546 | Total | 71,309 |

8.10 Financing and Investment Income and Expenditure

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|--|-----------------|
| 7,765 | Interest payable and similar charges | 7,983 |
| 6,441 | Pensions interest cost and expected return on pensions assets | 3,405 |
| (412) | Interest receivable | (476) |
| (83) | Discount received on early repayment of loans | 0 |
| (436) | Income and expenditure in relation to trading accounts/investment properties and changes in their fair value | 5,175 |
| (715) | Other investment income | (545) |
| 12,560 | Total | 15,542 |

8.11 Taxation and Non Specific Grant Income

| 2010/11 £000 | | 2011/12 £000 |
|------------------|----------------------------------|------------------|
| (87,572) | Council tax income | (88,215) |
| (50,282) | Non domestic rates | (45,978) |
| (21,830) | Non-ringfenced government grants | (18,019) |
| (39,660) | Capital grants and contributions | (32,894) |
| (199,344) | Total | (185,106) |

8.12 Property, Plant and Equipment

8.12.1 Movements on Balances

Movements in 2011/12:

| | Land & buildings | Vehicles, plant, furniture & equip | Infra structure assets | Communi assets | Surplus assets | Assets under construct ion | Total PPE | PFI assets incl. in PPE |
|--|------------------|------------------------------------|------------------------|----------------|----------------|----------------------------|-----------------|-------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or Valuation | | | | | | | | |
| At 1 April 2011 | 291,725 | 20,764 | 154,689 | 815 | 1,765 | 29,228 | 498,986 | 28,604 |
| Additions | 14,325 | 2,604 | 15,893 | 87 | 1,062 | 7,905 | 41,876 | 774 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 10,590 | 0 | 0 | 0 | (121) | 0 | 10,469 | 0 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (5,183) | (644) | 0 | (1) | (425) | 0 | (6,253) | (715) |
| Adjustment to write back depreciation on revalued assets | (2,165) | 0 | 0 | 0 | (13) | 0 | (2,178) | 0 |
| Disposals | (71,242) | (1,436) | 0 | 0 | 0 | 0 | (72,678) | 0 |
| Assets reclassified as Held for Sale | (1,672) | 0 | 0 | 0 | 0 | 0 | (1,672) | 0 |
| Reclassifications from/(to) Investment Properties | 189 | 0 | 0 | 0 | 0 | (9,675) | (9,486) | 0 |
| Other reclassifications | 23,784 | 0 | 0 | 0 | 721 | (24,505) | 0 | 0 |
| At 31 March 2012 | 260,351 | 21,288 | 170,582 | 901 | 2,989 | 2,953 | 459,064 | 28,663 |
| Accumulated Depreciation and Impairment | | | | | | | | |
| At 1 April 2011 | (14,352) | (9,458) | (21,542) | 0 | (16) | 0 | (45,368) | (3,427) |
| Depreciation on cost (net of any impairments) | (4,499) | (3,867) | (7,309) | 0 | 0 | 0 | (15,675) | (1,214) |
| Depreciation on revalued amount in excess of cost | (859) | 0 | 0 | 0 | 0 | 0 | (859) | (0) |
| Depreciation written back on revalued assets | 2,165 | 0 | 0 | 0 | 13 | 0 | 2,178 | 0 |
| Disposals | 3,192 | 426 | 0 | 0 | 0 | 0 | 3,618 | 0 |
| At 31 March 2012 | (14,353) | (12,899) | (28,851) | 0 | (3) | 0 | (56,106) | (4,641) |
| Net Book Value | | | | | | | | |
| At 31 March 2012 | 245,998 | 8,389 | 141,731 | 901 | 2,986 | 2,953 | 402,958 | 24,022 |
| At 31 March 2011 | 277,373 | 11,306 | 133,147 | 815 | 1,749 | 29,228 | 453,618 | 25,177 |

Comparative Movements in 2010/11 (restated for transfer out of heritage assets) :

| | Land & buildings £000 | Vehicles, plant, furniture & equip £000 | Infra-structure assets £000 | Comm-unity assets £000 | Surplus assets £000 | Assets under construct-ion £000 | Total PPE £000 | PFI assets incl. in PPE £000 |
|--|--------------------------|--|--------------------------------|---------------------------|------------------------|------------------------------------|-------------------|---------------------------------|
| Cost or Valuation | | | | | | | | |
| At 1 April 2010 | 317,096 | 18,422 | 133,899 | 778 | 1,249 | 24,222 | 495,666 | 28,346 |
| Additions | 9,495 | 2,901 | 20,790 | 37 | 587 | 25,916 | 59,726 | 221 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (28,618) | 0 | 0 | 0 | (72) | 0 | (28,690) | 0 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (13,756) | 0 | 0 | 0 | 1 | 0 | (13,755) | 37 |
| Adjustment to write back depreciation on revalued assets | (941) | 0 | 0 | 0 | 0 | 0 | (941) | 0 |
| Disposals | (12,461) | (559) | 0 | 0 | 0 | 0 | (13,020) | 0 |
| Assets reclassified as Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other reclassifications | 20,910 | 0 | 0 | 0 | 0 | (20,910) | 0 | 0 |
| At 31 March 2011 | 291,725 | 20,764 | 154,689 | 815 | 1,765 | 29,228 | 498,986 | 28,604 |
| Accumulated Depreciation and Impairment | | | | | | | | |
| At 1 April 2010 | (9,535) | (6,876) | (15,057) | 0 | (3) | 0 | (31,471) | (2,061) |
| Depreciation on cost (net of any impairments) | (5,706) | (2,802) | (6,485) | 0 | (12) | 0 | (15,005) | (1,346) |
| Depreciation on revalued amount in excess of cost | (768) | (0) | 0 | 0 | (1) | 0 | (769) | (20) |
| Depreciation written back on revalued assets | 941 | 0 | 0 | 0 | 0 | 0 | 941 | 0 |
| Disposals | 716 | 220 | 0 | 0 | 0 | 0 | 936 | 0 |
| At 31 March 2011 | (14,352) | (9,458) | (21,542) | 0 | (16) | 0 | (45,368) | (3,427) |
| At 31 March 2011 | 277,373 | 11,306 | 133,147 | 815 | 1,749 | 29,228 | 453,618 | 25,177 |
| At 31 March 2010 | 307,561 | 11,546 | 118,842 | 778 | 1,246 | 24,222 | 464,195 | 26,285 |

8.12.2 Depreciation

Depreciation is provided on a straight line basis over an asset's economic useful life. Lives have been estimated as follows:

- Buildings – estimated useful life up to 100 years
- Vehicles, plant, furniture and equipment – 5 years
- Infrastructure – 15 to 50 years

8.12.3 Analysis of Capital Charges to Directorates

Capital charges included in the Comprehensive Income and Expenditure Statement relating to tangible fixed assets are analysed by directorate below:

| Directorate | Depreciation £000 | Impairments £000 | Total for 2011/12 £000 |
|------------------------|----------------------|---------------------|------------------------------|
| People's Services | 5,680 | 3,488 | 9,168 |
| Places and Communities | 9,320 | 1,461 | 10,781 |
| Corporate | 1,534 | 1,323 | 2,857 |
| Total | 16,534 | 6,272 | 22,806 |

8.12.4 Capital Commitments

At 31 March 2012 the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2012/13 and future years budgets, the major commitment totalled £2 million, this is for improvements works at Masters House, Ledbury. Similar commitments at 31 March 2011 for 2011/12 and future years was £4.57 million.

8.12.5 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. All valuations are done internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment is based on depreciated costs as a proxy for fair value.

8.13 Heritage Assets

8.13.1 The carrying value of heritage assets shown in the Balance Sheet is calculated as follows. Prior year figures have been restated as this is a new category of asset:

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|-------------------------------------|-----------------|
| 1,787 | Balance at start of the year | 1,787 |
| | Additions: | |
| 0 | Plinth for Hereford bull statue | 15 |
| 0 | Revaluation | 1,018 |
| 1,787 | Balance at end of the year | 2,820 |

- 8.13.2 Previously the museum collection was included in Community assets and has been carried in the balance sheet at a value of £1.79 million for a number of years.
- 8.13.3 Apart from expenditure during the year, the council's heritage assets consist wholly of the museum exhibits held by Heritage Services.
- 8.13.4 Heritage assets that have not been included in the new category include items such as sculptures and war memorials in the county. These items have been excluded on the basis that identification and valuation of these items is considered impractical and the additional work involved would not be commensurate with the benefit to the user of the accounts. In addition, ownership of assets such as war memorials is often difficult to establish without detailed research.
- 8.13.5 The exhibits held by Heritage Services were professionally valued in May 2012 by James Glennie of Art and Antiques Appraisals Ltd (James Glennie has 30 years valuing and auctioneering experience and worked for the international auction house Bonhams for 14 years).

Summary of Collections

The valuation of the museum exhibits can be analysed as follows:

| | £000 |
|---|--------------|
| Paintings and prints | 1,383 |
| Ceramics and glass | 170 |
| Furniture | 144 |
| Costumes and textiles | 65 |
| Arms, armour, firearms, weapons etc | 42 |
| Archaeology | 171 |
| Natural history and sciences | 81 |
| Documents, photographs and archives | 218 |
| Clocks, watches, scientific instruments and cameras | 67 |
| Sculpture | 38 |
| Silver, jewellery, coins, medals, tokens etc | 61 |
| Transport and carriages | 52 |
| Social history | 36 |
| Hereford Public Library reference section | 277 |
| Total | 2,805 |

- 8.13.6 The museum holds an estimated 120,000 objects.

- 8.13.7 The collections are carefully documented so that the museum holds detailed records of the items in the collection and where they are located. Each item is given a unique reference number and entered into an Accession Register and also into card index systems. The museum is also in the process of entering items onto a computerised collection management system (Micromusee) with more than 30,000 items already recorded.
- 8.13.8 As can be seen from the above, nearly half of the valuation of the collections relate to paintings and prints which comprises more than 3,500 works of art. The Fine Art collection features a significant number of early English watercolours, mainly landscapes, dating from the 18th to mid 19th centuries. It has a rich selection of work by artists with local connections, such as the work of First World War artist Brian Hatton.
- 8.13.9 The Costume and Textile collection is of national importance with items from the 17th century to the present day.
- 8.13.10 Amongst the Natural History collection the geology, herbarium and parts of the invertebrate collections are the most important. There are good local entomological specimens and a local collection of vertebrates including a fine sturgeon caught in the River Wye in the mid 19th century (valued today at £20,000).
- 8.13.11 The Archaeological collections are primarily of Herefordshire origin and are particularly strong in the Iron Age and Roman periods from the county. Stone Age material from King Arthur's Cave is of national significance, and there are some fine groups of prehistoric flint and stone tools in the collections.
- 8.13.12 The Social History collection is large and diverse, including local crafts, trades, agricultural implements, wheeled vehicles and numerous domestic artefacts. The collection is largely of 19th-20th century date, but there is some 17th and 18th century material including an important group of ironwork. A collection of photographic equipment and items belongs to Alfred Watkins, a Victorian antiquarian, inventor and author of the Ley Line theory, is of local and national relevance.
- 8.13.13 The collection of photographs is an important resource for local imagery and past trades and date from the mid-19th century to present day.
- 8.13.14 The collection of currency is greatest in the area of Roman coinage, with two large hoards and coins from the Roman town of Magna at Kenchester. Arms and armour includes some fine Medieval and Civil War pieces including the famous Roaring Meg Mortar and its associated shell from the siege of Goodrich Castle.

