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# EXPLANATORY FOREWORD

## Introduction

The following Statement of Accounts for Herefordshire Council present the overall financial position for the Authority for the year ended 31<sup>st</sup> March 2005 and have been produced in accordance with the Code of Practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Revenue Expenditure and Income

The 2004/05 accounts show an underspend for the year of £7.8 million on net revenue expenditure. This resulted in a transfer to revenue balances of £4.6 million compared with a net anticipated transfer from balances of £3.2 million, relating to 2003/04 Programme Area underspends. The additional £7.8 million is attributable to the following:

	£000
Service area underspends	4,468
Treasury management including interest received	1,837
Revenue contribution to capital	1,348
Transfer (to)/from earmarked reserves	(115)
Other changes	282
Total underspend	<u>7,820</u>

The £1.348 million revenue contribution to capital figure relates to the funding of capital schemes from capital resources instead of revenue in order to increase revenue balances.

## Carry Forward arrangements

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

Having regard to the overall 2% overspending carry forward limit, the Council decided to fund from general reserves £770,000 for Social care (adult and children's services) and £208,000 for Strategic housing. In addition, recognising the corporate nature of the expenditure, Cabinet approved the use of reserves to fund £175,000 of property costs.

## Summary Position in relation to Programme Areas

The net underspend for the Councils programme areas of £4,468,000 was made up as follows:

	Under/(Over) Spends £000
Education (excluding schools)	1,998
Environment	637
Planning	760
Strategic Housing	(235)
Social Care	(1,484)
Policy and Finance (including corporate and support services)	2,847
Property	(594)
Economic Development	479
Social Development	60
Total underspend	<u>4,468</u>

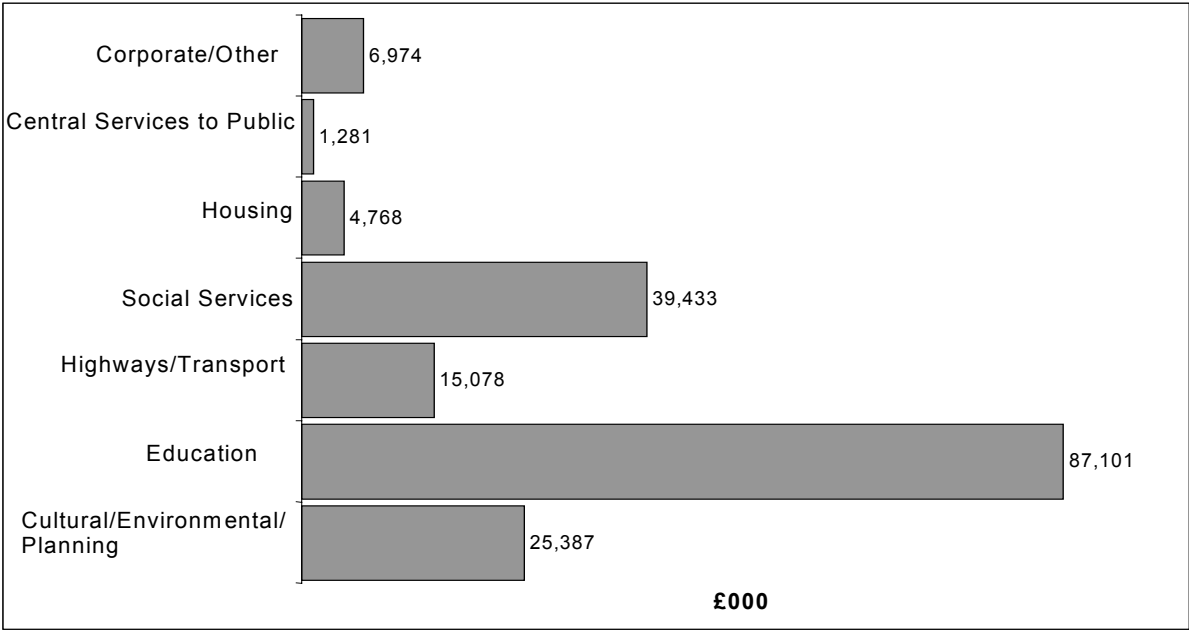
The Social Care overspend of £1,484,000 included exceptional items of £758,000 with the major overspendings being on learning disabilities and children’s services. The increased cost of services for the homeless led to an overspend on Strategic Housing. Progress was made on reducing the Property deficit brought forward, but increased corporate property costs more than offset this progress. Other overspendings occurred on parks and countryside (£134,000), property maintenance (£186,000), waste collection (£104,000) and street cleaning (£116,000).

Amongst the underspendings in 2004/05 were additional planning fee income (£375,000), savings on the Waste PFI contract due to delays in implementing new contractual arrangements for waste minimisation (£906,000), the unspent base budget for Job Evaluation (£400,000), Magistrates PFI credit (£298,000) and precepts and levies (£111,000). The Education carry forward of £1,998,000 includes commitments totalling £1,787,000.

The net underspending during the year was £4,468,000 but after taking into account amounts transferred to and from General Reserves the net underspending carried forward into 2005/06 was £3,915,000. Most of the Programme areas carried forward underspendings into 2005/06 with the exception of Social Care (adult and children’s services), Strategic Housing and Property Although the carry forward represents just over 2% of the Council’s budget, which is substantial, a large proportion of the amount is already fully committed.

**Analysis of Revenue Expenditure and Income**

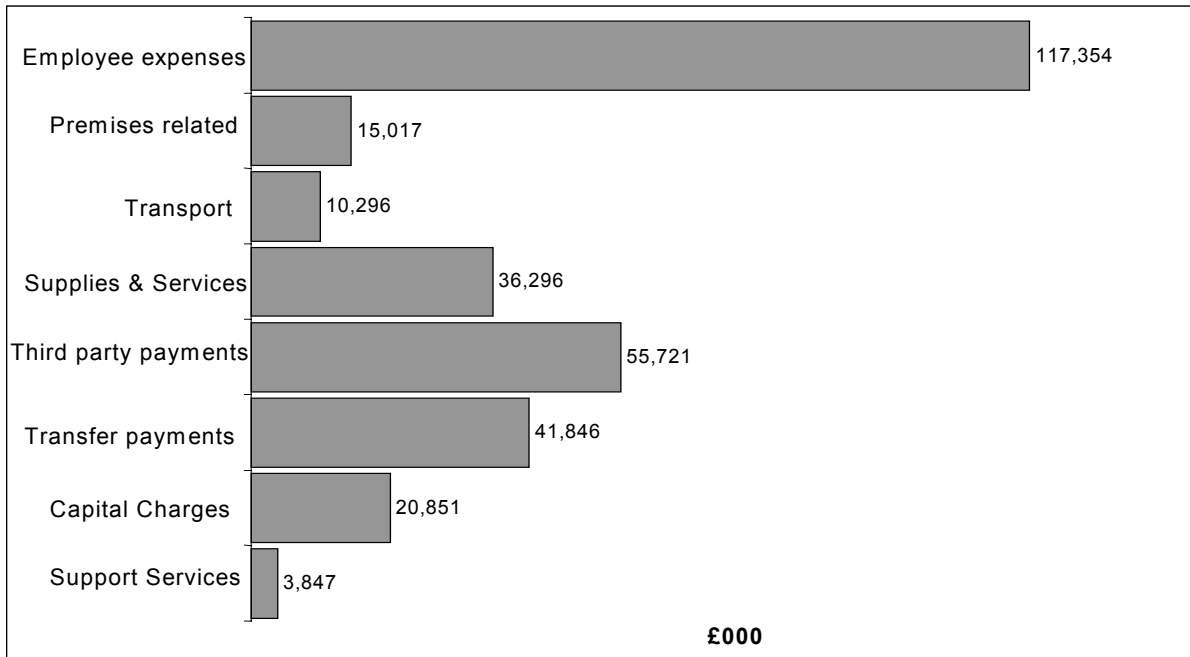
The net cost of services within the Consolidated Revenue Account is £180 million, made up as follows:



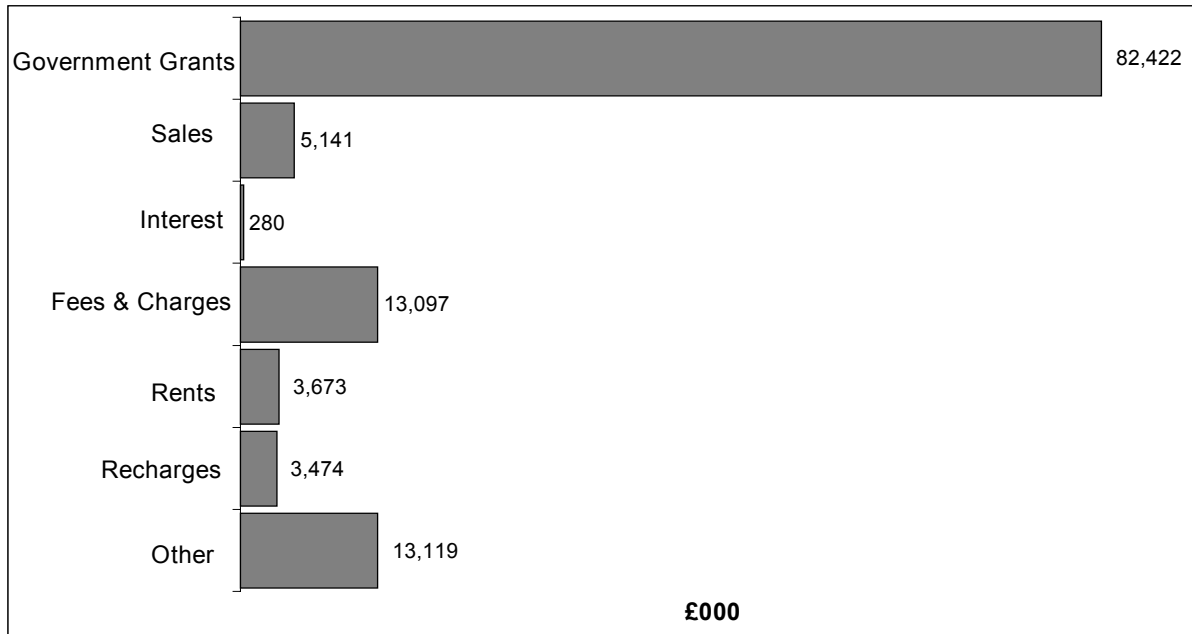
In addition to the income and expenditure allocated to services there are number of items shown on the Consolidated Revenue Account below the net cost of services. These include precepts and levies from other bodies, debt charges, investment income, and appropriations to and from reserves.

After taking all the non-service related items into account, the amount to be financed by Government grants and local taxation in 2004/05 was £172,528,000 compared to the amount raised from these sources of £177,172,000. This resulted in an overall surplus for the year of £4,644,000.