Preservation and Management

- 8.13.15 The main purpose of Herefordshire Heritage Services is to collect and preserve in perpetuity, objects that celebrate and enhance the lives and environment of the people of Herefordshire and to provide access for everyone to this exciting resource.
- 8.13.16 The museum has been accredited by the Museums, Libraries and Archives Council (MLA). Registration under the MLA Museums Accreditation Scheme indicates that the museum has achieved a nationally approved standard in management, collection care and delivery of information and visitor services.
- 8.13.17 The central storage facility for the county's museum collections is the Museum Resource and Learning Centre. This is a modern purpose-built state of the art facility where the climate controlled stores provide the optimum temperature and humidity to keep the objects in good condition.
- 8.13.18 By definition the museum has a long-term purpose and there is a strong presumption against the disposal of items, except for sound curatorial reasons such as deterioration or damage.
- 8.13.19 The collection is increased by both passive collection (through objects offered by members of the public and occasionally institutions) and active collection. Items will only be considered for collection if:
- The object has been legally acquired and the donor has proper title;
 - It fills a gap in the existing collection;
 - It represents a category of artefact where it is important to have all surviving examples retained for posterity, or
 - It is a complete, or more complete, example of an object already represented in the collection.

All members of the Collections Team are consulted over potential acquisitions in all collecting areas and a consensus reached.

Access to the Collection

- 8.13.20 Herefordshire Heritage Services operates five sites across the county together with an award winning mobile museum service, Museum on the Move. Three sites are in Hereford – these are the Hereford Museum and Art Gallery, the Old House and the Museum Resource and Learning Centre. The other two centres are the Market House Visitor Centre in Ross-on-Wye and Ledbury Heritage Centre. Admission to museums, galleries and heritage centres is generally free of charge.
- 8.13.21 Museum on the Move is a fully accessible bus run by Herefordshire Heritage Services in partnership with Staffordshire Council's Museum Service. Museum on the Move exists to provide access to the collection for different communities in the county, such as day care centres, village fetes and after-school clubs.
- 8.13.22 The centres in Ross-on-Wye and Ledbury provide insights into the past of these historic towns in addition to hosting a wide range of frequently changing community exhibitions, in addition to open days and other activities.
- 8.13.23 The Old House is a well preserved 17th century timber-framed building situated in the commercial centre of Hereford. It has been a museum since 1929 and is furnished in Jacobean style. For those unable to climb the stairs a virtual tour is available on the fully accessible ground floor.

8.13.24 Hereford Museum and Art Gallery has been exhibiting artefacts and works of art connected with the local area since 1874. The Art Gallery is host to changing exhibitions and changeovers happen every six to eight weeks.

8.13.25 As noted above, the Museum Resource and Learning Centre is the central storage facility for the county's museum collections. The Centre needs to balance preservation with public access. Access to the collections is provided by:

- Rotating items on show at the Hereford Museum and Art Gallery;
- Holding open days twice a month to enable the public to meet the curators and receive advice on their own items or to tour the facility;
- Allowing access at other times, for longer periods of research or for group visits to see behind the scenes, by appointment;
- Running regular family friendly events, workshops and lectures;
- Exceptionally, by loaning items to other museums or groups for research etc.

8.14 Investment Properties

8.14.1 The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. It comprises the trading areas of markets, industrial estates and retail. The direct operating expenses exclude recharged support services, capital charges and changes in the fair value of the assets.

| | 2011/12 | 2010/11 |
|--|----------------|----------------|
| | £000 | £000 |
| Rental income from investment property | (2,067) | (2,301) |
| Direct operating expenses arising from investment property | 728 | 675 |
| Net (gain)/loss | <u>(1,339)</u> | <u>(1,626)</u> |

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

| 2010/11 | | 2011/12 |
|----------------------|--|----------------------|
| £000 | | £000 |
| 24,934 | Balance at start of the year | 23,955 |
| | Additions: | |
| 316 | Enhancement expenditure | 0 |
| (125) | Disposals | (0) |
| (1,170) | Net gains/losses from fair value adjustments | (6,487) |
| 0 | Transfer from Property, Plant and Equipment | 9,486 |
| <u>23,955</u> | Balance at end of the year | <u>26,954</u> |

The fair value adjustment in 2011/12 includes £8.3 million relating to the new cattle market. This was the result of the asset moving from being classified as an asset under construction (cost basis) to an investment property, which is valued on the basis of rental income.

8.15 Intangible Assets

8.15.1 The council accounts for its software as intangible assets. Software is amortised over three to five years in equal annual instalments. Most of the amortisation was charged to the IT administration centre and then absorbed as an overhead across all services in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

| | 2011/12 Software £000 | 2010/11 Software £000 |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Balance at start of year: | | |
| Gross carrying amounts | 10,864 | 8,779 |
| Accumulated amortisation | <u>(5,207)</u> | <u>(3,824)</u> |
| Net carrying amount at start of year | 5,657 | 4,955 |
| | | |
| Additions: | 1,904 | 2,085 |
| | | |
| Amounts written out of balance sheet | | |
| Gross carrying amounts | (1,540) | |
| Accumulated amortisation | 1,540 | |
| | | |
| Amortisation for the period | (1,694) | (1,383) |
| | | |
| Net carrying amount at end of year | <u>5,867</u> | <u>5,657</u> |
| | | |
| Comprising: | | |
| Gross carrying amounts | 11,228 | 10,864 |
| Accumulated amortisation | <u>(5,361)</u> | <u>(5,207)</u> |
| | <u>5,867</u> | <u>5,657</u> |

8.15.3 The council also has £10,000 of intangible current assets relating to the Landfill Allowance Trading Scheme (see note 8.1.51-8.1.54).

8.16 Financial Instruments

8.16.1 Categories of Financial Instruments

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

| | Long-term | | Current | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | 31 Mar 2012 £000 | 31 Mar 2011 £000 | 31 Mar 2012 £000 | 31 Mar 2011 £000 |
| Investments | | | | |
| Loans and receivables | <u>4</u> | <u>4</u> | <u>11,223</u> | <u>26,476</u> |
| Debtors | | | | |
| Loans and receivables | <u>643</u> | <u>400</u> | <u>16,582</u> | <u>15,059</u> |
| Borrowings | | | | |
| Financial liabilities at amortised cost | <u>(128,532)</u> | <u>(122,266)</u> | <u>(17,562)</u> | <u>(24,769)</u> |

Other Long Term Liabilities

| | | | | |
|-----------------------------------|----------|----------|-------|-------|
| PFI and finance lease liabilities | (28,235) | (28,492) | (969) | (905) |
|-----------------------------------|----------|----------|-------|-------|

Creditors

| | | | | |
|---|---|---|----------|----------|
| Financial liabilities at amortised cost | 0 | 0 | (18,986) | (21,493) |
|---|---|---|----------|----------|

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. Amounts relating to statutory debts, such as council tax, non-domestic rates, general rates etc, are not classed as financial instruments as they do not arise from contracts. Also excluded from the above analysis are accounting adjustments relating to accruals and payments in advance.

8.16.2 Income, Expense, Gains and Losses

The following amounts, relating to financial instruments, are included in the Comprehensive Income and Expenditure Statement:

| | Financial Liabilities at amortised cost | 2011/12 Financial assets: Loans and receivables | Total | Financial Liabilities at amortised cost | 2010/11 Financial assets: Loans and receivables | Total |
|---|---|---|--------------|---|---|--------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Interest expense relating to: | | | | | | |
| Loans | 5,651 | 0 | 5,651 | 5,479 | 0 | 5,479 |
| PFI Liabilities | 2,234 | 0 | 2,234 | 2,196 | 0 | 2,196 |
| Finance Leases | 44 | 0 | 44 | 47 | 0 | 47 |
| Impairment losses (bad debts) | 0 | 53 | 53 | 0 | 43 | 43 |
| Fee expense (commission paid) | 4 | 0 | 4 | 15 | 0 | 15 |
| Total expense in Surplus or Deficit on the Provision of Services | 7,933 | 53 | 7,986 | 7,737 | 43 | 7,780 |
| Interest income relating to: | | | | | | |
| Investments | 0 | (476) | (476) | 0 | (412) | (412) |
| Gains on derecognition of loans | 0 | 0 | 0 | (83) | 0 | (83) |
| Total income in Surplus or Deficit on the Provision of Services | 0 | (476) | (476) | (83) | (412) | (495) |
| Net loss/(gain) for the year | 7,933 | (423) | 7,510 | 7,654 | (369) | 7,285 |

8.16.3 Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values of PWLB loans have been calculated based on premature repayment rates at the year end.
- The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of the council's borrowing (which is carried at amortised cost in the Balance Sheet) is as follows:

| | 31 March 2012 | | 31 March 2011 | |
|-----------------|-------------------------|--------------------|-------------------------|--------------------|
| | Carrying amount £000 | Fair value £000 | Carrying amount £000 | Fair value £000 |
| Total borrowing | 146,094 | 173,958 | 147,035 | 153,631 |

The fair value is higher than the carrying amount because the council's portfolio of loans are all fixed rate and the interest rate payable on these loans is higher than the relatively low rates prevailing at the Balance Sheet date. Therefore the fair value includes a premium that the council would have to pay if the lender agreed to early repayment of the loans. None of the council's investments are for a period exceeding 364 days and so the fair value of investments will not be significantly different to the carrying amount.

The carrying amounts of other long-term financial assets and liabilities in the balance sheet are assumed to equate to their fair value due to the absence of active markets in the instruments concerned and no information to the contrary.

8.17 Inventories

| | 2011/12 £000 | 2010/11 £000 |
|--|-----------------|-----------------|
| Balance outstanding at start of year | 655 | 128 |
| Purchases | 538 | 867 |
| Recognised as an expense in the year | (547) | (292) |
| Written off balances | (304) | (48) |
| Balance outstanding at year-end | 342 | 655 |

8.18 Debtors

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---------------------------------------|--------------------------|--------------------------|
| Central government bodies | 5,897 | 7,423 |
| Other local authorities | 121 | 408 |
| NHS bodies | 6,514 | 9,418 |
| Public corporations and trading funds | 0 | 0 |
| Other entities and individuals | 16,009 | 16,135 |
| | 28,541 | 33,384 |
| Provision for Bad Debts | (1,200) | (1,166) |
| Total | 27,341 | 32,218 |

8.19 Cash and Cash Equivalents

8.19.1 The balance of cash and cash equivalents is made up of the following elements:

| | 31 March 2012 | 31 March 2011 |
|--|--------------------------|---------------------------|
| | £000 | £000 |
| Cash held by the Authority | 1,565 | 4,020 |
| Short-term deposits | 1,635 | 15,424 |
| | <hr/> 3,200 | <hr/> 19,444 |
| Bank current accounts | (3,341) | (6,727) |
| Total Cash and Cash Equivalents | <hr/> (141) <hr/> | <hr/> 12,717 <hr/> |

8.19.2 By transferring funds to and from its investment accounts the council maintains a £nil cleared balance on its current accounts overnight. The overdrawn amount shown above is wholly due to the inclusion of unrepresented bank payments for accounting purposes.