The Consolidated Revenue Account shows the gross cost of services as £301 million, which comprises the following categories of expenditure:



The gross income for the year from services was £121 million analysed as follows:



The figure for Government grants includes £35.2 million in respect of the payment and administration of Housing and Council tax benefits. In addition to the grants shown within services, the Council received £62 million of Revenue Support Grant and £49.3 million from the Non-Domestic Rate Pool (Business Rates).

## Capital Programme

With regard to capital spending some £33 million was incurred compared with the original forecast investment in the Council's assets of £35 million. This reflects revisions in forecast spend identified and monitored throughout the year. No conditional funding resources have been lost and the Council has optimised the use of resources available.

The Prudential Code for Capital Finance in Local Authorities (2003) came into effect on the 1<sup>st</sup> April 2004. This introduced the ability for Local Authorities to optimise the funding of capital expenditure having regard to prudence, affordability and sustainability indicators. Herefordshire Council used prudential borrowing powers to fund £2.6 million of capital expenditure in 2004/05 from within an approved limit of £5 million.

### Summary of Capital Expenditure

	<b>£000</b>
Housing Association Grants	1,191
Renovation Grants	1,621
Education new build and refurbishment	2,997
Improvements to existing schools	1,497
North Herefordshire Swimming Pool	1,285
Highways, Bridges and Transportation	15,774
Purchase of Station Approach Hereford	1,989
ICT Services	1,919
Other schemes	4,925
	<u>33,198</u>

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

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Sources of funding</b>			
Supported Capital Expenditure (Revenue)	13,679	13,766	13,247
Prudential Code Borrowing	7,607	5,000	5,000
Capital Receipts Reserves	4,670	3,299	3,324
Revenue Contribution	120	0	0
Grants and Contributions	11,055	5,703	3,234
	<u>37,131</u>	<u>27,768</u>	<u>24,805</u>

When the usual sources such as grants and supported borrowing cannot fund a scheme in full then unsupported Prudential Borrowing is available to be bid for. The Council has approved an unsupported Prudential Borrowing level of £7,607,000 for 2005/06 and has given indicative approval for £5,000,000 of unsupported borrowing in future years. The effect of this additional borrowing features in the Council's medium term financial strategy both in terms of capital financing costs and other revenue implications.

The indicative capital programme is partly financed from capital receipts held in reserve. This reserve accumulates the proceeds of disposals, most notably LSVT. These reserves are used mainly to help fund each service area with sums earmarked for specific schemes. However a share of receipts is retained corporately, subject to the nature of the receipt in accordance with Financial Regulations. If anticipated receipts are not realised and these had been relied upon

to fund capital expenditure then alternative funding would need to be sought or a project would have to be postponed.

## **The Council's Borrowing**

The Council had a total of £67.7 million outstanding loan debt at 31<sup>st</sup> March 2005 of which £9.4 million was repayable within 12 months.

## **The Council's Reserves**

The Council continues to retain a minimum of £3 million as a prudent reserve as a contingency against unforeseen emergencies and events. The Council's overall revenue balances of £14.4 million reflect this sum, together with underspendings previously referred to and funds reserved for approved capital projects. Any unallocated funds over and above the prudent reserve of £3 million will be retained for potential commitments and reviewed in the context of the Council's medium term financial strategy.

## **Pensions**

In accordance with Financial Reporting Standard 17 'Retirement Benefits' (FRS 17), Note 11 to the Balance Sheet sets out the Council's assets and liabilities in respect of the Local Government Superannuation scheme. The net deficit shown as at 31<sup>st</sup> March 2005 is £102 million, which is approximately 67% of the market value of the assets. Whilst this deficit does not have to be met immediately from the Council's reserves, action must be taken over a period of years to eliminate it.

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

## **Herefordshire Jarvis Services**

On 1<sup>st</sup> September 2003 the Council entered into a contract with Jarvis PLC for the provision of contract services of around £13 million per annum over 10 years.

Payments under the contract totalled £17 million in the 2004/05 accounts for both revenue and capital works, including highways maintenance and improvements, property maintenance, street cleansing, grounds maintenance, street lighting, printing and catering.

## **Owen Williams**

On 1<sup>st</sup> September 2003 the Council also entered into a contract with Owen Williams for the delivery of technical consultancy services, with an estimated value of at least £1 million per annum over 10 years. In 2004/05 the value of this contract exceeded £2 million.

## **Implementing Electronic Government**

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

## **Waste Management PFI**

The Council's Private Finance Initiative (PFI) contract in partnership with Worcestershire County Council is in the process of being renegotiated. The revised contract is expected to involve significant changes to the way waste disposal is dealt with in the County and the cost of waste disposal will rise significantly. The increased costs are reflected in the Council's medium term financial strategy in line with Government objectives and associated targets. At the 31<sup>st</sup> March 2005 the sum of £1.386 million was earmarked in the Council's balances to help smooth the effects over the early years of the contract. The new arrangements, together with the increased costs, are not expected to come into operation until 2006/07 because of the need to obtain planning permission and complete building works.

## **Magistrates Courts service and PFI Contract**

As from 1<sup>st</sup> April 2005 Magistrates Courts transferred to become part of the new Her Majesty Magistrates Courts Service. From this date the Council ceased to have to make any contributions towards the cost of the Magistrates Courts Service.

The Council also ceased from this date to have any role in the PFI contract signed in February 2000 in partnership with Worcestershire County Council for the provision of Magistrates Courts within the two Counties. Contributions towards the scheme will no longer be payable by the Council. The reserve set up to include amounts retained from the PFI government grant was closed and transferred to general balances in the 2003/04 accounts.

## **Whitecross School PFI**

The Council has entered into a PFI contract with a project consortium, Whitecross@Stepnell Ltd, to provide a secondary school at Whitecross. The project will provide a fully equipped 900-place secondary school for 25 years with occupation in Summer 2006 and full facilities management services.

## **Shaw Healthcare**

The Council transferred the management of 6 former social care residential homes to Shaw Healthcare (Herefordshire) Limited in July 2004. At the same time the Council entered into contracts with this company, and another related company, for the provision of care homes places, day care services, residential re-ablement services, domiciliary care and outreach support services.

## **Job Evaluation and Single Status**

The Council implemented new arrangements to fulfil its obligations for Job Evaluation and Single Status with effect from 1st April 2005.

The authorities 2005/06 Budget includes provision for all additional 2005/06 costs including the cost of protection both for staff employed by the Council and staff transferred to certain partner organisations including Herefordshire Jarvis Services, Halo Leisure Trust and Shaw Health Care.

Further limited additional costs, which will arise over the next three years up until 2008/09, are reflected in the Council's Medium Term Financial Strategy.

## **Office Accommodation**

The Council has approved an office accommodation strategy and business case for centralising its office accommodation. The vision behind the accommodation strategy is to



operate all the Council's main services from one central site and to provide information centres in the market towns.

The realisation of the outcome envisaged will involve the sale of various properties, the termination of leases, building works and the relocation of significant numbers of staff during the financial years 2005/6 to 2007/8, broadly within existing budget provision.

## **The 2004/2005 Statement of Accounts**

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

### **1 The Consolidated Revenue Account**

As the name suggests this account brings together all income receivable and expenditure incurred in delivering the Authority's services during 2004/05.

### **2 The Collection Fund**

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

### **3 The Consolidated Balance Sheet**

This shows the Authority's financial position as at 31<sup>st</sup> March 2005 i.e. the end of the financial year 2004/05, and represents the value of all assets and liabilities.

### **4 Summary of Capital Expenditure and Financing**

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

### **5 The Statement of Movement in Reserves**

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

### **6 Cash Flow Statement**

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

### **7 Trust Funds**

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

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

Finally, I would wish to record my gratitude to all colleagues involved in the timely preparation of the Council's final accounts for 2004/05.

**IAN HYSON  
COUNTY TREASURER  
June 2005**

# STATEMENT OF RESPONSIBILITIES

## **The Authority's Responsibilities**

The Authority is required to:

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

## **The County Treasurer's Responsibilities**

The County Treasurer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts is required to set out fairly the Authority's financial position as at 31<sup>st</sup> March 2005 and its income and expenditure for the financial year.

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

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

The County Treasurer has also:

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

**IAN HYSON  
COUNTY TREASURER  
June 2005**

# STATEMENT OF INTERNAL CONTROL

## 1. Scope of Responsibility

Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised.

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

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

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

3. The system of internal control has been in place at the Council for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

## 4. The Internal Control Environment

The key elements of control are described below:

(a) The Council sets out its objectives through a series of Plans; the Corporate Plan, the Best Value Performance Plan, the Herefordshire Plan and Service Plans, together with Action Plans arising from Best Value Reviews and External Inspection reports, and Revenue and Capital Budgets.

(b) The Council's policy and decision-making process is set out in the Council's Constitution which explains and regulates how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.

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

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

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

## **5. Review of Effectiveness of Internal Controls**

- 5.1 The Council has a responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.
- 5.2 To ensure that internal control procedures are efficient and effective and are complied with on a routine basis Council, Cabinet, Committees, Directors and Heads of Service have a full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The External Auditor is satisfied with the Council's arrangements.
- 5.3 All Directors and Heads of Service gave written assurance through a signed statement as to the operation of internal control and risk management within their own Directorate/Service during the year.
- 5.4 Internal Audit provides an independent and objective assurance across the whole range Council activity and report to both Cabinet and Strategic Monitoring Committee on an interim and outturn basis during the year. The External Auditor is able to place reliance on the work of the section.
- 5.5 External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to its statutory functions and codes of practice. The Council's External Auditor is satisfied with the Council's arrangements.
- 5.6 Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, reviewed and mitigation strategies developed, and these arrangements are approved and reviewed by Cabinet. However, risk management was not fully developed for the whole year, particularly at operational level, although the arrangements for considering the key strategic risks have been developed well.
- 5.7 Effective, efficient and responsive systems of financial management were in place throughout the year, which worked satisfactorily except for the Social Care overspend.
- 5.8 The Council has complied with the 2003 CIPFA Code relating to Capital Finance & Treasury Management and the Council's accounts have been prepared in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.
- 5.9 The Council continues to ensure the economical, effective and efficient use of resources.
- 5.10 The Council's overview and Scrutiny Arrangements are satisfactory.
- 5.11 Performance monitoring procedures are in place, and fully operational across the Council.

- 5.12 Reports received from external agencies and inspectorates continue to show how well services to the public are delivered.
- 5.13 Services continue to be developed by properly trained, skilled, experienced and dedicated staff.
- 5.14 The Leader of the Council and the Chief Executive have been advised on the implication of the results of the review of the effectiveness of the system of internal control by the Cabinet, and plans to address weaknesses and ensure the continuous improvement of systems are in place.