8.20 Assets Held for Sale

| | Current | | Non current | |
|---|--------------------------|----------------------|----------------------|--------------------------|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | £000 | £000 | £000 | £000 |
| Balance outstanding at start of year | 0 | 700 | 2,538 | 2,538 |
| Reclassified | 2,538 | | (2,538) | |
| Assets newly classified as held for sale: | 1,672 | | | |
| Revaluation gains/(losses) | (78) | 0 | 0 | 0 |
| Assets sold | | (700) | 0 | 0 |
| Balance outstanding at year-end | <hr/> 4,132 <hr/> | <hr/> 0 <hr/> | <hr/> 0 <hr/> | <hr/> 2,538 <hr/> |

8.21 Creditors

| | 31 March | 31 March |
|---------------------------------------|---------------------------|---------------------------|
| | 2012 | 2011 |
| | £000 | £000 |
| Central government bodies | 2,395 | 6,162 |
| Other local authorities | 2,650 | 3,470 |
| NHS bodies | 1,399 | 1,695 |
| Public corporations and trading funds | 6 | 79 |
| Other entities and individuals | 24,876 | 23,384 |
| Total | <hr/> 31,326 <hr/> | <hr/> 34,790 <hr/> |

8.22 Provisions

| | Insurance £000 | Other provisions £000 | Total £000 |
|---------------------------------------|-------------------|-----------------------------|---------------|
| Balance at 1 April 2010 | 1,463 | 1,205 | 2,668 |
| Additional provisions made in 2010/11 | 0 | 1,256 | 1,256 |
| Amounts used in 2010/11 | 0 | (1,201) | (1,201) |
| Unused amounts reversed in 2010/11 | 0 | (8) | (8) |
| Balance at 31 March 2011 | 1,463 | 1,252 | 2,715 |
| Additional provisions made in 2011/12 | 27 | 404 | 431 |
| Amounts used in 2011/12 | (366) | (1,094) | (1,460) |
| Unused amounts reversed in 2011/12 | 0 | (138) | (138) |
| Balance at 31 March 2012 | 1,124 | 424 | 1,548 |

8.22.1 Insurance provision

The largest provision of £1.12 million is for insurance claims. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was used as the basis of the provision. However, as a large proportion of the liability was in respect of capital work relating to school's flooding £558,000 of these works were funded from the schools capital programme. In addition a reserve of £495,000 is held for future potential schools claims.

8.22.2 Other Provisions

At 31st March 2012 the council also held a number of other provisions;

| Provision | £000 | |
|--------------------------|------------|---|
| Redundancy | 141 | Based on the number of planned redundancies and staff identified at risk of redundancy at 31 st March 2012 |
| PC replacement | 43 | Commitment for ICT replacement |
| Landfill Allowance | 10 | Commitment for LATS usage in 2011/12 |
| Employment tribunal | 75 | Estimated liability relating to Employment tribunal decision |
| Education funding agency | 155 | For potential clawback of funds following transfer of academies |
| | 424 | |

8.23 Usable Reserves

Movements in the Authority's usable reserves are summarised in the Movement in Reserves Statement and set out in more detail below.

8.23.1 Earmarked Reserves

The movement in earmarked reserves are detailed in Note 8.8.

8.23.2 Capital receipts reserve

| 31 March 2011 £000 | | 31 March 2012 £000 |
|--------------------------|----------------------------|-----------------------|
| 13,565 | Balance at 1 April | 6,754 |
| 2,097 | Received during the year | 516 |
| (8,868) | Applied during the year | (4,492) |
| (29) | Admin costs of sales | 0 |
| (11) | Set aside during the year | (9) |
| 6,754 | Balance at 31 March | 2,769 |

8.23.3 Capital grants unapplied

| 31 March 2011 £000 | | 31 March 2012 £000 |
|--------------------------|--------------------------------------|-----------------------|
| 6,321 | Balance at 1 April | 13,103 |
| 9,358 | Received during the year | 1,900 |
| 0 | Transferred from receipts in advance | 3,400 |
| (2,576) | Applied during the year | (2,724) |
| 13,103 | Balance at 31 March | 15,679 |

8.24 Unusable Reserves

Summary

| 1 st April 2010 £000 | 31 March 2011 £000 | | 31 March 2012 £000 |
|---------------------------------------|--------------------------|--|--------------------------|
| 65,735 | 35,475 | Revaluation reserve | 42,782 |
| 237,044 | 245,265 | Capital Adjustment Account | 192,856 |
| (494) | (412) | Financial Instruments Adjustment Account | (416) |
| 40 | 26 | Deferred Capital Receipts Reserve | 295 |
| (164,594) | (132,912) | Pensions Reserve | (160,354) |
| (117) | (294) | Collection Fund Adjustment Account | (761) |
| (3,902) | (3,527) | Accumulated Absences Account | (2,738) |
| 133,712 | 143,621 | Total unusable reserves | 71,664 |

8.24.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2010/11 £000 | | 2011/12 £000 | 2011/12 £000 |
|-----------------|---|-----------------|-----------------|
| 65,735 | Balance at 1 April | | 35,475 |
| (28,691) | Surplus or (Deficit) on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | | 11,428 |
| (769) | Difference between fair value depreciation and historical cost depreciation | (859) | |
| (104) | Prior year adjustments to Capital Adjustment Account | 0 | |
| (696) | Accumulated gains on assets sold or scrapped | (3,262) | |
| (1,569) | Amount written off to the Capital Adjustment Account | | (4,121) |
| <u>35,475</u> | Balance at 31 March | | <u>42,782</u> |

8.24.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8.7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2010/11 £000 | | 2011/12 £000 | 2011/12 £000 |
|-----------------|--|-----------------|-----------------|
| 237,044 | Balance at 1 April | | 245,265 |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| (15,774) | Charges for depreciation on non current assets | (16,534) | |
| (13,755) | Revaluation losses and impairment on Property, Plant and Equipment | (6,272) | |
| (1,383) | Amortisation of intangible assets | (1,694) | |
| (522) | Revenue expenditure funded from capital under statute | (1,809) | |
| (12,211) | Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (65,796) | |
| (43,645) | | | (92,105) |
| 769 | Adjusting amounts written out of the Revaluation Reserve | | 859 |
| 104 | Prior year adjustments to Revaluation Reserve | | 0 |
| (42,772) | Net written out amount of the cost of non current assets consumed in the year | | (91,246) |
| | Capital financing applied in the year: | | |
| 8,868 | Use of the Capital Receipts Reserve to finance new capital expenditure | 4,492 | |
| 30,302 | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 27,313 | |
| 2,576 | Application of grants to capital financing from the Capital Grants Unapplied Account | 2,724 | |
| 9,645 | Statutory provision for the financing of capital investment charged against the General Fund balance | 10,514 | |
| 772 | Capital expenditure charged against the General Fund balance | 281 | |
| 52,163 | | | 45,324 |
| (1,170) | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | (6,487) |
| 245,265 | Balance at 31 March | | 192,856 |

8.24.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) records the timing differences between the rate at which gains and losses are recognised for accounting purposes and the rate at which debits and credits are required to be made against council tax.

The opening balance relates to the council's two "stepped interest" bank loans where the interest paid in the first two years was much lower than the rate subsequently charged. The charge in the Comprehensive Income & Expenditure Statement is based on the effective (or average) rate over the period of the loan and so in the first two years the charge was increased by debiting the differential in the Movement in Reserves Statement and crediting the FIAA. This latter

reserve is then reversed out over the remaining period of the loan to give a consistent effective rate of interest.

Another adjustment is required for 2011/12 relating to the discount received on the early repayment of loans to the Public Works Loan Board in 2010/11. Discount of £83,000 was received and this amount included in the Comprehensive Income & Expenditure Statement. However, for accounting purposes this amount needs to be spread over ten years, so £78,000 was transferred to the FIAA and is credited to revenue over a 10 year (i.e. £8,000 per annum).

| 2010/11 £000 | | 2011/12 £000 |
|-------------------------------|---|-------------------------------|
| (494) | Balance at 1 April | (412) |
| 4 | Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 4 |
| 78 | Discounts received in the year carried forward to future accounting periods | (8) |
| <u>(412)</u> | Balance at 31 March | <u>(416)</u> |

8.24.4 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2010/11 £000 | | 2011/12 £000 |
|-------------------------------|--|-------------------------------|
| (164,594) | Balance at 1 April | (132,912) |
| 13,531 | Actuarial gains or (losses) on pensions assets and liabilities | (31,768) |
| 6,721 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (5,627) |
| 11,430 | Employer's pensions contributions and direct payments to pensioners payable in the year | 9,953 |
| <u>(132,912)</u> | Balance at 31 March | <u>(160,354)</u> |

8.24.5 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|--|-----------------|
| 40 | Balance at 1 April | 26 |
| | - Transfer of contribution due credited to the Comprehensive Income and Expenditure Statement | 281 |
| (14) | Transfer to the Capital Receipts Reserve upon receipt of cash | (12) |
| <u>26</u> | Balance at 31 March | <u>295</u> |

8.24.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|---|-----------------|
| (117) | Balance at 1 April | (294) |
| | Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements | (467) |
| <u>(294)</u> | Balance at 31 March | <u>(761)</u> |

8.24.7 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|---|-----------------|
| (3,902) | Balance at 1 April | (3,528) |
| | Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 790 |
| <u>(3,528)</u> | Balance at 31 March | <u>(2,738)</u> |

8.25 Capital Grants Receipts in Advance

8.25.1 Under IFRS grants and contributions given towards an authority's capital investment are retained in this account whilst conditions remain attached to the financial assistance.

| 2010/11 £000 | | 2011/12 £000 |
|-----------------|---|-----------------|
| 10,093 | Balance at 1 April | 12,159 |
| 4,752 | Additional amounts received in the year | 296 |
| 0 | Grant repaid in year | (71) |
| (2,686) | Amounts transferred to the Comprehensive Income and Expenditure Statement | (8,369) |
| 12,159 | Balance at 31 March | 4,015 |

The amounts are split between long-term and short-term liabilities at the balance sheet date.

8.26 Amounts Reported for Resource Allocation Decisions

8.26.1 The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular the report includes:

- Transactions for Trading Accounts
- Movements on Schools Balances
- Expenditure on Levies

8.26.2 Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2011/12 out-turn report is as follows;

| Directorate Income and Expenditure | People's Services | Places and Communities | Corporate Services | Total |
|---|--------------------------|-------------------------------|---------------------------|----------------|
| <u>2011/12 figures</u> | £'000 | £'000 | £'000 | £'000 |
| Fees, charges & other service income | 24,644 | 12,696 | 6,451 | 43,791 |
| Government grants | 104,200 | 6,425 | 59,678 | 170,303 |
| Total Income | 128,844 | 19,121 | 66,129 | 214,094 |
| Employee expenses | 94,098 | 12,338 | 6,393 | 112,829 |
| Other service expenses | 116,549 | 54,494 | 83,274 | 254,317 |
| Support services | 13,683 | 4,596 | (17,031) | 1,248 |
| Total Expenditure | 224,330 | 71,428 | 72,636 | 368,394 |
| Net Expenditure | 95,486 | 52,307 | 6,507 | 154,300 |

The following table shows the income and expenditure figures for 2010/11. It must be noted that with effect from 1st April 2011 the Directorate structure changed and a large number of Herefordshire Council staff transferred to Hoople Ltd.