## **6. Significant Internal Control Issues**

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

- have seriously prejudiced or prevented achievement of an objective
- resulted in the need to seek significant additional funding,
- had a material impact in the accounts,
- resulted in formal action by the Monitoring Officer, Chief Finance Officer or have been reported as significant by the Head of internal Audit,
- attracted significant public interest

The items identified in the 2003/4 Statement on Internal Control have been addressed. The Council, during the year under review, identified two significant internal control issues. One in relation to the overspend in Social Care. The County Treasurer and the Director of Social Care have reported on the matter to Cabinet on 19<sup>th</sup> May 2005 and a further report considered by Cabinet on 23<sup>rd</sup> June 2005. The agreed actions to address the situation are summarised as follows:

- All spending decisions on non-staffing budgets and care placements/service budgets must be on an emergency health and safety basis, and emergency risk basis for users and carers until further notice.
- The modernisation of the Learning Disability Service will include assessment practice improvements, accommodation and care review and the modernisation of day opportunities.
- Negotiations with the Primary Care Trust regarding risk sharing have now been agreed. The Primary Care Trust has confirmed that it would move to a full transfer of risk in 2006/7 if agreed criteria are met and in any event by 2007/8.

The other issue related to the Council's overall disaster recovery arrangements. The Council has now invested funds in the technical platform in an effort to improve the situation. In addition a action plan is in place to help reduce the level of risk exposure.

The Council continues to seek to improve performance and takes action on recommendations made by both internal and external agencies.

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

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

**I. Hyson**  
**County Treasurer**

# STATEMENT OF ACCOUNTING POLICIES

## 1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004, which is recognised by statute as representing proper accounting practices.

## 2. Accruals of Income and Expenditure

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

## 3. Reserves and Provisions

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

## 4. Fixed Assets

### (a) Categories

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

Intangible Fixed Assets

Tangible Fixed Assets

Operational assets

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

Non-operational assets

- Investment Properties
- Assets under construction
- Surplus assets held for disposal

Contrary to the CIPFA capital accounting guidance, tenanted farms will continue to be disclosed as non-operational assets (Investment Properties) in the 2004/05 accounts, as these properties do not contribute to service objectives of the Council.

### (b) Recognition

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

### (c) Measurement

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

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

**(d) Revaluations**

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

**(e) Disposals**

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Upon disposal, the net book value of the asset disposed of is written off against the fixed asset restatement account.

**(f) Depreciation**

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

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

General fund service revenue accounts, central support services and statutory trading accounts, are charged with a capital charge for all fixed assets used in the provision of the service. Such charges cover the annual provision for depreciation, where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest to the net amount at which the asset is included in the balance sheet. The notional interest is 3.5% for assets carried at current value and 4.8% for assets carried at historical cost. No charges are made for freehold land, and non-operational investment properties, including assets under construction. Interest payable and provision for depreciation are charged to an asset management revenue account.

Where an asset suffers an impairment representing the clear consumption of economic benefits, an impairment loss is charged to the service that uses the asset.

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

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

#### **(h) Deferred charges and Intangible assets**

Deferred charges refer to expenditure which qualifies as capital for control purposes but does not result in the acquisition, creation or enhancement of a tangible fixed asset. All deferred charges expenditure is written out to revenue as it is incurred.

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

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

#### **5. Capital Receipts**

A proportion of the capital receipts earned during 2004/05 were used to finance capital expenditure in the year. Unapplied receipts will be carried forward and used in future years.

Since the sale of the housing stock to Herefordshire Housing Ltd the Council continues to receive a share of preserved Right To Buy receipts.

#### **6. Capital Accruals**

Due to the introduction of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 the capital programme is now funded on an accruals basis.

#### **7. Grants**

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

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

In accordance with the Local Government and Housing Act 1989 and subsequent regulations a minimum revenue provision was made to provide for the repayment of borrowing, representing 4% of the net Capital Financing Requirement after deducting adjustment 'A' (as required by legislation) and Prudential Borrowing (which is being repaid over the estimated expected useful life of the asset acquired).

#### **9. Investments**

Internal investments are shown in the Consolidated Balance Sheet at original cost.

#### **10. Leases**

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

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

Stock has been included in the accounts at current cost.

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

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

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



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

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

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

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

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

### **13. Pensions**

The cost of providing pensions for employees is charged to the accounts in accordance with Financial Reporting Standard 17 'Retirement Benefits'. This reflects the requirement to account for retirement benefits when it is committed to give them even if the payment is many years in the future.

In assessing the liabilities for retirement benefits at 31<sup>st</sup> March 2004 for the 2003/04 Statement of Accounts, the actuary was required to use a discount rate of 3.5% real (6.3% actual including inflation). For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities is to be used. The actuary has advised that a rate of 2.5% real (5.4% actual) is appropriate. Application of this rate has resulted in an increase in liabilities measured of £25.7 million, adjusted for by an increase in actuarial losses recognised for the year in the Statement of Total Movement on reserves. This represents a change in estimation technique rather than a change in accounting policy and therefore does not require a prior period adjustment.

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

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

As explained in Note 16 of the Consolidated Revenue Accounts notes, the Council, in partnership with Worcestershire County Council, has a PFI contract for the provision of waste management services. The assets employed in the provision of services under this contract are deemed to be the service operator's assets under the provisions of FRS 5. Accordingly they are not recorded as Fixed Assets in the Council's balance sheet.

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

The accounting treatment is consistent with that adopted by Worcestershire County Council.

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

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

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

### **16. Car Leasing**

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

### **17. Herefordshire Jarvis Services**

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

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

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

### **19. Estimation Techniques**

Where precise amounts are not known at the year-end, figures are included in the accounts on an estimated basis using the best information available at that time. In particular, the Housing Benefit Subsidy figures are included in the accounts on the basis of an estimated claim form, as the claim is completed and audited at a later date. There are no estimates in the 2004/05 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

## CONSOLIDATED REVENUE ACCOUNT

2003/04 Net £000	2004/05 Expenditure £000	2004/05 Income £000	2004/05 Net £000
1,683 Central services	11,974	10,693	1,281
(186) Court services	975	1,069	(94)
22,580 Cultural, environmental and planning services	41,753	16,366	25,387
83,006 Education services	120,191	33,090	87,101
14,169 Highways, roads and transport services	21,358	6,280	15,078
5,959 Housing services	38,003	33,235	4,768
34,659 Social services	58,396	18,963	39,433
3,385 Corporate and democratic core	3,939	6	3,933
(1,340) Non-distributed costs	453	0	453
3,081 Other services	4,186	1,504	2,682
166,996	301,228	121,206	180,022
157 Discontinued operations - HRA			0
<b>167,153 Net Cost of Services</b>			<b>180,022</b>
9,262 Precepts and Levies			4,029
49 (Surplus)/Deficit from DSOs			68
114 Deferred charges written off			0
(8,195) Return on Pension assets			(10,036)
11,983 Pensions interest			12,510
(6,854) Asset Management Revenue Account			(10,464)
2,814 Gains and losses on repurchase of borrowing			(87)
(1,254) Interest and Investment Income			(1,681)
<b>175,072 Net Operating Expenditure</b>			<b>174,361</b>
18 Pensions appropriation			(1,791)
0 Revenue Contribution to capital			244
(12,047) Appropriations to/(from) Capital Financing Account			(2,123)
2,424 Transfer to/(from) Reserves			1,837
<b>165,467 Amounts to be met from Government Grants and Local Taxation</b>			<b>172,528</b>
<b>Sources of Finance</b>			
(62,336) Council Tax			(65,464)
(400) Transfer from Collection Fund			(400)
(53,559) Revenue Support Grant			(62,011)
(52,969) Contribution from Non-Domestic Rates			(49,297)
(169,264)			(177,172)
(3,797) Net (Surplus)/Deficit for the year			(4,644)
(6,368) Balance on General Fund brought forward			(9,847)
318 Adjustment for prior year HRA deficit balance			0
(9,847) General Fund Revenue Balance 31st March			(14,491)

# NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

## 1. Discontinued Operations

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

## 2. Precepts and levies

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

2003/04	2004/05
£000	£000
1,720 Parish Councils	1,851
1,750 River Authorities	1,610
5,469 Fire Authority	0
304 Magistrates Court	297
19 Former HWCC debt financing	271
<u>9,262</u>	<u>4,029</u>

From 2004/5 the Fire Authority precepts the Collection Fund directly.

## 3. The Asset Management Revenue Account

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

The transactions on the Asset Management Revenue Account for the year to 31<sup>st</sup> March 2005 are as follows:

2003/04		2004/05
£000		£000      £000
	Income	
(13,779)	Capital Charges	(15,377)
<u>(2,109)</u>	Release of grants and contributions deferred	<u>(4,399)</u>
(15,888)		(19,776)
	Expenditure	
5,782	Provision for Depreciation	6,582
83	Provision for Impairment	66
<u>3,169</u>	External Interest charges	<u>2,664</u>
9,034		9,312
<u>(6,854)</u>	Balance transferred to the Consolidated Revenue Account	<u>(10,464)</u>

## 4. Minimum Revenue Provision

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

This is calculated by applying specified percentage rates to the authority's Capital Financing Requirement. The Code of Practice requires that for the purposes of compliance with these statutory requirements the provision for depreciation (net of the contribution from grants and contributions deferred), impairments and the net write-down of deferred charges, to be

regarded as part of the MRP, with the difference being treated as a transfer to/from the capital financing account.

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

2003/04 £000		2004/05 £000
3,130	Minimum Revenue Provision	4,097
<u>(283)</u>	Less: Commutation Adjustment	<u>0</u>
2,847	Total Minimum Revenue Provision	4,097
5,782	Less: Provision for depreciation	6,396
(2,109)	Release of grant and Contributions deferred	(4,399)
83	Provision for impairment	66
8,089	Deferred Charges write-off	3,971
0	Amortisation of Intangible Assets	186
<u>3,049</u>	PWLB Premium charged to PCL	<u>0</u>
14,894		6,220
<u>(12,047)</u>	Transfer from Capital Financing Account to Consolidated Revenue Account	<u>(2,123)</u>

## 5. Pensions

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

### (a) Teachers' Pensions scheme

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

In 2004/05 the Council paid £5.33 million in respect of teachers' pension costs, which represented 13.5% of teachers' pensionable pay. In addition, the Council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2004/05 these amounted to £112,734, representing 0.26% of pensionable pay.

### (b) Local Government Pension Scheme

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

Although the benefits will not actually be payable until employees retire, the authority has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. Under FRS 17 the cost of retirement benefits is included in the Net Cost of Services when 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 of the Consolidated Revenue Account after Net Operating Expenditure.