2010/11

| Directorate Income and Expenditure | Integrated Commission -ing £000 | Children & Young People £000 | Deputy Chief Executive £000 | Public Health £000 | Sustainable Communities £000 | Central Services £000 | Resources £000 | Total £000 |
|--------------------------------------|---------------------------------------|---------------------------------|--------------------------------|-----------------------|---------------------------------|--------------------------|-------------------|----------------|
| Fees, charges & other service income | 13,251 | 15,401 | 3,096 | 855 | 17,543 | 302 | 4,030 | 54,478 |
| Government grants | 995 | 121,329 | 39 | 115 | 7,825 | 0 | 56,891 | 187,194 |
| Total Income | 14,246 | 136,730 | 3,135 | 970 | 25,368 | 302 | 60,921 | 241,672 |
| Employee expenses | 9,896 | 102,021 | 12,689 | 2,305 | 14,334 | (21,893) | 7,679 | 127,031 |
| Other service expenses | 60,509 | 74,804 | 7,926 | 831 | 51,929 | 2,360 | 64,685 | 263,044 |
| Support services | 4,234 | 6,966 | (12,282) | 924 | 7,117 | 3,083 | (9,310) | 732 |
| Total Expenditure | 74,639 | 183,791 | 8,333 | 4,060 | 73,380 | (16,450) | 63,054 | 390,807 |
| Net Expenditure | 60,393 | 47,061 | 5,198 | 3,090 | 48,012 | (16,752) | 2,133 | 149,135 |

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

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

| | 2010/11 £000 | 2011/12 £000 |
|--|-----------------|-----------------|
| Net expenditure in the Directorate Analysis | 149,135 | 154,300 |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account (CIES) | (263) | 1,331 |
| Cost of services in the CIES | 148,872 | 155,631 |

8.26.4 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| 2011/12 | Directorate Analysis | Amounts not Included in I & E | Cost Of Services | Corporate Items | Total |
|--|-------------------------|-------------------------------------|------------------------|--------------------|----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other service income | 43,791 | (2,526) | 41,265 | 0 | 41,265 |
| Financing and investment income | 0 | 0 | 0 | 1,021 | 1,021 |
| Income from council tax | 0 | 0 | 0 | 88,215 | 88,215 |
| Government grants and contributions | 170,303 | 0 | 170,303 | 96,891 | 267,194 |
| Total Income | 214,094 | (2,526) | 211,568 | 186,127 | 397,695 |
| Employee expenses | 112,829 | (227) | 112,602 | 0 | 112,602 |
| Other service expenses | 254,317 | (593) | 253,724 | 0 | 253,724 |
| Support Service recharges | 1,248 | (181) | 1,067 | 0 | 1,067 |
| Financing and investment expenditure | 0 | 0 | 0 | 16,563 | 16,563 |
| Precepts & Levies | 0 | (194) | (194) | 2,746 | 2,552 |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 9 | 9 |
| Gain or Loss on Disposal of Fixed Assets | 0 | 0 | 0 | 68,554 | 68,554 |
| Total expenditure | 368,394 | (1,195) | 367,199 | 87,872 | 455,071 |
| (Surplus) or deficit on the provision of services | 154,300 | (1,331) | 155,631 | (98,255) | 57,376 |

The following table shows the comparative figures for 2010/11.

| 2010/11 | Directorate Analysis | Amounts not Included in I & E | Total Cost Of Services | Corporate Items | Total |
|--|-------------------------|-------------------------------------|------------------------------|--------------------|-----------------|
| | £000 | £000 | £000 | £000 | £000 |
| | 54,478 | (2,779) | 51,699 | 0 | 51,699 |
| Fees, charges & other service income | | | | | |
| Financing and investment income | 0 | 0 | 0 | 4,792 | 4,792 |
| Income from council tax | 0 | 0 | 0 | 87,572 | 87,572 |
| Government grants and contributions | 187,194 | | 187,194 | 111,772 | 298,966 |
| Total Income | 241,672 | (2,779) | 238,893 | 204,136 | 443,029 |
| Employee expenses | 127,031 | (622) | 126,409 | | 126,409 |
| Other service expenses | 263,044 | (2,213) | 260,831 | | 260,831 |
| Support Service recharges | 732 | (13) | 719 | | 719 |
| | 0 | 0 | 0 | 17,352 | 17,352 |
| Financing and Investment Expenditure | | | | | |
| Precepts & Levies | 0 | (194) | (194) | 2,679 | 2,485 |
| Payments to Housing Capital Receipts Pool | 0 | 0 | 0 | 11 | 11 |
| | 0 | 0 | 0 | 10,856 | 10,856 |
| Gain or Loss on Disposal of Fixed Assets | | | | | |
| Total expenditure | 390,807 | (3,042) | 387,765 | 30,898 | 418,663 |
| (Surplus) or deficit on the provision of services | 149,135 | (263) | 148,872 | (173,238) | (24,366) |

8.27 Trading Operations

- 8.27.1 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.

| | 2010/11 £000 | 2011/12 £000 |
|---|-------------------|-----------------|
| Markets | | |
| The council owns and manages open and closed markets, generating income from letting of premises and market stalls. | Turnover | (796) (745) |
| | Expenditure | 500 599 |
| | (Surplus)/deficit | (296) (146) |
| Industrial Estates | | |
| The council owns and manages a number of industrial estates in the county. | Turnover | (1,295) (1,242) |
| | Expenditure | 587 595 |
| | (Surplus)/deficit | (708) (647) |
| Retail Properties | | |
| The council owns retail premises in Hereford City centre from which it receives commercial rents. | Turnover | (688) (539) |
| | Expenditure | 84 20 |
| | (Surplus)/deficit | (604) (519) |

- 8.27.2 The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing and investment income and expenditure' (note 8.10). The 2010/11 comparative figures have been amended to take out the revaluations of investment properties as they are accounted for separately.

8.28 Agency Services

- 8.28.1 The council provides payroll services for a number of organisations, including 15 Academies. The income in total for 2011/12 amounted to £10,883.
- 8.28.2 The council also administers and prepares accounts for a number of Trust Funds (see note 8.47). However, the council does not make any charge for this service.

8.29 Pooled Budgets

Herefordshire Primary Care Trust

- 8.29.1 There are four agreements between the council and Primary Care Trust (PCT) under the Section 75 of the Health Act 2006.
- 8.29.2 The three agreements hosted by the council are:

- a) Adult Social Care and NHS Continuing Healthcare,
- b) Integrated Community Equipment,
- c) Children with Complex Needs.

The one agreement hosted by the PCT is:

- a) Blanchworth Contract, Kington

8.29.3 In 2011/12 the Mental Health Pool budget with the PCT was discontinued and transferred to 2gether Foundation Trust within a new Section 75 agreement. Also in 2011/12, the Learning Disability, Hillside and Integrated Community Store were discontinued and transferred to Wye Valley NHS Trust under a new Section 75 agreement. The Adult Social Care and NHS Continuing Healthcare pool was a new arrangement for 2011/12.

Adults Social Care and NHS Continuing Healthcare

8.29.4 As commissioner of adult social care services, the council makes contributions to the pools, which are then used to purchase social care services. The council accounts for its share of the income and expenditure of the pools as determined by the pool budget arrangement.

| | 2011/12 £'000 | 2010/11 £'000 | | |
|--|------------------|------------------|--------------|----------|
| Funding provided to the pooled budget: | | | | |
| Herefordshire Council | (31,471) | 0 | | |
| Herefordshire PCT | <u>(13,361)</u> | <u>0</u> | (44,832) | 0 |
| Expenditure met from the pooled budget: | | | | |
| Herefordshire Council | 38,593 | 0 | | |
| Herefordshire PCT | <u>12,940</u> | <u>0</u> | 51,533 | 0 |
| Net deficit arising on the pooled budget during the year | | | <u>6,701</u> | <u>0</u> |
| Council share of the net deficit | | | <u>7,122</u> | <u>0</u> |

Integrated Community Equipment Store

8.29.5 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.

| | 2011/12 | | 2010/11 | |
|---|---------|-------|---------|-------|
| | £'000 | | £,000 | |
| Funding provided to the pooled budget: | | | | |
| Herefordshire Council | 0 | | (274) | |
| Herefordshire PCT | (164) | (164) | (274) | (548) |
| | | | | |
| Expenditure met from the pooled budget: | | | | |
| Herefordshire Council | | | 243 | |
| Herefordshire PCT | 231 | 231 | 243 | 486 |
| | | | | |
| Net (surplus)deficit arising on the pooled budget during the year | | 67 | | (62) |
| | | | | |
| Council share of the net (surplus)deficit | | 0 | | (31) |

CNS Complex Needs Solution

8.29.6 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.

| | 2011/12 | | 2010/11 | |
|---|---------|---------|---------|---------|
| | £'000 | | £'000 | |
| Funding provided to the pooled budget: | | | | |
| Herefordshire Council | (2,719) | | (1,755) | |
| Herefordshire PCT | (453) | (3,172) | (293) | (2,048) |
| | | | | |
| Expenditure met from the pooled budget: | | | | |
| Herefordshire Council | 2,354 | | 2,355 | |
| Herefordshire PCT | 392 | 2,746 | 393 | 2,748 |
| | | | | |
| Net (surplus)deficit arising on the pooled budget during the year | | (426) | | 700 |
| | | | | |
| Council share of the net (surplus)deficit | | (365) | | 600 |

Blanchworth Contract, Kington

8.29.7 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.

| | 2011/12 | | 2010/11 | |
|---|--------------|------------|--------------|----------|
| | £'000 | | £'000 | |
| Funding provided to the pooled budget: | | | | |
| Herefordshire Council | (366) | | (366) | |
| Herefordshire PCT | <u>(645)</u> | (1,011) | <u>(528)</u> | (894) |
| Expenditure met from the pooled budget: | | | | |
| Herefordshire Council | 366 | | 366 | |
| Herefordshire PCT | <u>642</u> | 1,008 | <u>528</u> | 894 |
| Net (surplus)deficit arising on the pooled budget during the year | | <u>(3)</u> | | <u>0</u> |
| Council share of the net (surplus)deficit | | <u>0</u> | | <u>0</u> |

2gether Foundation Trust

8.29.8 This Section 75 agreement has been set up to provide an integrated child and adult mental health service in Herefordshire under Section 75 of the Health Act 2006 for activities as follows; Children and Adolescent Mental Health Services (CAMHS), Older People's mental health, adults and CAMHS learning disability and Drug Advisory Service in Herefordshire.

8.29.9 As commissioner of mental health services, the council transfers agreed funding, to provide mental health and learning disability social care services. The council accounts for the income and expenditure as determined by the Section 75 partnership.

| | 2011/12 | 2010/11 |
|---|-------------|----------|
| | £000 | £000 |
| Funding provided by Herefordshire Council | (2,411) | <u>0</u> |
| Expenditure under the agreement | 2,393 | <u>0</u> |
| Net (surplus)deficit | <u>(18)</u> | |
| Council share of the net (surplus)deficit | <u>(18)</u> | |

Wye Valley NHS Trust

8.29.10 This Section 75 agreement has been set up to provide an integrated community health and adult social care service in Herefordshire under Section 75 of the Health Act 2006 for activities as follows; Integrated teams (including; locality, sensory impairment, hospital social care, brain injuries, central review team, welfare and financial assessment), Integrated Community Equipment Service,

Telecare, Hillside Intermediate Care, Transport, Day services, Intermediate Care, Reablement and Norfolk House

8.29.11 As commissioner of integrated community services, the council transfers agreed funding to the services outlined above. The council accounts for the income and expenditure as determined by the partnership arrangement and the risk sharing agreement.

| | 2011/12 | 2010/11 |
|---|--------------|----------|
| | '£000 | '£000 |
| Funding provided by Herefordshire Council | (9,869) | <u>0</u> |
| Expenditure under the agreement | 9,769 | <u>0</u> |
| Net (surplus)deficit | <u>(100)</u> | |
| Council share of the net (surplus)deficit | <u>(50)</u> | |

8.29.12 The aligned fund outturn position £9.769 million against a budget of £9.869 million gave a surplus for the year of £100k. According the risk sharing agreement which states that both parties will benefit from any underspend gives the net surplus to the council of £50k.

8.30 Members' Allowances

The council paid the following amounts to members of the council during the year.

| | 2011/12 | 2010/11 |
|------------------------|-----------------------|-----------------------|
| | £ | £ |
| Basic allowances | 422,782 | 416,999 |
| Special allowances | 195,859 | 221,708 |
| Travel and subsistence | 62,914 | 37,555 |
| Total | <u>681,555</u> | <u>676,262</u> |

8.31 Officers' Remuneration

8.31.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. 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).