The following transactions have been made in the Consolidated Revenue Account during the year:

2003/04 £000		2004/05 £000
	<b>Net Cost of services</b>	
5,218	Current Service cost	6,329
7	Past service cost	163
102	Curtailment cost	175
(1,521)	Settlement gain	0
	<b>Net Operating Expenditure</b>	
11,983	Interest cost	12,510
(8,195)	Expected return on assets in the scheme	(10,036)
	<b>Appropriations</b>	
18	Movement on Pensions Reserve	(1,791)
<u>7,612</u>		<u>7,350</u>
	<b>Amount charged against Council Tax</b>	
<u>7,612</u>	Employer's contribution payable to the scheme	<u>7,350</u>

Note 11 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. The note to the Statement of Total Movements in Reserves details the movement in the pensions liability due to the revision of previous estimated figures.

## 6. Operating leases

2003/04 £000		2004/05 £000
	<b>The amount of lease rentals paid to lessors</b>	
730	Other Land & Buildings	944
697	Vehicle, Plant & Equipment	799
	<b>Rental received in the year for operating leases</b>	
2,097	Other Land & Buildings	2,347

## 7. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2004/05 the total was £1,031,000 split as set out below;

2003/04 £000		2004/05 £000
562	Recruitment advertising	567
6	Other advertising	11
509	Other publicity	453
<u>1,077</u>		<u>1,031</u>

## 8. Trading Operations

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

Significant trading accounts are summarised as follows:

	2004/05 £000	2004/05 £000
<b>Markets</b>		
The Council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls.	Turnover (817)	
	Expenditure 466	
	Surplus	(351)
	[Surplus 2003/04 296]	
<b>Industrial &amp; Commercial Estates</b>		
The Council owns and manages a number of industrial and commercial estates in the County.	Turnover (1,196)	
	Expenditure 361	
	Surplus	(835)
	[Surplus 2003/04 853]	
<b>ICT Services</b>		
Information and Communications Technology Services are provided to all Council Directorates. The deficit recorded was off-set against the reserve for ICT created within 2003/04.	Turnover (4,752)	
This deficit was envisaged owing to difficulties in recruiting to posts particularly in Project Management and on going investment in the ICT Infrastructure.	Expenditure 4,820	
	Deficit	68
	[Surplus 2003/04 837]	

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

Section 137 of the Local Government Act 1972, as amended, empowers local authorities to make contributions to certain charitable funds and not-for-profit bodies. The expenditure is limited to £5 per head of population. The Council was permitted to spend £884,500 under this power in 2004/05 and its actual expenditure was £529,438.

## 10. Building Regulations Charging Account 2004/05

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

Total Building Control 2003/04 £000	Chargeable  2004/05 £000	Non- Chargeable 2004/05 £000	Total Building Control 2004/05 £000
<b>Expenditure</b>			
431 Employee Expenses	372	124	496
0 Premises	5	1	6
38 Transport	28	9	37
31 Supplies & Services	19	7	26
187 Central Support Service Charges	172	19	191
<b>687 Total Expenditure</b>	<b>596</b>	<b>160</b>	<b>756</b>
<b>Income</b>			
(690) Building Regulation Charging	(756)	0	(756)
<b>(3) (Surplus)/Deficit for the Year</b>	<b>(160)</b>	<b>160</b>	<b>0</b>

### 11. Members Allowances

Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2004/05 members were paid a total of £588,582 under these regulations. This was made up of £341,382 Basic allowances, £204,987 Special responsibility allowances and £42,213 for travelling and subsistence.

### 12. External Audit Fees

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

Audit fees charged to the revenue account in 2004/05 amounted to £333,747 (£433,965 in 2003/04) comprising £198,251 for the Core Audit, £34,300 for Inspection fees and £101,196 for the audit of returns and grant claims.

### 13. Employees remuneration

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

Remuneration band	No. of Employees
£50,000 - £59,999	23
£60,000 - £69,999	8
£70,000 - £79,999	1
£80,000 - £89,999	3
£90,000 - £99,999	1
£100,000 - £109,999	1
£110,000 - £119,999	0
£120,000 - £129,999	0
£130,000 - £139,999	1



Employee and Employer pension contributions are not included

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

The Act empowers Local Authorities to provide goods and services to other public bodies. In 2004/05 a significant level of services were provided to the following organisations:

2003/04 £000	Organisation	Service provided	2004/05 £000
1	Hereford College of Art & Design	Property services	32
7	Hereford College of Technology	Property services	20
<u>0</u> 7		Occupational Health	<u>5</u> 25
5	Hereford and Worcester Fire Brigade	Clerk to the Fire Authority	5
11		Committee services	19
65		Legal services	55
<u>12</u> 93		Property services	<u>19</u> 98
147	Herefordshire Housing Ltd	County Treasurer's services	4
30		INFO in Herefordshire	0
180		IT services	41
111		Legal services	3
26		Personnel services	1
26		Property services	4
37		Vehicle maintenance	0
<u>21</u> 578		Street lighting	<u>0</u> 53
195		Worcestershire County Council	Building cleaning (schools)
<u>18</u> 213	Social services placements		<u>0</u> 0
14	Cheshire County Council	Fostering	13
17	Wolverhampton Council	Fostering	15
<u>4</u> 21		Social services placements	<u>4</u> 19
15	Wandsworth Borough Council	Social services placements	4
18	Dudley MBC	Social services placements	0
5	Stoke on Trent Council	Social services placements	0
0	Newcastle City Council	Social services placements	11
<b>965</b>			<b>255</b>

## 15. Pooled Budget Arrangements

There were three agreements in 2003/04 hosted by the Primary Care Trust (PCT), relating to Mental Health, Hillside Intermediate Care and Blanchworth Contract, Kington. A fourth agreement hosted by the Local Authority related to Learning Disabilities. These continued into 2004/05, with an additional agreement set up for the provision of an Integrated Community Equipment Service, hosted by the Local Authority. A Partnership Board exists to operate each of these agreements.

The out-turn for the PCT led agreements show a break-even position as any overspends have been absorbed as part of the overall financial position achieved by the PCT.

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

#### Mental Health

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

2003/04 £000		2004/05 £000
	<u>Budget</u>	
12,349	Herefordshire PCT	13,357
<u>4,080</u>	Herefordshire Council	<u>4,411</u>
<u>16,429</u>	Total Funding	<u>17,768</u>
	<u>Expenditure</u>	
12,349	Herefordshire PCT	13,357
<u>4,080</u>	Herefordshire Council	<u>4,411</u>
<u>16,429</u>	Total Expenditure	<u>17,768</u>
0	Net deficit	0

#### Hillside Intermediate Care

As this facility opened in November 2003, the figures for 2003/04 reflect five months of the financial year, whereas the figures for 2004/05 are for the full year.

2003/04 £000		2004/05 £000
	<u>Budget</u>	
337	Herefordshire PCT	827
<u>132</u>	Herefordshire Council	<u>355</u>
<u>469</u>	Total Funding	<u>1,182</u>
	<u>Expenditure</u>	
337	Herefordshire PCT	827
<u>132</u>	Herefordshire Council	<u>355</u>
<u>469</u>	Total Expenditure	<u>1,182</u>
0	Net deficit	0

### Blanchworth Contract, Kington

The report for this pooled fund comprises the contributions from the two parties and a largely block payment to Blanchworth Care for the provision of the service. The facility had a phased opening and the 2003/04 figures reflect approximately nine months of a financial year, whereas the 2004/05 reflect the full year.

2003/04 £000		2004/05 £000
	<u>Budget</u>	
343	Herefordshire PCT	447
<u>237</u>	Herefordshire Council	<u>305</u>
<u>580</u>	Total Funding	<u>752</u>
	<u>Expenditure</u>	
343	Herefordshire PCT	447
<u>237</u>	Herefordshire Council	<u>305</u>
<u>580</u>	Total Expenditure	<u>752</u>
0	Net deficit	0

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

#### Learning Disabilities

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

2003/04 Budget £000	2003/04 Expenditure £000		2004/05 Budget £000	2004/05 Expenditure £000
		<u>Primary Care Trust</u>		
1,326	1,326	Commissioning Gross	1,360	1,360
1,166	1,257	Southbank Gross	1,334	1,468
	(32)	Southbank Income		(134)
		PCT contribution to Health staff Gross	<u>273</u>	<u>273</u>
<u>243</u>	<u>243</u>	Net	<u>2,967</u>	<u>2,967</u>
		<u>Herefordshire Council</u>		
8,221	10,803	Gross	10,415	12,500
<u>(1,970)</u>	<u>(4,334)</u>	Income	<u>(4,083)</u>	<u>(4,654)</u>
<u>6,251</u>	<u>6,469</u>	Net	<u>6,332</u>	<u>7,846</u>
<u>8,986</u>	<u>9,263</u>	Net Budget/Expenditure	<u>9,299</u>	<u>10,813</u>
	<u>277</u>	Net deficit		<u>1,514</u>

### **Integrated Community Equipment Service**

This was a new agreement for 2004/05 and therefore has no comparative figures for 2003/04.

	2004/05 £000
Gross Funding	
Herefordshire Council	395
(Transfer Budget to Capital)	(185)
Herefordshire PCT	68
Education	<u>5</u>
Total Funding	283
Expenditure	
Revenue	547
Transfer to Capital	<u>(295)</u>
Total Expenditure	252
Net Over/(Under) Spend	<u>(31)</u>

### **16. Private Finance Initiative**

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

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

As at 31<sup>st</sup> March 2005, the waste disposal contract was still subject to a standstill agreement which temporarily suspends aspects of the contract pending a full renegotiation of the contract arrangements. Because of the need to complete the renegotiations, to obtain planning permission and to complete building works, the new, significantly different, arrangements for dealing with waste disposal are now not expected to begin operating until 2006/07 at the earliest, assuming the renegotiation is completed. The new arrangements are expected to cost significantly more than the existing contract. Estimates of the additional cost is reflected in the Council's medium term financial strategy.

From February 2000 to March 2005, the Council was in partnership with Worcestershire County Council, in a 25 year contract for the provision and refurbishment of Magistrates courthouses in the two counties. From 1<sup>st</sup> April 2005, responsibility for this contract passed to Her Majesty's Courts Service and from this date no transactions in respect of this contract will appear in the Council's accounts.

The Whitecross High School PFI project reached financial close in January 2005. The project will provide a fully equipped 900-place secondary school for 25 years with occupation in Summer 2006 and full facilities management services. It has an overall value of £74 million, which includes the construction of a new school and its maintenance over 25 years. There has been a significant risk transfer to the project consortium, Whitecross@Stepnell Ltd. However, the school will transfer to the Council's ownership at the end of the 25 year contract period.