8.31.2 The 2011/12 banding information is set out below. For the banding note remuneration excludes employer's pension contributions. Where no employees fell within a particular band, this band is not shown in the table;

| From | To | <u>No of employees</u> | | <u>2010/11</u> | | <u>2011/12</u> | |
|----------|----------|------------------------|----------------|-------------------|---------------|-------------------|---------------|
| | | <u>2010/11</u> | <u>2011/12</u> | <u>Non School</u> | <u>School</u> | <u>Non School</u> | <u>School</u> |
| £50,000 | £55,000 | 58 | 47 | 17 | 41 | 15 | 32 |
| £55,000 | £60,000 | 34 | 31 | 12 | 22 | 12 | 19 |
| £60,000 | £65,000 | 15 | 14 | 3 | 12 | 4 | 10 |
| £65,000 | £70,000 | 4 | 11 | 2 | 2 | 4 | 7 |
| £70,000 | £75,000 | 18 | 6 | 12 | 6 | 5 | 1 |
| £75,000 | £80,000 | 9 | 9 | 6 | 3 | 6 | 3 |
| £80,000 | £85,000 | 3 | 2 | 0 | 3 | 1 | 1 |
| £85,000 | £90,000 | 0 | 2 | 0 | 0 | 0 | 2 |
| £90,000 | £95,000 | 0 | 1 | 0 | 0 | 1 | 0 |
| £95,000 | £100,000 | 1 | 0 | 1 | 0 | 0 | 0 |
| £100,000 | £105,000 | 0 | 1 | 0 | 0 | 1 | 0 |
| £105,000 | £110,000 | 2 | 0 | 2 | 0 | 0 | 0 |
| £110,000 | £115,000 | 1 | 1 | 1 | 0 | 1 | 0 |
| £115,000 | £120,000 | 0 | 1 | 0 | 0 | 1 | 0 |
| £125,000 | £130,000 | 1 | 1 | 1 | 0 | 1 | 0 |
| £130,000 | £135,000 | 0 | 1 | 0 | 0 | 1 | 0 |
| £180,000 | £185,000 | 1 | 1 | 1 | 0 | 1 | 0 |
| | | 147 | 129 | 58 | 89 | 54 | 75 |

8.31.3 The regulations require details to be disclosed 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.

8.31.4 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.

8.31.5 The disclosure for the council for 2011/12 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 above. For this note employer's pension contributions are included.

| Post holder information | | | Salary (inc. fees and allowances) | Compensation for loss of office | Benefits in kind | Total remuneration excluding pension contributions | Pension contributions | Total remuneration including pension contributions |
|--|---|---------|-----------------------------------|---------------------------------|------------------|--|-----------------------|--|
| | Notes | Year | £ | £ | £ | £ | £ | £ |
| Employees with salaries £150,000 or more | | | | | | | | |
| Chief Executive - C Bull | 45% recharge to the PCT | 2010/11 | 183,724 | 0 | 0 | 183,724 | 37,479 | 221,203 |
| | | 2011/12 | 183,724 | 0 | 0 | 183,724 | 38,766 | 222,490 |
| Employees with salaries between £50,000 and £150,000 | | | | | | | | |
| Deputy Chief Executive | Started 12/4/10 45% recharge to the PCT | 2010/11 | 126,027 | 0 | 0 | 126,027 | 25,709 | 151,736 |
| | | 2011/12 | 129,999 | 0 | 0 | 129,999 | 27,429 | 157,428 |
| Director for People Services | Started 1/1/12 | 2011/12 | 30,000 | 0 | 0 | 30,000 | 6,330 | 36,330 |
| Director for Places & Communities (Formerly Director of Sustainability for Places & Communities) | Post name changed | 2010/11 | 109,212 | 0 | 345 | 109,557 | 22,279 | 131,836 |
| | | 2011/12 | 111,909 | 0 | 162 | 112,071 | 23,612 | 135,683 |
| Chief Officer – Finance and Commercial (Formerly Director of Resources) | Post name changed | 2010/11 | 109,212 | 0 | 0 | 109,212 | 22,279 | 131,491 |
| | | 2011/12 | 102,808 | 0 | 0 | 102,808 | 21,692 | 124,500 |
| Assistant Director, Law, Governance & Resilience | Started 13/12/10 10% recharge to the PCT | 2010/11 | 27,096 | 0 | 0 | 27,096 | 5,527 | 32,623 |
| | | 2011/12 | 90,000 | 0 | 0 | 90,000 | 18,990 | 108,990 |
| Assistant Director – People, Policy & Partnerships | Started 4/7/11 | 2011/12 | 58,102 | 0 | 0 | 58,102 | 12,246 | 70,348 |
| Assistant Director, - People's Services Commissioning (Formerly Assistant Director - Planning Performance & Development) | Post name changed | 2010/11 | 78,231 | 0 | 0 | 78,231 | 15,959 | 94,190 |
| | | 2011/12 | 78,231 | 0 | 0 | 78,231 | 16,506 | 94,737 |
| Assistant Director - Young People Provider Services (Formerly Assistant Director - Community Operations) | Post name changed | 2010/11 | 77,330 | 0 | 0 | 77,330 | 15,959 | 93,289 |
| | | 2011/12 | 77,630 | 0 | 0 | 77,630 | 16,506 | 94,136 |
| Assistant Director, Inclusion & Improvement | Left 22/7/11 Headteacher from 1/9/11 | 2010/11 | 78,231 | 0 | 0 | 78,231 | 15,959 | 94,190 |
| | | 2011/12 | 26,434 | 55,136 | 0 | 81,570 | 5,102 | 86,672 |

| Post holder information | | | Salary (inc. fees and allowances) | Compensation for loss of office | Benefits in kind | Total remuneration excluding pension contributions | Pension contributions | Total remuneration including pension contributions |
|--|-------------------|-------------|--|--|-------------------------|---|------------------------------|---|
| | Notes | Year | £ | £ | £ | £ | £ | £ |
| Head of Service - Adult Services | | 2010/11 | 78,231 | 0 | 0 | 78,231 | 15,959 | 94,190 |
| | | 2011/12 | 78,231 | 0 | 0 | 78,231 | 16,506 | 94,737 |
| Head of Special Projects | | 2010/11 | 72,222 | 0 | 223 | 72,445 | 14,733 | 87,178 |
| | | 2011/12 | 72,222 | 0 | 400 | 72,622 | 15,239 | 87,861 |
| Head of Asset Management | Left 6/5/11 | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 7,183 | 57,135 | 0 | 64,318 | 1,515 | 65,833 |
| Head of Communications | Left 24/4/11 | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 4,814 | 34,281 | 0 | 39,095 | 1,015 | 40,110 |
| Assistant Director Economic, Environment & Cultural Services (Formerly Assistant Director , Environment, Planning & Waste) | Post name changed | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 73,622 | 0 | 0 | 73,622 | 15,534 | 89,156 |
| Head of Policy & Performance | Left 20/4/11 | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 4,012 | 34,281 | 0 | 38,293 | 846 | 39,139 |
| Assistant Director, Homes and Community Services | | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 73,622 | 0 | 0 | 73,622 | 15,534 | 89,156 |
| Project Director (Formerly Assistant Director, Economy & Culture) | Post name changed | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 70,095 | 0 | 0 | 70,095 | 14,790 | 84,885 |
| Assistant Director Place Based Commissioning (Formerly Assistant Director, Highways, transport and community) | Post name Changed | 2010/11 | 72,787 | 0 | 0 | 72,787 | 14,848 | 87,635 |
| | | 2011/12 | 76,636 | 0 | 0 | 76,636 | 16,170 | 92,806 |
| Regulatory Services Programme Manager (Formerly Assistant Director Public health) | Post name Changed | 2010/11 | 72,222 | 0 | 0 | 72,222 | 14,733 | 86,955 |
| | | 2011/12 | 68,584 | 0 | 0 | 68,584 | 14,471 | 83,055 |
| Assistant Director, Safeguarding & Vulnerable Children | Left 12/7/11 | 2010/11 | 76,176 | 0 | 516 | 76,692 | 15,539 | 92,231 |
| | | 2011/12 | 22,081 | 30,381 | 0 | 52,462 | 4,659 | 57,121 |
| Assistant Director, Customer Services and Communications | | 2010/11 | 56,643 | 0 | 0 | 56,643 | 12,141 | 68,784 |
| | | 2011/12 | 75,341 | 0 | 0 | 75,341 | 15,897 | 91,238 |

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% |
| Director of Integrated Commissioning | 50% |

8.32 External Audit Costs

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

| | 2011/12 £000 | 2010/11 £000 |
|--|-----------------|-----------------|
| Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor | 253 | 290 |
| Fees payable to the Audit Commission in respect of statutory inspection | 0 | 38 |
| Fees payable to the Audit Commission for the certification of grants claims and returns | 45 | 43 |
| Other services | 0 | 0 |

8.33 Dedicated Schools Grant

8.33.1 The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Education. 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.

8.33.2 Details of the deployment of DSG receivable for 2011/12 are as follows:

| Total 2010/11 £000 | Central Expenditure 2011/12 £000 | Individual Schools Budget 2011/12 £000 | Total 2011/12 £000 |
|---|---|--|--------------------------|
| | | | (86,223) |
| (85,786) Final DSG allocation | | | |
| (728) Brought forward from previous year | | | (531) |
| (86,514) Agreed budgeted distribution in year | (9,614) | (77,140) | (86,754) |
| 8,558 Actual central expenditure | 8,927 | | 8,927 |
| Actual Individual School Budget deployed to 77,425 schools | | 76,987 | 76,987 |
| (531) Carry forward | (687) | (153) | (840) |

The school music service had a deficit of £145,000 as part of an approved recovery plan. This deficit is deducted from the DSG underspend in the balance sheet reserve.

8.34 Grant Income

8.34.1 The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

| | 2011-12 £'000 | 2010-11 £'000 |
|---|------------------|------------------|
| Credited to Taxation and Non Specific Grant Income | | |
| Revenue Support Grant | 14,212 | 7,301 |
| Redistributed NNDR | 45,978 | 50,282 |
| Other non-ringfenced grants | 3,807 | 14,529 |
| Capital Grants | 32,894 | 39,660 |
| | 96,891 | 111,772 |
| Credited to Services | | |
| Department for Education | 97,319 | 108,526 |
| Department for Communities and Local Government | 3,812 | 5,641 |
| Department for Work and Pensions | 59,414 | 56,678 |
| Young People's Learning Agency | 1,761 | 12,336 |
| Department for Transport | 491 | 3,267 |
| Defra | 707 | 1,310 |
| Department of Health | 3,719 | 917 |
| Department of Business Innovation and Skills | 2,886 | 713 |
| Heritage Lottery Fund | 0 | 495 |
| Sport England | 14 | 447 |
| English Heritage | 144 | 210 |
| Home Office | 15 | 158 |
| Lottery Funding | 7 | 102 |
| Government Office - West Midlands | 0 | 73 |
| Department for Culture, Media and Sport | 0 | 58 |
| Environment Agency | 0 | 20 |
| Arts Council | 34 | 12 |
| Forestry Commission | 0 | 4 |
| Other | 60 | 438 |
| | 170,383 | 191,405 |
| Total | 267,274 | 303,177 |

8.35 Related Parties

8.35.1 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. Disclosure of these transactions

allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

Central Government

- 8.35.2 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 note 8.34.

Members

- 8.35.3 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 are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2011/12 are not material. In addition, one member was the sleeping partner of a fostering care home, to which the council made payments in the year of £49,000.

Officers

- 8.35.4 A number of senior officers are members of professional bodies and are involved in local organisations and partnerships, such as Herefordshire College of Arts, Hoople Ltd, South Wye Regeneration Partnership, Hereford Futures, Robert Owen Society and the Marches Consortium.

Other Public Bodies

- 8.35.5 During the year the council made payments of £22 million to Worcestershire County Council (£22.9 million in 2010/11), 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 2011/12 totalled £3.2 million including £1.5 million for Section 75. A total of £9 million was also paid to Wye Valley NHS Trust and £1.9 million was paid to 2Gether in 2011/12. The total for the PCT was £13 million in 2010/11.