## 17. Related Party Transactions

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

2003/2004			2004/2005	
Receipts	Payments		Receipts	Payments
£000	£000		£000	£000
		Government departments and agencies		
63,848		- Office of the Deputy Prime Minister	73,783	
34,230		- Department for Works and Pensions	35,187	
17,450	12	- Department of Education and Skills	20,374	
7,358		- Department of Health	7,550	
103		- Department for Environment, Food & Rural Affairs	182	
1,720		- Department for Transport	1,063	
3,336	16	- Advantage West Midlands	6,333	25
2,997		- Government Office for West Midlands	1,492	
241		- Home Office	552	1,110
70		- Cabinet Office	70	
1,330		- Lottery	449	
694		- Countryside Agency	249	4
59		- Legal Services Commission	94	
		- Foot and Mouth Recovery fund		
2,695	2	- Learning and Skills Council	2,982	142
		- Arts Council	10	
8		- Basic Skills Agency		2
		- Welsh Assembly	8	
		- Countryside Council for Wales	50	
	8,079	Teachers pension scheme	0	8,342
		Worcestershire County Council		
	9,685	- Worcestershire pension scheme	0	9,405
62	2,928	- Other	112	2,719
1,309	5,423	Herefordshire Primary Care Trust	8,580	6,198
5	5,099	Mercia Waste	0	4,671
119	7,933	West Mercia Police Authority	196	9,202
93	5,243	Hereford & Worcester Fire Authority	93	3,759
37	340	Courtyard Trust	78	559
378	7,390	Herefordshire Jarvis Service	1,318	17,052
	221	Owen Williams	0	2,064
241	956	Halo	115	1,467
	1,908	West Mercia Supplies	15	1,587
0	0	Shaw Healthcare	3	2,796

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

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

An examination of the Register indicates that the Council's financial transactions with these bodies in 2004/05 are not material, with the exception of grants and other payments to local charities, which total £279,615. The relevant members did not take part in the Council's decision to allocate these grants.

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

Herefordshire Council has now completed its first round LPSA with the Government. Although the final level of performance reward grant cannot be verified until the targets have been audited, it is prudently estimated that at least £1.6m will have been earned for future investment.

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

In 2004/05 £112,286 was used to meet the cost of planned expenditure, leaving £15,817 to be rolled forward into the new LPSA. This is currently being negotiated with the Government and will cover a range of local services in conjunction with the Herefordshire Partnership.

## THE COLLECTION FUND

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

<b>2003/04</b> <b>£000</b>	<b>Note</b>	<b>2004/05</b> <b>£000      £000</b>	
<b>Income</b>			
Council Tax:			
63,225 Income from council taxpayers	1	70,390	
<u>7,436</u> Council tax benefits		<u>8,789</u>	
70,661			79,179
<u>33,648</u> Income from business ratepayers	2		<u>34,234</u>
<u>104,309</u> <b>Total Income</b>			<u>113,413</u>
 <b>Expenditure</b>			
7,852 West Mercia Police Authority Precept Due			9,165
0 Hereford & Worcester Fire Authority			3,760
62,336 Herefordshire Council Precept Due			65,464
108 Bad debt write offs - Council Tax			91
0 Provision for bad debts (increase) - Council Tax			26
(9) Provision for bad debts (decrease) - Council Tax			0
 <b>Non Domestic Rates</b>			
33,360 Contribution to national pool	2		33,942
<u>288</u> Cost of collection allowance			<u>292</u>
<u>103,935</u> <b>Total Expenditure</b>			<u>112,740</u>
 374 <b>Surplus/(Deficit) for the year</b>	 3		 673
 398 <b>Balance brought forward</b>	 3		 322
 772 <b>Balance carried forward</b>	 3		 995

There is a planned phased reduction of the accumulated surplus.

## Notes to the Collection Fund

### Note 1

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1<sup>st</sup> April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the Council, West Mercia Police Authority and Hereford & Worcester Fire Authority (from 2004/05), and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due. The average council tax for a Band D property in 2004/05 was £1,177.72 with a range between £1,149.90 to £1,224.64. The council tax base used for setting the council tax in 2004/05 was 66,558.82.

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,054.70
B	£40,001 to £52,000	7/9	12,070.70
C	£52,001 to £68,000	8/9	12,079.30
D	£68,001 to £88,000	9/9	11,050.50
E	£88,001 to £120,000	11/9	11,676.80
F	£120,001 to £160,000	13/9	7,859.60
G	£160,001 to £320,000	15/9	4,973.30
H	Over £320,000	18/9	303.00
Crown			193.60
			<hr/>
			66,261.50
	Other adjustments		297.32
			<hr/>
			66,558.82
			<hr/>
<b>Council Taxpayer Income</b>		£000	£000
Council tax debit @ 1 <sup>st</sup> April			89,536
<b>Add:</b>			
Redebits		20,144	
Valuation Change		691	20,835
			<hr/>
<b>Less:</b>			
Discounts		6,846	
Exemptions		779	
Benefits – Statutory		8,755	
Benefits – Non Statutory		33	
Disablement Relief		116	
Void Assessments		2,480	
Empty Assessments		20,000	
Banding Reductions		972	39,981
			<hr/>
<b>Income due from Council taxpayers</b>			<b>70,390</b>



## Note 2

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

	£
NNDR Contribution to the Pool	33,941,664
Cost of Collection Allowance	<u>292,314</u>
Income from Business Ratepayers	<u>34,233,978</u>
NNDR Entitlement	49,296,906

£33,941,664 is the contribution due to the NNDR pool for 2004/05 paid by Herefordshire Council to the Office for the Deputy Prime Minister (ODPM). This represents the amount from business ratepayers less an allowance for the cost of collection. The NNDR pool is held by central government and redistributed to all local authorities. Herefordshire Council receives NNDR entitlement of £49,296,906, which is its redistributed share. This figure is calculated on a per head of population basis.

Business rateable value as at 31 <sup>st</sup> March 2005	£ 101,289,589	
Business rate multiplier	45.6p	
<b>Non-domestic Ratepayers Income</b>	£000	£000
Non-domestic debit @ 1 <sup>st</sup> April		39,769
<b>Add:</b>		
Redebits	7,024	
Valuation Change	<u>1,980</u>	<u>9,004</u>
<b>Less:</b>		
Empty Allowances	5,800	
Transitional Relief	385	
Discretionary Relief	213	
Mandatory Relief	1,753	
Write-offs	125	
Reduced Assessments	4,049	
Voids	2,135	
Interest on Refunds	79	
		<u>14,539</u>
<b>Income due from non-domestic ratepayers</b>		<u>34,234</u>

## Note 3

### Contributions to Collection Fund Surpluses

<b>Council Tax</b>	£000	£000
Surplus at 31.3.04		772
Less: Payments		
West Mercia Police Authority	50	
Herefordshire Council	<u>400</u>	<u>450</u>
		322
Surplus balance brought forward		322
Surplus financial year 2004/05		673
Surplus balance carried forward		995

# CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2005

31.3.04 £000		Note	31.3.05 £000	31.3.05 £000
	<b>Fixed Assets</b>	1		
0	Intangible Fixed Assets		2,585	
	Tangible Fixed Assets			
	Operational Assets			
173,194	- Other land and buildings		174,507	
1,446	- Vehicles, plant, furniture and equipment		2,799	
45,024	- Infrastructure assets		60,033	
1,906	- Community Assets		1,790	
<u>35,385</u>	Non-operational Assets		<u>37,048</u>	
256,955				278,762
1,241	Deferred charges	2		0
732	Long-term debtors	3		538
<u>14</u>	Long-term investments	4		<u>14</u>
258,942	<b>Total Long-term Assets</b>			279,314
	<b>Current Assets</b>			
184	Stocks and work-in-progress	5	129	
19,008	Debtors	6	18,699	
20,633	Short-term Investments	7	33,133	
<u>2,234</u>	Cash and bank		<u>2,304</u>	
42,059				54,265
	<b>Current Liabilities</b>			
22,673	Creditors	8	28,700	
12,030	Short term borrowing	9	10,351	
<u>3,669</u>	Cash overdrawn		<u>4,551</u>	
38,372				43,602
262,629	<b>Total Assets less Current Liabilities</b>			289,977
41,720	Long-term borrowing	9	58,296	
272	Debt Liability	10	10	
58,309	Pensions liability	11	102,186	
<u>1,434</u>	Provisions	12	<u>1,135</u>	
101,735				161,627
160,894	<b>Total Assets less Liabilities</b>			128,350
18,337	Capital contributions deferred	13		22,511
96,528	Fixed asset restatement account	14		96,087
63,783	Capital financing account	15		66,452
(58,309)	Pensions reserve	11		(102,186)
565	Deferred credits	16		465
19,964	Usable capital receipts	17		18,291
9,407	Earmarked reserves	18		11,244
9,847	Revenue balances			14,491
<u>772</u>	Collection Fund balances			<u>995</u>
160,894	<b>Total net worth</b>			128,350

# NOTES TO THE CONSOLIDATED BALANCE SHEET

## 1. Fixed Assets

### (a) Movement in Fixed Assets

	Operational assets				Non-operational assets			Intangible assets	Total	
	Other land and buildings £000	Vehicles plant and equip £000	Infra-structure assets £000	Comm-unity assets £000	Non-operat'l Assets £000	Held for Invest-ment £000	Under Constr-uction £000	Surplus Assets £000	£000	£000
<b>Net book value at 31st March 2004</b>	<b>173,194</b>	<b>1,446</b>	<b>45,024</b>	<b>1,906</b>	<b>35,385</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>256,955</b>
Additions	5,462	1,891	14,425	275	0	2,114	1,915	53	1,530	27,665
Disposals/deletions	(11)	0	0	0	(197)	(186)	(589)	(4)	0	(987)
Revaluations	(138)	0	0	(274)	691	511	0	(254)	0	536
Reclassifications	(486)	0	2,928	(95)	(35,879)	30,176	925	2,431	0	0
Reclassifications - deferred charge	0	0	0	0	0	0	0	0	1,241	1,241
Depreciation for year	(3,514)	(538)	(2,344)	0	0	0	0	0	0	(6,396)
Amortisation for year	0	0	0	0	0	0	0	0	(186)	(186)
Impairment losses for year	0	0	0	(22)	0	(9)	0	(35)	0	(66)
<b>Net book value at 31st March 2005</b>	<b>174,507</b>	<b>2,799</b>	<b>60,033</b>	<b>1,790</b>	<b>0</b>	<b>32,606</b>	<b>2,251</b>	<b>2,191</b>	<b>2,585</b>	<b>278,762</b>

### (b) Valuations

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

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

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

During 2004/05 fixed assets of £83.9 million were revalued, consisting of £68.208 million Operational Land and Buildings and £15.692 million of Non-operational assets

### (c) Commitments

Significant contractual commitments in the Capital Programme at 31.3.05 totalling £3.8 million are as follows and are to be met in future years.