Significant long-term contracts

- 8.35.6 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.
- 8.35.7 Amey OW Ltd
On 1st September 2003 the council also entered into a contract with Owen Williams for the delivery of technical consultancy services. During 2008/09 the company was taken over by Amey and is now called Amey OW Limited. Under the contract with Amey OW Ltd for the provision of technical services the council paid £410,000 in 2011/12 (£2.8 million in 2010/11).
- 8.35.8 Amey Herefordshire Managing Agent Contract (MAC)
During 2009 elements of the two contracts above 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.

8.35.9 In total the council paid £32 million to Amey Wye Valley in 2011/12 (£30.8 million in 2010/11).

8.35.10 Focsa UK Limited

In 2009 the council entered into a 7 year contract with Focsa for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5 million. Payments to Focsa totalled £3.9 million in 2011/12 (£4.5 million in 2010/11).

Other organisations

8.35.11 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2011/12 the council paid £2.4 million to Halo Leisure Trust (£2.2 million in 2010/11). In 2011/12 the council paid £356,000 to the Courtyard Trust (£417,000 in 2010/11). The council has a commissioning agreement with the Trust based on agreed outcomes.

8.35.12 During the year the council made payments totalling £575,000 to Herefordshire Housing Ltd (£773,000 in 2010/11) including £342,000 of Supporting People Grant (£547,000 in 2010/11).

8.35.13 The council has an interest in company called Hereford Futures, whose role is to steer redevelopment in Hereford. Payments were made to Hereford Futures amounting to £481,000 (£586,000 in 2010/11).

8.35.14 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. It is constituted as a Joint Committee and Herefordshire Council is one of four constituent authorities. The other three Councils are Shropshire Council, Worcestershire County Council and Telford and Wrekin Council. Payments of £2.65 million were made 2011/12 (£2.87 million in 2010/11).

Jointly controlled organisation

8.35.15 Hoople Ltd is a joint venture the council entered into with Wye Valley NHS Trust (WVT) and Hereford Primary Care Trust (HPCT). It is a company limited by shares and it commenced trading from 1st April 2011. The council owns 62%, WVT owns 21% and HPCT owns 17% of the shareholding of the company. Each authority has two directors on the Board of the company.

The purpose of the joint venture was to achieve service improvements and efficiencies in back office functions, with Information Technology, Finance, Human Resources, Revenues and Benefits, Procurement.

The inter-organisation transaction between the council and Hoople Ltd amounted to £9.354 million. There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31st March 2012 payable to Hoople Ltd.

The reported year-end result of Hoople Ltd was a trading profit of £11,178. The council share of 62% is equivalent to £6,930. In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts for this financial year.

More information on Hoople Ltd can be found on www.hoopletd.co.uk

8.35.16 All amounts for 2011/12 shown in this section are net of value added tax; and 2010-11 amounts are also restated to net for comparison purpose.

Outstanding balances with related parties

8.35.17 As at 31st March 2012 significant amounts due to and from related parties were as follows:

| Related Party | 2011/12 | | 2010/11 | |
|-------------------------------|----------------|------------------|----------------|------------------|
| | Due to £000 | Due from £000 | Due to £000 | Due from £000 |
| Amey Wye Valley | 4,283 | 1,564 | 3,491 | 2,037 |
| Courtyard Trust | 5 | 0 | 142 | 0 |
| FOCSA | 377 | 0 | 367 | 0 |
| Gloucestershire CC | 15 | 0 | 1 | 136 |
| Halo | 0 | 436 | 93 | 26 |
| Hereford and Worcs Fire | 470 | 109 | 0 | 164 |
| Herefordshire Housing | 0 | 7 | 38 | 530 |
| Herefordshire PCT | 1 | 3,888 | 1,577 | 9,406 |
| HM Revenue & Customs | 1,904 | 1,795 | 2,894 | 3,605 |
| Homepoint | 140 | 0 | - | - |
| Hoople Ltd | 13 | 313 | - | - |
| Heritage Lottery | 5 | 171 | - | - |
| Shaw Healthcare | 7 | 0 | 40 | 257 |
| Shropshire CC | 9 | 0 | 0 | 0 |
| West Mercia Police | 0 | 399 | 40 | 173 |
| West Mercia Supplies | 707 | 1 | 210 | 48 |
| Worcestershire County Council | 615 | 6 | 2,510 | 69 |
| Wye Valley Trust | 897 | 1,143 | - | - |
| 2gether | 1 | 1 | - | - |

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

8.35.19 In addition, there were capital grants of £15.6 million from government departments held in the Capital Grants Unapplied Account not yet applied to capital spend.

8.36 Capital Expenditure and Capital Financing

8.36.1 The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance and PFI contracts) together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital

Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

| | 2011/12 £000 | 2010/11 £000 |
|---|-----------------|-----------------|
| Opening capital financing requirement | 208,227 | 196,665 |
| Opening finance leases requirement | - | 578 |
| Adjusted opening capital financing requirement | 208,227 | 197,243 |
| Capital investment | | |
| Property, Plant and Equipment | 41,119 | 59,505 |
| Investment Properties | 0 | 316 |
| Intangible Assets | 1,904 | 2,085 |
| Revenue expenditure funded from capital under statute | 6,414 | 8,109 |
| Assets acquired under PFI contracts | 715 | 155 |
| Long term debtors (including PFI prepayments) | 281 | 567 |
| Sources of Finance | | |
| Capital Receipts | (4,493) | (8,869) |
| Government grants and other contributions | (34,642) | (40,465) |
| Sums set aside from revenue: | | |
| Direct revenue contributions | (281) | (772) |
| MRP | (10,514) | (9,647) |
| Closing capital financing requirement | 208,730 | 208,227 |
| Explanation of movements in year | | |
| Increase in underlying need to borrowing (supported by government financial assistance) | - | 13,230 |
| Increase in underlying need to borrowing (unsupported by government financial assistance) | 10,302 | 7,246 |
| Assets acquired under PFI contracts | 715 | 155 |
| MRP | (10,514) | (9,647) |
| Increase/(decrease) in Capital Financing Requirement | 503 | 10,984 |

8.37 Leases

Authority as Lessee

Finance Leases

8.37.1 The council holds one car park and photocopiers under finance leases.

8.37.2 The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

| | 31 March 2012 £000 | 31 March 2011 £000 |
|--|--------------------------|--------------------------|
| Other land and buildings | 454 | 521 |
| Vehicles, plant, furniture and equipment | 4 | 24 |
| | 458 | 545 |

8.37.3 The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property and finance costs that will be payable by the council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| | 31 March 2012 £000 | 31 March 2011 £000 |
|--|-----------------------|-----------------------|
| Finance lease liabilities (net present value of minimum lease payments): | | |
| • current | 12 | 10 |
| • non current | 322 | 334 |
| Finance costs payable in future years | 2,028 | 2,071 |
| Minimum lease payments | <u>2,362</u> | <u>2,415</u> |

8.37.4 The minimum lease payments will be payable over the following periods:

| | Minimum lease payments | | Finance lease liabilities | |
|---|--------------------------|--------------------------|---------------------------|--------------------------|
| | 31 March 2012 £000 | 31 March 2011 £000 | 31 March 2012 £000 | 31 March 2011 £000 |
| Not later than one year | 12 | 10 | 39 | 44 |
| Later than one year and not later than five years | 2 | 14 | 127 | 134 |
| Later than five years | 320 | 320 | 1,862 | 1,893 |
| | <u>334</u> | <u>344</u> | <u>2,028</u> | <u>2,071</u> |

8.37.5 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £116,000 contingent rents were payable by the authority (2010/11 £116,000).

Operating leases

8.37.6 The future minimum lease payments due under non-cancellable leases in future years are:

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|-----------------------|-----------------------|
| Not later than one year | 932 | 1,094 |
| Later than one year and not later than five years | 2,165 | 2,740 |
| Later than five years | 1,076 | 1,373 |
| | <u>4,173</u> | <u>5,207</u> |

8.37.7 The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| | 2011/12 £000 | 2010/11 £000 |
|------------------------|-----------------|-----------------|
| Minimum lease payments | 964 | 1,201 |

Authority as Lessor

Finance Leases

8.37.8 When a school changes status to become a Foundation School or an Academy the land and buildings are transferred to the school by granting a lease for 125 years at a peppercorn rent. Apart from these long leasehold transfers to schools, the council does not have any other finance leases where the council is lessor.

Operating leases

8.37.9 The Authority leases out property under operating leases for the following purposes:

- Retail
- Industrial Use
- Farming
- Other Commercial Use

8.37.10 The future minimum lease payments receivable under non-cancellable leases in future years are:

| | 31 March 2012 | 31 March 2011 |
|---|----------------------|----------------------|
| | £000 | £000 |
| Not later than one year | 1,881 | 2,693 |
| Later than one year and not later than five years | 5,688 | 6,455 |
| Later than five years | 26,935 | 28,048 |
| | 34,504 | 37,196 |

8.37.11 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

8.38 Private Finance Initiatives and Similar Contracts

8.38.1 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.

Mercia Waste Management Ltd – waste management PFI contract

8.38.2 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.

8.38.3 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 2012, 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 has 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. Worcestershire’s Planning and

Regulatory Committee at its meeting of the 1st March 2011 unanimously agreed to approve the application. The decision by Worcestershire County Council to grant planning permission for the new Envirecover Energy from Waste plant at Hartlebury has been called in for review by the Secretary of State and is due for a decision at the end of July..

Stepnell Ltd – School PFI Contract

- 8.38.4 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.

Shaw Homes

- 8.38.5 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 dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract were £3.5 million in 2011/12 (£3.4 million in 2010/11).

Assets

- 8.38.6 The property, plant and equipment used to provide the PFI services are recognised on the council's balance sheet. Movements in their value over the year are detailed in Note 8.12.1– Movement on Balances on Property, Plant and Equipment.

Liabilities

- 8.38.7 The payments to the contractors compensate them for the fair value of the services they provide, capital expenditure incurred and interest payable. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

| | 2011/12 | 2010/11 |
|--------------------------------------|----------------|----------------|
| | £000 | £000 |
| Balance outstanding at start of year | 29,054 | 29,711 |
| Payments during the year | (899) | (812) |
| Capital expenditure in the year | 715 | 155 |
| Balance outstanding at year-end | 28,870 | 29,054 |

Payments

8.38.8 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 | 12,076 | 339 | 957 | 2,233 | 15,605 |
| Within two to five years | 51,300 | 1,437 | 4,707 | 8,624 | 66,068 |
| Within six to ten years | 71,542 | 1,979 | 7,618 | 10,302 | 91,441 |
| Within eleven to fifteen years | 35,258 | 2,195 | 7,331 | 7,590 | 52,374 |
| Within sixteen to twenty years | 26,506 | 2,072 | 8,024 | 5,325 | 41,927 |
| Within twenty-one to twenty-five years | 10,299 | 136 | 1,497 | 2,099 | 14,031 |

8.39 Impairment Losses

8.39.1 The following impairment losses and reversals were charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure:

| 2010/11 | | | | 2011/12 | | |
|-----------------------------|---------------------------|---------------------------|-------------------------------|-----------------------------|---------------------------|---------------------------|
| Impairments £000 | Reversals £000 | Net Total £000 | | Impairments £000 | Reversals £000 | Net Total £000 |
| 14,331 | (576) | 13,755 | Land and buildings | 6,819 | (547) | 6,272 |
| 0 | 0 | 0 | Vehicles, plant and equipment | 0 | 0 | 0 |
| 0 | 0 | 0 | Community Assets | 0 | 0 | 0 |
| 0 | 0 | 0 | Surplus assets | 0 | 0 | 0 |
| 14,331 | (576) | 13,755 | Total | 6,819 | (547) | 6,272 |

8.39.2 The main impairment in 2010/11 relates to the revaluation of small holdings

8.40 Capitalisation of Borrowing Costs

8.40.1 The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10,000 of interest associated with the project. In 2011/12 there were two capital schemes which fell into this category and therefore £113,000 borrowing costs were capitalised.

8.41 Termination Benefits

8.41.1 The following table summarises the redundancies which occurred in 2011/12, with comparative numbers for 2010/11;

| | Compulsory redundancies | Other agreed departures | Total |
|----------------|--------------------------------|--------------------------------|--------------|
| 2011/12 | | | |
| Number | 132 | 79 | 211 |
| Total Cost | £1,335,735 | £1,711,476 | £3,047,211 |
| Average | £10,119 | £21,664 | £14,442 |

| | | | |
|----------------|------------|----------|------------|
| 2010/11 | | | |
| Number | 96 | 27 | 123 |
| Total Cost | £1,557,514 | £580,052 | £2,137,566 |
| Average | £16,224 | £21,483 | £17,378 |

8.41.2 £632,928 was incurred for the actuarial strain of early retirements due to Worcestershire County Council in 2011/12.

8.41.3 A redundancy provision of £141,302 was also set aside based on the number of planned redundancies and staff identified at risk of redundancy at 31st March 2012.

8.41.4 The number and total cost per band of exit packages analyses between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end:

| Exit package cost band (including special payments) | Number of compulsory redundancies | | Number of other agreed departures | | Total number of exit packages by cost band | | Total cost of exit packages in each band | |
|--|-----------------------------------|------------|-----------------------------------|-----------|--|------------|--|------------------|
| | 2010 /11 | 2011 /12 | 2010 /11 | 2011 /12 | 2010 /11 | 2011 /12 | 2010 /11 | 2011 /12 |
| £0 - £20,000 | 68 | 112 | 18 | 39 | 86 | 151 | 548,997 | 935,157 |
| £20,001 - £40,000 | 23 | 15 | 6 | 26 | 29 | 41 | 865,494 | 1,191,057 |
| £40,001 - £60,000 | 2 | 2 | 1 | 6 | 3 | 8 | 164,225 | 370,979 |
| £60,001 - £80,000 | | 2 | 1 | 7 | 1 | 9 | 63,161 | 350,334 |
| £80,001 - £100,000 | 1 | 1 | | | 1 | 1 | 91,986 | 83,802 |
| £100,001 - £150,000 | 2 | | | 1 | 2 | 1 | 245,563 | 115,882 |
| £150,001 - £200,000 | | | 1 | | 1 | | 158,140 | |
| Total | 96 | 132 | 27 | 79 | 123 | 211 | 2,137,566 | 3,047,211 |

8.42 Pension Schemes accounted for as Defined Contribution Schemes

8.42.1 Teachers employed by the council are members of the Teachers' Pension Scheme, which 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.

8.42.2 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 £1.1 million, which is included in the pension fund liability in the balance sheet in 2011/12.

8.42.3 In 2011/12 the council paid employer contributions of £5.44 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 2011/12 these amounted to £110,000 representing 0.28% of pensionable pay. At the year-end there were contributions of £603,000 remaining payable, which related to the March 2012 contributions paid to the scheme in April 2012.

8.43 Defined Benefit Pension Schemes

Participation in Pension Schemes

8.43.1 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. 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.

Transactions Relating to Post-employment Benefits

8.43.2 Under IAS 19 the cost of retirement benefits is included in the 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 via the Movement in Reserves Statement.

8.43.3 The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| | Local Government pension scheme | |
|---|--|----------------|
| | 2011/12 | 2010/11 |
| | £000 | £000 |
| Comprehensive Income and Expenditure Statement | | |
| Cost of services: | | |
| • current Service cost | 6,893 | 9,185 |
| • past service cost/(gain) | 67 | (22,540) |
| • settlements and curtailments | (4,738) | 193 |
| Financing and Investment Income and Expenditure: | | |
| • interest cost | 18,382 | 21,295 |
| • expected return on assets in the scheme | (14,977) | (14,854) |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | 5,627 | (6,721) |

Other Post Employment Benefit Charged to the

Comprehensive Income and Expenditure Statement

| | | |
|--------------------------------|--------|----------|
| • actuarial (gains) and losses | 31,658 | (13,541) |
|--------------------------------|--------|----------|

Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement

| | | |
|--|--------|----------|
| | 37,285 | (20,262) |
|--|--------|----------|

Movement in Reserves Statement

| | | |
|---|---------|-------|
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits | (5,627) | 6,721 |
|---|---------|-------|

Amount charged to the General Fund Balance for pensions in the year

| | | |
|---|-------|--------|
| Employer's contribution payable to the scheme | 9,843 | 11,320 |
|---|-------|--------|

8.43.4 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £47.1 million.

Assets and Liabilities in Relation to Post-employment Benefits

8.43.5 Reconciliation of present value of the scheme liabilities (defined benefit obligation):

| | 2011/12 £000 | 2010/11 £000 |
|--------------------------------------|-----------------|-----------------|
| 1 st April | 360,994 | 379,544 |
| Current Service Cost | 6,893 | 9,185 |
| Interest Cost | 18,382 | 21,295 |
| Contributions by scheme participants | 2,685 | 3,331 |
| Actuarial (gains)/losses | 12,164 | (18,961) |
| Curtailments | 1,011 | 193 |
| Settlements | (19,187) | 0 |
| Benefits/transfers Paid | (15,432) | (11,053) |
| Past Service (gains) costs | 67 | (22,540) |
| 31 st March | 367,577 | 360,994 |

8.43.7 Reconciliation of fair value of the scheme assets:

| | 2011/12 £000 | 2010/11 £000 |
|--------------------------------------|-----------------|-----------------|
| 1 st April | 229,182 | 216,150 |
| Expected rate of return | 14,977 | 14,854 |
| Actuarial gains/(losses) | (19,494) | (5,420) |
| Settlements | (13,438) | 0 |
| Employer contributions | 9,843 | 11,320 |
| Contributions by scheme participants | 2,685 | 3,331 |
| Benefits Paid | (15,432) | (11,053) |
| 31 st March | 208,323 | 229,182 |

8.43.8 The above figures take account of the transfer of staff to Hoople, which took place on 1 April 2011 on the basis that the transfer was fully funded at inception on the 2010 actuarial assumptions. They also make allowances for the transfer of staff to

academies over the year. The combined effect of these are shown above as 'Settlements' items. The amount of assets allocated in respect of these transfers is provisional and will be reviewed as part of the 2013 actuarial valuation of the Fund.

8.43.9 The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

8.43.10 The actual return on scheme assets in the year was £4.5 million (2010/11 £18.1 million)

Scheme History

| | 2007/08 £m | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|------------------------------|---------------|---------------|---------------|---------------|---------------|
| Present value of liabilities | (323.5) | (276.9) | (379.5) | (361.0) | (367.6) |
| Value of Scheme assets | 190.2 | 146.8 | 216.1 | 229.2 | 208.3 |
| Surplus/(Deficit) in scheme | (133.3) | (130.1) | (163.4) | (131.8) | (159.3) |

8.43.11 The liabilities show the underlying commitments that the council has in the long run to pay retirement benefits. The pension liability has a substantial impact on the net worth of the authority as recorded on the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the working life of employees as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid

8.43.12 Total contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2012 is £9.5 million.

Basis for Estimating Assets and Liabilities

8.43.13 Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Mercers, an independent firm of actuaries.

8.43.14 The principal assumptions used by the actuary have been;

| | End of period £000 | Beginning of period £000 |
|---|-----------------------|--------------------------------|
| Long-term expected rate of return on assets in the scheme: | | |
| Equity investments | 7.0% | 7.5% |
| Bonds | 3.1% | 4.4% |
| Other bonds | 4.1% | 5.1% |
| Cash/liquidity | 0.5% | 0.5% |

| | | |
|--|---|------------|
| Other | 7.0% | 7.5% |
| Mortality assumptions | | |
| Longevity at 65 for current pensioners: | | |
| • Men | 22.1 years | 22.0 years |
| • Women | 24.6 years | 24.5 years |
| Longevity at 65 for future pensioners: | | |
| • Men | 23.5 years | 23.4 years |
| • Women | 26.1 years | 26.1 years |
| Rate of CPI inflation | 2.5% | 2.9% |
| Rate of increase in salaries | 4.0% | 4.4% |
| Rate of increase in pensions | 2.5% | 2.9% |
| Rate for discounting scheme liabilities | 4.9% | 5.5% |
| Take-up of option to convert annual pension into retirement lump sum | 50% take maximum cash, 50% take 3/80ths cash | |

8.43.15 The pension scheme's assets consist of the following categories, by proportion of total assets held:

| | 31 March 2012 % | 31 March 2011 % |
|------------------|--------------------------------|--------------------------------|
| Equities | 88.9 | 92.7 |
| Government Bonds | 3.2 | 2.6 |
| Other Bonds | 4.0 | 3.8 |
| Cash/Liquidity | 3.9 | 0.9 |

History of Experience Gains and Losses

8.43.16 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:

| | 2007/08 % | 2008/09 % | 2009/10 % | 2010/11 % | 2011/12 % |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Differences between the expected and actual return on assets | (16.2) | (39.9) | 27.0 | (2.4) | (9.4) |
| Experience gains and losses on liabilities | 2 | 0 | 0 | 4.7 | 0 |

8.44 Contingent Liabilities

8.44.1 Local authorities are required to maintain a register of land charges in so far as they affect properties within their county or district. The purchasers of land within the county or district must obtain a search of the local land charges register. Historically councils have charged varying rates for the provision of land charge searches. A national debate has arisen as to whether this information could or should be provided under the FOI Act or EIR at lesser or indeed no cost to the purchaser. Litigation has been threatened against the council in connection with this issue and may be in receipt of legal proceeding. If the claim succeeded it is estimated to cost the council around £175,000.

8.44.2 Several predecessor authorities of Herefordshire Council were insured by Municipal Mutual Insurance Limited (MMI) before it ceased underwriting operations in September 1992. At the time a Scheme of Arrangement was entered into which

meant those authorities effectively became Scheme Creditors and this responsibility passed onto Herefordshire Council. Under the arrangement MMI would continue to pay all creditors in full unless at any time in the future a solvent run-off could not be foreseen. Previously MMI were of the opinion that a solvent run-off could be achieved ultimately. In the event that a solvent run off is not achievable then the creditors could claw back between 0% and 100% (less £50,000) of the claims it has paid out on behalf of the authority. A recent supreme court judgement in relation to historical claims means that it is now more likely that MMI will not be able to achieve a solvent run off. It is not yet know what level of claw back there might be, but a liability in the region of £180,000 would be incurred if there was a 25% clawback.

- 8.44.3 There is an outstanding claim against the Council which falls under the MMI arrangement for a death caused to a contractor from Mesothelioma. It is claimed this was contracted from being exposed to asbestos whilst working on council buildings. Insurers are refusing cover and the council intends to defend the claim vigorously.
- 8.44.4 There is potential problem regarding safety issues at an old landfill site at Stretton Sugwas.
- 8.44.5 The council has the obligation for the after care of a number of closed landfill sites. No reliable estimate can be made of the future costs involved. However, as capital works are identified they are included in the capital programme.
- 8.44.6 Compulsory purchase order compensation payments are outstanding relating to the Rotherwas access road. The amount payable will be funded from the capital programme when settled.

8.45 Contingent Assets

- 8.45.1 Following a policy review Her Majesty's Revenues and Customs (HMRC) now consider the provision of trade waste collection services to be non-business activity and excluded from VAT. The council has submitted a claim to HMRC to try to reclaim VAT previously paid over to HMRC on waste collection and bags. If successful the council could be entitled to a refund of around £1 million.