<b>Schemes</b>	<b>£000</b>
Affordable Housing Grants	2,034
Roman Road	933
Leominster Access Road	50
Aylestone Park	72
Courtyard	23
North Herefordshire Swimming Pool	424
Renovation and Other Housing Grants	<u>302</u>
	<u>3,838</u>

### (d) Analysis of Fixed Assets

The fixed assets as at 31<sup>st</sup> March 2005 were as follows:

	Nos.		Nos.
<b>Education</b>		<b>Environment</b>	
Primary schools	76	Principal County roads	350km
Secondary schools	14	Distributor/access roads	2,931.3km
Special schools	5	Cemeteries	4
Pupil Referral units	2	Crematorium	1
Other Educational Establishments	4	Public conveniences	30
		Travellers sites	5
<b>Policy and Community</b>		Bus stations	2
Youth centres	7	Operational depots	8
Libraries	7	Car parks	47
Heritage, museums & galleries	5	Smallholdings	75
Leisure centres	6	General buildings and offices	27
Swimming pools	3	Open Markets	2
Other	4	Household waste sites	3
		<b>Other</b>	
<b>Social Services and Housing</b>		Registrars	2
Homes for older people	5	Other non-operational assets	213
Day Centres	5	Other Community assets	150
Children and family centres	3		
Other Social Services & Housing Establishments	7		
Homeless Shelter	1		

## 2. Deferred Charges

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

	<b>£000</b>	<b>£000</b>
Balance as at 1 <sup>st</sup> April 2004		1,241
Add: Education	1,030	
Social Care	92	
Policy & Finance – General	8	
Policy & Finance – Property	149	
Environment – General	1,154	
Social Development	3	
Economic Development	86	
Housing	<u>2,952</u>	5,474
Less: Charge to Revenue in the year	5,474	
Reclassification of Deferred Charges as Intangible Fixed Assets	<u>1,241</u>	6,715
<b>Balance as at 31<sup>st</sup> March 2005</b>		<u><u>0</u></u>

### 3. Long-term Debtors

An analysis of Long-term debtors is as follows;

2003/04 £000	2004/05 £000
204 Staff car loans	125
22 Theatre project loan	0
33 Housing Advances	24
46 Computer loans	27
30 Ross Festival loan	30
33 Housing Associations	0
0 Waste Management PFI	59
364 HRA Mortgages	<u>273</u>
<u>732</u>	<u>538</u>

### 4. Long-term Investments

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

Council	Nominal Value £000	Market Value £000	Investment
Hereford City	1.126	0.856	3½% War Stock
	0.527	0.282	2½% Consolidated Stock
Leominster District	0.078	0.060	3½% Conversion Stock
	1.744	1.326	3½% War Stock
	0.394	0.211	2½% Consolidated Stock
	<u>3.869</u>	<u>2.735</u>	
South Herefordshire District	10.000		ADC Debenture Stock 1996/2011
	<u>0.140</u>		Parochial investment
Balance at 31 <sup>st</sup> March 2005	<u><u>14.009</u></u>		

## 5. Stocks and Work-in-progress

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

2003/04		2004/05
£000		£000
13	Rail passes	19
1	Record office	1
83	Tourist Information offices	77
1	Museums	2
53	Highways salt and grit	18
25	DSO stock	0
8	IT Stock	12
<u>184</u>		<u>129</u>

## 6. Debtors

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

2003/04		2004/05
£000		£000
1,318	Policy and Finance	1,692
6	Environment Regulatory	17
64	Planning	44
149	Social Development	59
215	Highways and Transport	574
153	Economic Development	17
325	Education	2,155
49	School loan accounts	81
1,004	Social Care	846
39	Property	2
573	Housing	602
87	ICT	35
492	Herefordshire In Touch	424
181	Commercial Services	0
1,414	Joint Funding	835
6,183	Capital	2,414
1,827	VAT	1,952
79	Treasury management	64
152	Leased cars	118
2,932	Debtors system	4,150
2,107	Collection Fund	2,987
107	Other	60
<u>19,456</u>		<u>19,128</u>
(448)	Provision for bad debts	(429)
<u>19,008</u>		<u>18,699</u>

## 7. Short-term Investments

### (a) Internally Managed

	£000	£000
Balance at 1 <sup>st</sup> April 2004		13,810
Investments made during year (254 transactions)	1,022,447	
Investments recalled during year	<u>(1,010,267)</u>	
Balance at 31 <sup>st</sup> March 2005		<u>12,180</u> <u>25,990</u>

### (b). Externally Managed

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

2003/04 £000		2004/05 £000
6,644	Certificates of Deposit	6,948
0	Fixed Interest Securities	179
<u>179</u>	Deposit accounts	<u>16</u>
<u>6,823</u>	Balance at 31st March	<u>7,143</u>

### Total Short-term Investments at 31<sup>st</sup> March 2005

**£33,133,049**

## 8. Creditors

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

2003/04 £000		2004/05 £000
878	Policy and Finance	682
8	Environment Regulatory	52
108	Planning	156
158	Social Development	311
2,313	Highways and Transport	4,152
195	Commercial Services	0
221	Economic Development	249
228	Property	317
2,946	Education	3,449
547	Social Care	2,089
991	Housing	2,735
20	ICT	2
170	Herefordshire In Touch	416
1,846	Joint Funding	998
217	Capital	684
7,295	Creditors system control account	7,470
549	Treasury management	514
2,127	Payroll	2,143
23	Debtors system prepayments	272
956	Collection Fund	1,107
262	Purchase ordering system accruals	366
<u>615</u>	Other	<u>536</u>
<u>22,673</u>		<u>28,700</u>

## 9. Borrowing

### a) Borrowing Analysis

Total borrowing can be analysed as follows:

	Range of Interest Rates %	Debt 1.4.04 £000	Loans Raised £000	Loans Repaid £000	Debt 31.3.05 £000
Public Works Loan Board - Maturity	4 – 10.25	39,525	20,000	(10,718)	48,807
Public Works Loan Board - Annuity	4.25 – 9.125	7,330	0	(417)	6,913
Money Market - Maturity	1.6 – 2.85	6,000	6,000	0	12,000
		<u>52,855</u>	<u>26,000</u>	<u>(11,135)</u>	<u>67,720</u>

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

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

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

As there is a genuine commercial possibility that an option could be exercised at the end of the initial fixed rate period, interest has been charged in the accounts at the actual interest rates running under each loan, as in our view this is in compliance with SORP and FRS4. Following on from this, the accounts assume that the principal amounts will be repaid at the end of the initial fixed rate period of each loan.

### b) Loan Maturity

An analysis of loans as at 31<sup>st</sup> March 2005 by maturity is:

2003/04 £000	LONG TERM BORROWING	2004/05 £000	2004/05 £000
424	Maturing within 1 - 2 years	6,443	
6,394	Maturing within 2 - 5 years	6,206	
1,373	Maturing within 5 - 10 years	1,424	
1,897	Maturing within 10 - 15 years	3,979	
31,632	Maturing in more than 15 years	40,244	
<u>41,720</u>			58,296
11,135	Borrowing repayable within 12 months		9,424
<u>52,855</u>			<u>67,720</u>

### c) Trust Funds

A number of Trusts funds have investments with the Council totalling £927,254.

## 10. Debt Liability

Herefordshire's proportion (24.6%) of the Ex-Hereford and Worcester County Council's Public Works Loan Board outstanding debt on 31<sup>st</sup> March 1998 was transferred to Herefordshire on 30<sup>th</sup> September 2002. However there continue to be ongoing transactions relating to debt managed by, and for other organisations that continue to be administered by Worcestershire County Council. Herefordshire's proportion of the principal amounts of debt managed by other organisation on behalf of Ex Hereford and Worcester County Council as at 31<sup>st</sup> March 2005 is £9,625 and is recognised as a debt liability.



## 11. Pensions

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

### Teachers Pension Scheme

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

At the year-end there were contributions of £721,890 remaining payable, which related to the March 2005 contributions paid to the scheme in April 2005.

### Local Government Pension scheme

The figures have been provided by the actuary to the pension scheme, using information provided by the scheme, and assumptions determined by the actuary in conjunction with the Council. The latest full actuarial valuation was 31<sup>st</sup> March 2004. Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations are affected by uncertainties within a range of possible values.

#### (a) Assets and Liabilities

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

	31 March 2004 £m	31 March 2005 £m
Market Value of Assets	143.6	153.2
Liabilities	<u>201.9</u>	<u>255.4</u>
Surplus/(Deficit)	<u>(58.3)</u>	<u>(102.2)</u>

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

#### (b) Actuarial assumptions

The main assumptions used in the calculations are:

	Beginning of year	End of year
Rate of inflation	2.8%	2.9%
Rate of increase in salaries	4.05%	4.4%
Rate of increase in pensions	2.8%	2.9%
Discount rate	6.3%	5.4%

### (c) Pension Scheme assets

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

	31 March 2004		31 March 2005	
	£000	%	£000	%
Equities	114,629	79.8	122,234	79.8
Government Bonds	10,630	7.4	20,219	13.2
Other Bonds	10,199	7.1	8,425	5.5
Property	1,293	0.9	0	0
Cash/Liquidity	6,894	4.8	2,298	1.5
	<u>143,645</u>		<u>153,176</u>	

The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.5%
Government Bonds	4.7%	4.7%
Other Bonds	5.5%	5.4%
Property	6.5%	6.5%
Cash/Liquidity	4.0%	4.75%

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

2003/04		2004/05
£000		£000
(79,679)	Surplus/(Deficit) at beginning of year	(58,309)
(5,218)	Current service cost	(6,329)
7,612	Employer contributions	7,350
1,412	Past service cost/Curtailment	(338)
(3,788)	Net interest/Return on Assets	(2,474)
21,352	Actuarial gain or (loss)	(42,086)
<u>(58,309)</u>	Surplus/(Deficit) at end of year	<u>(102,186)</u>

The primary cause of the change from an estimated net liability of £58.3 million at 31<sup>st</sup> March 2004 to an estimated net liability of £102,186 million at 31<sup>st</sup> March 2005 was caused by changes in actuarial assumptions. Of this, £25.7 million resulted from a change in the discount rate required to be used in assessing liabilities.

The net liability represents the difference between the value of the Authority's pension fund assets at 31<sup>st</sup> March 2005 and the estimated present value of the future pension payments to which it was committed at that date. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1<sup>st</sup> April 2005 would also have an impact on the capital value of the pension fund assets.