8.46 Nature and Extent of Risks Arising from Financial Instruments

- 8.46.1 The council's activities expose it to a variety of financial risks:
- a. **Credit risk:** The possibility that other parties may fail to pay amounts owing to the council.
 - b. **Liquidity risk:** The possibility that the council may have insufficient funds available to meet its financial commitments.
 - c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.
- 8.46.2 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.
- 8.46.3 During the year the council's exposure to liquidity risk and market risk was

considered to be no greater than previous years. However, the weak economy and the ongoing financial crisis in the Eurozone meant that exposure to credit risk increased. Treasury management sought to control this risk by only investing in the strongest financial institutions and by reducing the length of any term deposits made.

Credit Risk

8.46.4 Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest short-term and long-term ratings assigned by the three main credit rating agencies and the minimum criteria for 2011/12 was as follows:

Long-term minimum: A+ (Fitch); A1 (Moody's); A+ (Standard & Poor's)

Short-term minimum: F1 (Fitch); P-1 (Moody's); A-1 (Standard & Poor's)

8.46.5 During 2011/12 the council continued to restrict investments to only the largest and strongest of the UK banks, the Nationwide building society, other local authorities and instant access Money Market Funds.

8.46.6 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 31 st March 2012 | Historical experience of default | Historical experience adjusted for market conditions at 31 st March 2012 | Estimated maximum exposure to default and uncollectability 31 Mar 2012 | Estimated maximum exposure to default and uncollectability 31 Mar 2011 |
|---|--|--|---|---|---|
| | £000 | % | % | £000 | £000 |
| Deposits with banks and financial institutions | 11,223 | 0.00% | 0.00% | 0 | 0 |
| Customers | 16,582 | 0.35% | 0.40% | 66 | 60 |

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

| | 31 March 2012 £000 | 31 March 2011 £000 |
|--------------------|-----------------------|-----------------------|
| Less than 3 months | 14,772 | 13,450 |
| 3 to 6 months | 643 | 622 |
| 6 months to 1 year | 438 | 313 |
| More than 1 year | 729 | 674 |
| | <u>16,582</u> | <u>15,059</u> |

Liquidity Risk

8.46.8 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. Therefore 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.

The maturity analysis of the loan debt is as follows:

| | £000 | 31 March 2012 £000 | £000 | 31 March 2011 £000 |
|---|--------|--------------------------|--------|--------------------------|
| Less than 1 year: | | | | |
| Principal | 15,983 | | 23,336 | |
| Accrued interest | 1,093 | | 943 | |
| Other accounting adjustments | 486 | 17,562 | 490 | 24,769 |
| More than one year (principal only): | | | | |
| Between 1 and 2 years | 3,997 | | 3,334 | |
| Between 2 and 5 years | 19,291 | | 14,297 | |
| Between 5 and 10 years | 16,966 | | 19,807 | |
| More than 10 years | 88,278 | 128,532 | 84,828 | 122,266 |
| Total borrowing per Balance Sheet | | 146,094 | | 147,035 |

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

Market Risk

- 8.46.9 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 rise in interest rates would have the following effects:
- a. Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase
 - b. Borrowings at fixed rates – the fair value of borrowings would fall
 - c. Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise
 - d. Investments at fixed rates – the fair value of the assets would fall
- 8.45.10 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 on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. The impact is made by changes in interest payable and receivable.
- 8.46.11 The council's loans are all fixed rate which means that when the Bank Base Rate is low the interest rate paid on borrowing is relatively high compared to the rate received on investments.
- 8.46.12 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 which includes 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.

- 8.46.13 If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2011/12 would have been as follows:

| | 1% Increase in Interest Rates £000 |
|--|---|
| Increase in interest payable on new borrowing | 66 |
| Increase in interest receivable on investment balances | 400 |

As noted above, an increase in interest rates benefits the council in the short-term as the interest received on its investments tends to be at variable rates whereas all loans are currently at fixed rates.

8.47 Trust Funds

- 8.47.1 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 31/03/11 | Revenue Transactions | | New funds, Investment Sales and Revaluations | Balance at 31/03/12 |
|-------------------------|--------------------------------|-----------------------------|------------------|---|--------------------------------|
| | £ | £ | £ | £ | £ |
| Education (small funds) | 3,932 | 159 | (119) | 8 | 3,980 |
| Sylvia Short Trust | 1,110,094 | 41,759 | (56,291) | 8,251 | 1,103,813 |
| Buchanan Trust | 2,330,895 | 80,574 | (109,455) | | 2,302,014 |
| Other Funds | 44,683 | 1,472 | | | 46,155 |
| | <u>3,489,604</u> | <u>123,964</u> | <u>(165,865)</u> | <u>8,259</u> | <u>3,455,962</u> |

- 8.47.2 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.

- 8.47.3 The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. The balance at 31/3/11 has been amended since the 2010/11 statement of accounts was published, as it was based on draft Buchanan Trust draft accounts. The 2011/12 accounts are not available at the time of publishing the council's Statement of Accounts and are therefore subject to change.

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

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

| | 2010/11 | 2011/12 |
|--|------------------|------------------|
| | £000 | £000 |
| Fixed Assets | 1,186 | 1,186 |
| Investments | 1,115 | 1,107 |
| Creditors | (16) | (16) |
| Debtors | 16 | 16 |
| Bad debt provision | (1) | (1) |
| Cash temporarily invested with Herefordshire Council | 1,190 | 1,164 |
| | <u>3,490</u> | <u>3,456</u> |
| Represented by Trust Funds | <u>3,490</u> | <u>3,456</u> |

9. COLLECTION FUND

9.1 The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and non-domestic rates.

| 2010/11 £000 | | Note | 2011/12 £000 | 2011/12 £000 |
|-----------------|---|------|-----------------|-----------------|
| | Amounts required to be credited to the Collection Fund | | | |
| 92,709 | Council Tax | 2 | 93,146 | |
| 12,920 | Council Tax benefits | | 13,049 | 106,195 |
| 40,874 | Income collectable from business ratepayers | 1 | | 42,788 |
| <u>146,503</u> | | | | <u>148,983</u> |
| 0 | Contributions towards previous year's deficit | | | 0 |
| <u>146,503</u> | | | | <u>148,983</u> |
| | Amounts required to be debited to the Collection Fund | | | |
| | Precepts; | | | |
| 12,645 | West Mercia Police Authority | | | 12,772 |
| 5,210 | Hereford & Worcester Fire Authority | | | 5,263 |
| 87,749 | Herefordshire Council (including parishes) | | | 88,681 |
| | Business rates | | | |
| 40,572 | Payment to national pool | | | 42,487 |
| 302 | Cost of Collection | | | 301 |
| | Impairments of debts | | | |
| 247 | Write off of uncollectable amounts | | | 78 |
| (9) | Allowance for impairment | | | (37) |
| 0 | Contributions towards previous year's estimated surplus | | | 0 |
| <u>146,716</u> | | | | <u>149,545</u> |
| 213 | (Surplus)/Deficit for the Year | | | 562 |
| 141 | Balance brought forward | | | 354 |
| 354 | Balance carried forward | | | 916 |

9.2 Notes to the Collection Fund

1. The total non-domestic rateable value at the year-end was £123,881,120 and the national non-domestic rate multiplier for 2011/12 was 43.3p

| Non-domestic Ratepayers Income | 2011/12 | | 2010/11 | |
|--|---------|---------------|---------|---------------|
| | £000 | £000 | £000 | £000 |
| Non-domestic debit | | 51,993 | | 49,268 |
| Add: | | | | |
| Transitional Premium | | 378 | | 517 |
| Less: | | | | |
| Empty Allowances | 1,825 | | 2,219 | |
| Transitional Relief | 365 | | 1,048 | |
| Discretionary Relief | 241 | | 246 | |
| Mandatory Relief | 6,934 | | 4,982 | |
| Write-offs | 193 | | 282 | |
| Interest on Refunds | 25 | 9,583 | 134 | 8,911 |
| Income due from non-domestic ratepayers | | <u>42,788</u> | | <u>40,874</u> |

2. 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 and Hereford & Worcester Fire & Rescue 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 a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2011/12 was £1,493.25 with a range between £1,457.45 and £1,548.49. The council tax base used for setting the council tax in 2011/12 was 71,465.80.

The Band D equivalents in each valuation band are shown in the table below:

| Band | Valuation Range | Charge Factor | Band D Equivalent |
|-------------|------------------------|----------------------|--------------------------|
| A | Up to £40,000 | 6/9 | 6,725 |
| B | £40,001 to £52,000 | 7/9 | 13,031 |
| C | £52,001 to £68,000 | 8/9 | 12,816 |
| D | £68,001 to £88,000 | 9/9 | 11,606 |
| E | £88,001 to £120,000 | 11/9 | 12,428 |
| F | £120,001 to £160,000 | 13/9 | 8,669 |
| G | £160,001 to £320,000 | 15/9 | 5,305 |
| H | Over £320,000 | 18/9 | 305 |
| Crown | | | 225 |
| | | | <u>71,110</u> |
| | Other adjustments | | 356 |
| | Council Tax Base | | <u>71,466</u> |

| | | |
|--|-------------|-------------|
| Council Taxpayer Income | £000 | £000 |
| Council Tax debit at 1 st April | | 118,275 |
| Add: | | |
| Redebits | 84,080 | |
| Banding Change | 231 | |
| Additional – Second Homes | 489 | |
| Additional – Empty Properties | 516 | 85,316 |
| | | <hr/> |
| Less: | | |
| Discounts | 9,922 | |
| Exemptions | 3,618 | |
| Benefits – Statutory | 13,050 | |
| Disablement Relief | 127 | |
| Transitional Relief | (2) | |
| Void Assessments | 23 | |
| Empty Assessments | 83,707 | 110,445 |
| | | <hr/> |
| | | 93,146 |
| | | <hr/> |

3. The major preceptors share of the Collection Fund Deficit as at 31st March 2012 is as follows;

| | |
|--|-------------|
| Preceptor | £000 |
| West Mercia Police Authority | 110 |
| Hereford & Worcester Fire & Rescue Authority | 45 |
| Herefordshire Council | 761 |

10. DEFINITIONS

Accounting Policies

Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Assets

A resource controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds. This includes finance charges in respect of finance leases.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Contingent Liability

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the authority, *or*

A present obligation that arises from past events but is not recognised because

- (a) it is not probable that an outflow of resources embodying economic benefits or
- (b) services potential will be required to settle the obligation, or
- (c) the amount of the obligation cannot be measured with sufficient reliability.

Creditors

Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

Debtors

Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Depreciation

The systematic allocation of the depreciable amount of the asset over its useful life.

Exchange Transactions

Transactions in which one entity receives assets or services, or has liabilities extinguished, and gives approximately equal value (cash, goods, services, or use of assets) to another entity in exchange.

Fair value

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

Finance lease

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Grants and contributions

Transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities.

Heritage Assets

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

Historical cost

The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for any subsequent depreciation or impairment.

IFRIC

International Financial Reporting Interpretations Committee (IFRIC) prescribes accounting treatment within the IFRS standards.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Intangible Asset

An identifiable asset without physical substance e.g. computer software.

Inventories

These are assets;

- a) In the form of materials or supplies to be consumed in the production process
- b) In the form of materials or supplies to be consumed or distributed in the rendering of services
- c) Held for sale or distribution in the ordinary course of operations, or
- d) In the process of production for sale or distribution

Investment property

Property held solely to earn rentals or for capital appreciation or both.

Liabilities

Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material

Items are material if they could, individually or collectively, influence the decisions or assessments of users. Materiality depends on the nature or size of the item, or both.

Non-Exchange Transactions

Transactions in which an entity either receives value from another entity without giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Operating lease

A lease other than a finance lease

Property, plant and equipment

Tangible assets held for use in the supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one year.

Provision

A liability of uncertain timing or amount.

Related Party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Revenue

The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.