The Actuaries undertook a full review of the pension fund at 31<sup>st</sup> March 2004. Further to the revaluation, the Council's employers' contribution will increase from 16.5% of pensionable pay to 19.9%, phased over 6 years up to and including 2010/11. Annual increases will be approximately 0.6% of pay. The period over which the Council's deficit will be dealt with has been increased from 13 years to 25 years in accordance with guidance from the ODPM. The fund is reviewed by the Actuaries every 3 years.

## 12. Provisions

The provisions at 31.3.05 are listed below;

2003/04 £000		2004/05 £000
	34 Village focus grants	22
	82 Former Hereford and Worcester liabilities	73
1,088	Insurance	885
150	IT services	0
80	Legal Claim	47
0	Learning and Skills Council	108
<u>1,434</u>		<u>1,135</u>

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

The level of the provision is reviewed each year against the potential commitments. In 2004/05, the level of the claims received indicated that there was no requirement to increase the fund other than through the normal charges to revenue.

It is the policy of the Council to engage consultants every three years to independently review the level of the provision. The next review is due in 2006/07.

One new provision was set up in 2004/05, to cover the likely repayment of European Social Fund grant to the Learning and Skills Council.

## 13. Capital Contributions Deferred Account

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

	£000
Balance as at 1 <sup>st</sup> April 2004	(18,337)
Add: Grants applied in the year	(8,573)
Less: Transfer to AMRA	4,399
Balance as at 31 <sup>st</sup> March 2005	<u>(22,511)</u>

## 14. Fixed Asset Restatement Account

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

2003/04 £000		2004/05 £000
(93,673)	Balance as at 1 <sup>st</sup> April	(96,528)
(3,937)	Revaluation and Restatement of Fixed Assets	(546)
1,082	Disposal of Fixed Assets	987
<u>(96,528)</u>	Balance as at 31 <sup>st</sup> March	<u>(96,087)</u>

## 15. Capital Financing Account

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

2003/04	2004/05
£000	£000
(71,535) Balance as at 1st April	(63,783)
(330) Capital Receipts Set-Aside	0
(4,245) Capital Financing - Capital Receipts	(4,327)
0 Capital Financing - Revenue	(244)
12,047 Appropriation to Consolidated Revenue Account	2,123
8 Write down of Deferred Charges (long-term debtors)	41
272 Write down of debt transfer	(262)
<u>(63,783) Balance as at 31st March</u>	<u>(66,452)</u>

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

## 16. Deferred Credits

The deferred credits figure in the balance sheet is made up of £273,559 in respect of HRA mortgages and £191,421 relating to a credit arrangement. The credit arrangement relates to leased offices at Thorn Business Park, Rotherwas. Capital Finance Regulations require the substance of these transactions to be recognised and the nature of the lease means that the asset is recognised in the balance sheet as an asset of the council. However, as the asset is not owned by the council, a deferred credit liability representing the asset's valuation is also provided.

## 17. Usable Capital Receipts

Capital receipts received in the year are available to finance new capital expenditure.

### Usable Capital Receipts

	2004/05
	£000
Balance as at 1 <sup>st</sup> April	(19,964)
Usable receipts in the year	(2,654)
Applied in the year	<u>4,327</u>
Balance as at 31 <sup>st</sup> March	<u>(18,291)</u>

## 18. Movement on Specific Revenue Reserves

	Balance 31.3.04	Transfer from Revenue	Transfer to Revenue	Balance 31.3.05
	£000	£000	£000	£000
Community buildings	(64)			(64)
Commuted sums	(248)		161	(87)
Schools balances in hand	(6,845)	(2,074)		(8,919)
Industrial Estates - maintenance	(106)	(17)		(123)
Initiatives Fund	(227)	(145)		(372)
Support Services incl. Equip renewals	(577)	(148)	367	(358)
IT services	(859)		101	(758)
Schools Balance of Risk	(253)	(82)		(335)
Winter maintenance	(108)			(108)
Planning	(24)			(24)
SRB schemes	(96)			(96)
	<u>(9,407)</u>	<u>(2,466)</u>	<u>629</u>	<u>(11,244)</u>

## 19. Amounts due to or from related parties

As at 31<sup>st</sup> March 2005 amounts due to and from related parties were as follows:

Related Party	Due to £000	Due from £000
Office for the Deputy Prime Minister	2,508	0
Department for Transport	0	300
Department for Works and Pensions	118	10
Department for Education and Skills	4,201	1,858
Cabinet Office	0	7
Home Office	0	119
Department for Food, Agriculture & Rural affairs	0	44
Legal Services Commission	0	4
Learning & Skills Council	99	128
Advantage West Midlands	264	795
Government Office For West Midlands	59	30
Lottery	129	192
Countryside Agency	0	4
Teachers Pension	723	0
Worcestershire County Council	1,548	231
Herefordshire Primary Care Trust	879	893
Courtyard Trust	1	7
Herefordshire Jarvis Services	2,698	797
West Mercia Police Authority	68	6
Shaw Healthcare	16	130
Mercia Waste	878	0
Halo	42	117
West Mercia Supplies	173	283
Owen Williams	61	2
Hereford & Worcester Fire Authority	0	5

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

## **20. Provision for Bad debts**

A provision of £185,000 was made in the 1998/99 accounts in respect of debtors outstanding to the former Hereford and Worcester County Council on 31<sup>st</sup> March 1998. Of this £73,246 was unapplied at 31<sup>st</sup> March 2005. This sum is being retained to meet the potential costs associated with former Hereford and Worcester County Council insurance claims.

In general it is not intended that any new bad debts provisions will be set up in the general fund accounts. Bad debts will undoubtedly arise but they are not expected to be material and will be charged to the revenue account as they occur. However, a provision of £36,000 has been set up in respect of the recovery of overpaid housing benefits accrued for in the 2004/05 accounts.

Bad debt provisions are also maintained for Council Tax (£304,605) and Non-domestic rates (£79,680). A small provision of £9,280 has been retained for outstanding Housing Revenue Account debts.

## **21. Contingent Liabilities**

- (a) When the housing stock was transferred to Herefordshire Housing Ltd a legal agreement was entered into for a stock enhancement contract, which would result in significant VAT savings of which the Council should receive a share. It has been determined by the Inland Revenue that this contract should be subject to Corporation Tax. The effect of this would be to negate the benefits of the VAT sharing agreement. Herefordshire Housing Ltd has now obtained charitable status, which has resolved this issue for the future. It is expected that a limited proportion of the VAT share received from Herefordshire Housing for 2003/04 and 2004/05 will be returned to them.
- (b) There is a claim for land, which the authority must acquire under a purchase notice at Belmont. The value of the land is disputed, the maximum liability being £60,000
- (c) Possible claims are outstanding in respect of the Waste management contract previously held with Beacon Waste (potential liability £200,000).
- (d) Herefordshire Housing has suggested that the underpinning of Disraeli Court is defective, leading to subsidence. This is in an area with historical problems with the water table beneath the soil. The Council has received legal advice that this issue is the legal and financial responsibility of the Herefordshire Housing company, although the Council may contribute financially to a solution to the Disraeli Court situation.
- (e) As part of the arrangements for the transfer of services to Herefordshire Housing, Halo Leisure Trust, Herefordshire Jarvis Services, and Shaw Homes, the Council has given guarantees in relation to increases in pension contributions as a result of actuarial revaluations. The guarantee involves the Council in meeting the cost of any increase in pension contributions over and above the level of contribution on the date of transfer, but only in respect of staff transferring on this date. The cost of these guarantees will be reflected in higher pension contributions for the Council as a whole. The levels of the employers contributions set by the Actuarial review as at 31<sup>st</sup> March 2004 meant that the guarantee did not result in additional costs to the Council in the period covered by the review (up until 31<sup>st</sup> March 2008).
- (f) There is an outstanding claim against the Council in respect of an alleged formaldehyde poisoning in a Council property. Although the claim, which is not covered by insurance, is substantial, the Council is rigorously defending itself against from the claim. The actual liability faced by the Council is believed to be very significantly less than the claim submitted. A provision was set up in 2003/04 to meet the legal costs associated with this claim.

- (g) The Council and has been in dispute over a number of potential claims from Herefordshire Jarvis Services in relation to the terms of the contract. Since the accounts were completed progress has been made towards resolving these issues with the additional cost to the Council not expected to exceed £200,000.

## 22. Schools Balances – Local management of schools

A sum of £8,918,657 is shown in Reserves in respect of balances held by schools under the Local Management of Schools arrangements. Under these arrangements schools are entitled to draw on, add to, or maintain the sums held as they think fit. The balances are not available for general Council use.

The total sum, which includes devolved capital allocation of £1,576,028 can be split between Primary schools (£6,012,074), Secondary schools (£2,495,605) and Special schools (£410,978).

## 23. Leases

The authority was committed at 31<sup>st</sup> March 2005 to making payments of £12,496,000 under operating leases, comprising the following elements:

	<b>Other Land &amp; Buildings £000</b>	<b>Vehicles, Plant &amp; Equipment £000</b>
Leases expiring in 2005/06	762	678
Leases expiring between 2006/07 and 2009/10	2,382	958
Leases expiring after 2010/11	<u>7,690</u>	<u>26</u>
	10,834	1,662

With regards to the Authority's activity as a lessor, the gross value of assets held for use in operating leases was £105,693,193 as valued at 1<sup>st</sup> April 2004 and subject to £1,716,785 depreciation to 31<sup>st</sup> March 2005.

## CAPITAL EXPENDITURE AND FINANCING

2003/04 £000	Capital Expenditure	2004/05 £000
	Housing	
1,638	- Affordable Housing Grants	1,191
1,857	- Renovation and other Grants	1,621
484	- Other	286
	Education	
4,027	- New build and refurbishment	2,997
1,632	- Improvements to schools	1,497
2,096	- ICT Equipment	346
529	- Other	906
	Social Development	
18	- Burghill Sports Field	0
91	- Leisure Centre Schemes	8
94	- Aylestone Hill proposals	229
57	- King George V Playing Fields	0
66	- Museum/Friar street	603
22	- Castle Pool	17
0	- Courtyard Theatre	35
0	- North Herefordshire swimming pool	1,285
115	- Other schemes	32
	Social Care including Children's and Adult Services	
127	- IT and other equipment	588
105	- Mini buses	43
168	- Other schemes	91
	Highways and Transportation	
4,589	- Capital maintenance of carriageways	4,943
1,952	- Assessment and strengthening of bridges	483
2,634	- Other improvements to roads	3,859
204	- Cycle network	97
476	- Footways	546
15	- Rail	0
309	- Traffic calming	120
342	- Safer routes to schools	473
344	- Passenger waiting facilities	52
45	- Pedestrian routes	106
136	- Speed cameras and signing	157
1,268	- Rural Bus Pilot	501
245	- Urban Bus Challenge	17
16	- Parking Policy	0
0	- Roman Road	3,835
0	- Park and Ride	38
414	- Other schemes	547
	Economic Development	
1,541	- Industrial Estate works	6
252	- Edgar Street Grid	9
0	- Eign Gate Refurbishment	68
120	- Other schemes	79



2003/04 £000	<b>Capital Expenditure</b>	2004/05 £000
	Policy and Finance	
1,229	- Hillside Capital works	26
807	- Property Adaptations	218
824	- ICT services	1,919
158	- CCTV	69
700	- INFO centre in Bromyard	1
31	- Personnel system	0
0	- Purchase of Station Approach, Hereford	1,989
0	- Revenues and Benefits system	692
0	- Debtors system	47
0	- Garrick House Service Improvement Project	128
73	- Other	339
	Other	
0	- Waste management PFI	59
16	- Joint Funded schemes	0
<u>31,866</u>		<u>33,198</u>

### Financing of Capital expenditure

0	Borrowing – Supported Capital Expenditure (Revenue)	17,270
0	- Prudential Borrowing	2,603
16,243	- Basic Credit Approval	0
1,357	- Supplementary Credit Approval	0
325	- Unsupported Credit Approval	130
10,863	Grants and Contributions	8,751
4,245	Capital Receipts	4,327
0	Revenue contribution	244
(1,167)	Temporary accruals	(127)
<u>31,866</u>		<u>33,198</u>

## STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Fixed Asset Restatement Account £000	Capital Financing Account £000	Usable Capital Receipts £000	Pensions Reserve £000	General Fund £000	Specific Reserves £000	TOTAL £000
Balance at 31.3.04	(96,528)	(63,783)	(19,964)	58,309	(9,847)	(9,407)	(141,220)
Net (surplus ) / deficit for year		1,902		43,877	(4,644)	(1,837)	39,298
Effects of disposals and revaluations of Fixed Assets:							
Unrealised gains/ losses on revaluation of fixed assets	(480)						(480)
Impairment Review	(66)						(66)
Proceeds of Disposals	987		(2,654)				(1,667)
Net (surplus) / deficit	441		(2,654)				(2,213)
Financing of Fixed Assets		(4,571)	4,327				(244)
Balance at 31.3.05	<u>(96,087)</u>	<u>(66,452)</u>	<u>(18,291)</u>	<u>102,186</u>	<u>(14,491)</u>	<u>(11,244)</u>	<u>(104,379)</u>

### The Pensions Reserve

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

The actuarial loss identified within the movements on the pensions reserve are a result of the following:

2003/04 £000	2003/04		2004/05 £000	2004/05
(21,352)	14.9% of assets	Difference between expected and actual return on assets	(5,587)	3.6% of assets
0	0	Gains and losses on scheme liabilities	6,507	2.5% of liabilities
0	0	Change in assumptions	41,157	16.1% of liabilities

Included in the change in assumptions figure is £25,737,000 in respect of changing the discount rate at 1<sup>st</sup> April 2004 in line with the CIPFA Accounting Code of Practice.

## CASH FLOW STATEMENT

2003/04 £000		2004/05 £000	2004/05 £000
	<b>Revenue Activities</b>		
	<b>Cash outflows</b>		
112,871	Cash paid to and on behalf of employees	113,746	
131,521	Other operating cash payments	154,362	
24,020	Housing Benefit paid out	25,464	
32,795	National non-domestic rate payments to national pool	33,267	
9,685	Precepts paid	11,067	
310,892			337,906
	<b>Cash inflows</b>		
(64,056)	Council Tax income	(70,758)	
(52,969)	National non-domestic rate receipts from national pool	(49,297)	
(34,588)	Non domestic rate receipts	(35,373)	
(53,558)	Revenue Support Grant	(62,011)	
(25,441)	DWP grants for benefits	(25,169)	
(48,630)	Other government grants	(54,104)	
(48,091)	Other operating cash receipts	(55,421)	
(327,333)			(352,133)
(16,441)	<b>Revenue Activities Cash Flow</b>		(14,227)
	<b>Servicing of Finance</b>		
	<b>Cash outflows</b>		
3,309	Interest paid	2,611	
	<b>Cash inflows</b>		
(1,589)	Interest/discount received	(1,296)	
1,720			1,315
	<b>Capital Activities</b>		
	<b>Cash outflows</b>		
19,760	Purchase of fixed assets	26,735	
16,024	Other capital cash payments	5,500	
35,784			32,235
	<b>Cash inflows</b>		
(1,581)	Sale of fixed assets	(1,207)	
(8,423)	Capital grants received	(9,144)	
(1,558)	Other capital cash receipts	(5,475)	
(11,562)			(15,826)
9,501	<b>Net cash inflow/outflow before financing</b>		3,497
	<b>Management of Liquid Resources</b>		
(19,730)	Net decrease in short term investments		12,180
	<b>Financing</b>		
	<b>Cash outflows</b>		
25,873	Repayments of amounts borrowed	11,135	
	<b>Cash inflows</b>		
(15,484)	New loans raised	(26,000)	
10,389			(14,865)
160	<b>Net decrease (increase) in cash</b>		812

## 1. Reconciliation of Revenue Cash Flow

2003/04	2004/05	
£000	£000	£000
(3,797) (Surplus) Deficit on Consolidated Revenue Account	(4,644)	
<u>(374) Collection Fund surplus</u>	<u>(673)</u>	
(4,171)		(5,317)
(1,720) Interest/discount		(1,315)
<b>Non-cash Transactions</b>		
424 Contributions from (to) provisions	299	
(2,424) Contributions from (to) reserves	(1,837)	
182 Revaluation of investments	320	
0	(244)	
<u>(2,847) Provision for debt liability (MRP)</u>	<u>(4,097)</u>	
(4,665)		(5,559)
<b>Items on an Accruals basis</b>		
(172) Increase/(Decrease) in stocks and WIP	(55)	
(3,429) Increase/(Decrease) in debtors	3,412	
<u>(2,284) (Increase)/Decrease in creditors</u>	<u>(5,393)</u>	
<u>(5,885)</u>		<u>(2,036)</u>
<u>(16,441) Net cash flow from revenue activities</u>		<u>(14,227)</u>

### Movement in debtors and creditors

Increase/(Decrease)	Debtors	Creditors
	£000	£000
Revenue activities	3,412	5,393
Capital activities	<u>(3,721)</u>	<u>634</u>
	<u>(309)</u>	<u>6,027</u>

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

2003/04	2004/05	
£000	£000	£000
(160) Increase (decrease) in cash in the period	(812)	
9,686 (Increase) decrease in debt financing	(14,865)	
(19,730) Increase (decrease) in liquid resources	12,180	
(47) Internal investment of Trust Funds	(32)	
<u>182 Revaluation of investments</u>	<u>320</u>	
(10,069)		(3,209)
<u>(24,483) Net debt at 1st April</u>		<u>(34,552)</u>
<u>(34,552) Net debt at 31st March</u>		<u>(37,761)</u>

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

### 3. Analysis of Net debt

	1.4.04	Cash Flow	Non- cash	31.3.05
	£000	£000	£000	£000
Cash in hand and at bank	(1,435)	(812)		(2,247)
Debt due within 1 year	(12,030)	1,679		(10,351)
Debt due after 1 year	(41,720)	(16,576)		(58,296)
Short term investments	20,633	12,180	320	33,133
	<u>(34,552)</u>	<u>(3,529)</u>	<u>320</u>	<u>(37,761)</u>

### 4. Analysis of Government Grants

2003/04	2004/05	
Total	Revenue	Capital
£000	£000	£000
63,848 Office of the Deputy Prime Minister	72,851	932
34,230 Department for Works and Pensions	35,042	145
17,450 Department for Education and Skills	17,247	3,127
7,271 Department of Health	7,454	96
241 Home Office	552	0
694 Countryside Agency	249	0
103 Department for Environment, Food & Rural Affairs	182	0
1,330 Lottery	231	218
3,336 Advantage West Midlands	1,821	4,512
2,997 Government Office for West Midlands	1,478	14
1,720 Department for Transport	963	100
2,695 Learning and Skills Council	2,982	0
70 Cabinet Office	70	0
59 Legal Services Commission	94	0
0 Arts Council	10	0
0 Welsh Assembly	8	0
0 Countryside Council for Wales	50	0
8 Basic Skills Agency	0	0
<u>136,052</u>	<u>141,284</u>	<u>9,144</u>

## TRUST FUNDS

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

The Sylvia Short Educational Charity is administered by the Council on behalf of the Trustees. This charity, which was established to provide children with learning experience outside the curriculum, has assets of £1,008,696 including land and investments in shares.

By far the largest Fund involved is the Buchanan Trust, which is invested in agricultural land around Bosbury for the benefit of tenant farmers. The 2004/05 Buchanan Trust Accounts show the cost of running the estate, including management and administration (£57,725) offset by rent received from the tenant farmers (£73,175), income from investments (£34,676) and other income (£12,000). The Trust made a surplus on its revenue account of £62,126.

The Education Trust Funds incurred a small amount of expenditure in 2004/05 and received income from investments.

Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits. During the year the Trust holding funds donated towards the costs associated with the swimming pool in Leominster was closed with the money transferred to the scheme.

There are no material contingent liabilities outstanding at 31<sup>st</sup> March 2005.

### Statement of Revenue Income and Expenditure

	Balance at 1/04/04 £	Revenue Income £	Transactions Expenditure £	New funds, Investment Sales and Revaluations £	Balance at 31/03/05 £
Education (small funds)	19,637	1,108	(164)	212	20,793
Sylvia Short Trust	893,194	37,492	(58,991)	137,001	1,008,696
Buchanon Trust	1,764,140	119,851	(57,725)	27,538	1,853,804
Other Funds	65,140	1,251	(17,547)		48,844
	2,742,111	159,702	(134,427)	164,751	2,932,137

### Balance Sheet

The amount shown for Fixed Assets reflects the estimated value of the Buchanan Trust Land and Buildings and the Sylvia Short property portfolio at 31<sup>st</sup> March 2005. Overall the asset value of Buchanan Trust has increased by £27,538 made up of the sale of buildings (value £12,000) and an increase in the value of other fixed assets of £39,538. The asset value of Sylvia Short Educational Charity has decreased by £30,000 as a result of the sale of buildings. Investments (largely Treasury stocks) are at market value at 31<sup>st</sup> March 2005.

<b>2003/04</b>	<b>2004/05</b>
<b>£000</b>	<b>£000</b>
1,032 Fixed Assets	1,030
845 Investments	975
<u>895</u> Cash temporarily invested with The Herefordshire Council	<u>927</u>
2,772 Total Assets	2,932
(30) Provision for bad debts	0
<u>2,742</u> Assets less Liabilities	<u>2,932</u>
<u>2,742</u> Represented by Trust Funds	<u>2,932</u>