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INTRODUCTION

The 2005/06 financial year was a successful one for the Council. Despite very significant financial pressures in Social Care we have maintained good control over the Council's finances.

There were pleasing indications during the year that the Council's finances were being well managed. The Audit Commission, the Government public spending watchdog, gave the Council a good mark for our Use of Resources assessment.

During the year, the Council appointed a new Director of Resources, Sonia Rees. Sonia has already begun to have a positive impact on our financial policies and arrangements. Sonia is also committed to making our financial documents, including our Statement of Accounts, more readable and user friendly.

We will for the first time this year be publishing and circulating a leaflet size summary version of the Accounts.

Sonia would welcome comments and feedback on this document or indeed any other financial documents or information produced by the Council so that we can be sure we are providing you with the information you need on our financial performance.

Mike Wilson
Cabinet Member - Resources

EXPLANATORY FOREWORD

The following Statement of Accounts for Herefordshire Council present the overall financial position for the Authority for the year ended 31st March 2006 and have been produced in accordance with the Code of Practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Revenue Expenditure and Income

Summary

The 2005/06 accounts show an under spend against budget for the year of £4.1 million on net revenue expenditure. This resulted in a transfer to revenue balances of £34,000 compared with a net anticipated transfer from balances of £4.06 million, of which £3.8 million related to 2004/05 under spends brought forward. The additional £4.1 million is attributable to the following:

	£000
Service area under spends	3,720
Treasury management including interest received	1,850
Transfer (to)/from earmarked reserves	(1,386)
Other changes	(87)
Total under spend	<u>4,097</u>

Service Area Underspends

The net under spend for the Council's Directorates of £3.7 million was made up as follows:

	Under/(Over) Spends £000
Directorate	
Adult & Community Services	(1,567)
Children and Young People's services	1,541
Corporate and Customer Services	1,514
Environment	847
Human Resources	70
Resources	135
Corporate costs	1,180
Total under spend	<u>3,720</u>

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

- **Adult and Community Services**
 - An over spend of £828,000 on Adult Social Care, the main pressure areas being Learning Disabilities, Mental Health and Physical Disabilities. Overspends in these areas were offset by savings in Older People's Services and Commissioning. In addition, £714,000 of overspends from 2004/05 were written off.
 - An over spend of £593,000 on Homelessness.
 - An under spend of £430,000 on Community Services, mainly in respect of social and economic regeneration.
- **Children and Young People's Services**
 - Over spends in the year amounted to £1.3 million, the most significant being the Schools Music Service (£320,000) and Joint Agency Management SEN placements (£342,000).

- The over spends were more than offset by the under spends on Schools Transport (£953,000) and SEN placements (£452,000). There was also an under spend of £895,000 on ring-fenced schools budgets.
- Corporate and Customer Services
 - The main budget variation was an under spend of some £903,000 on ICT services due to project delays.
- Environment
 - Over spends for the year on Highways and Transportation budgets of £684,000 on winter maintenance, street cleansing and public toilets were more than offset by under spends of £761,000 on street lighting, road maintenance, public rights of way and car parking.
- Resources
 - Over spends on administrative buildings (£561,000) were more than offset by under spends on industrial estates (£400,000) and retail properties (£182,000).
- Corporate Costs
 - Significant corporate savings included an under spend on the net cost of Housing Benefits (£411,000) and unbudgeted income from the Local Authority Business Growth Incentive Scheme (£602,000) and West Mercia Supplies (£262,000).

Carry Forward arrangements

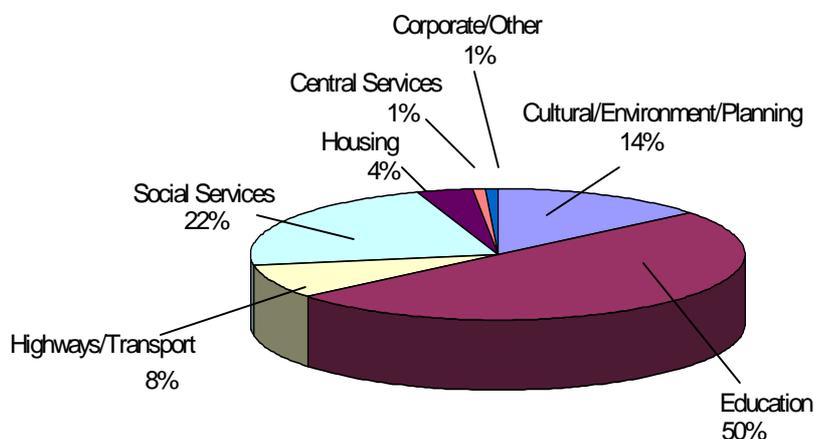
The arrangements in respect of carry forwards have been reviewed during the financial year. The agreed principle is that managed under spends can be carried into the following financial year to fund one off expenditure providing all other budget targets have been met. Under spends can also be carried forward in order to ensure external funding is received or where any savings should not accrue to the Council (e.g. Education ring fenced funding).

For 2005/06, after taking account of earmarked schools funds, £2.825 million of under spends are being carried forward into 2006/07, with £692,000 being used for corporate budget pressures and £2.133 million available to Directorates.

Analysis of Revenue Expenditure and Income

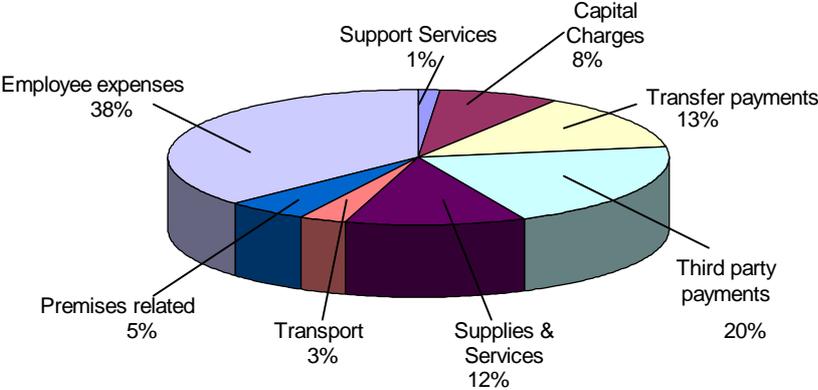
The net cost of services within the Consolidated Revenue Account is £193,495 million, made up of the following services:

Analysis of Net Expenditure by Services



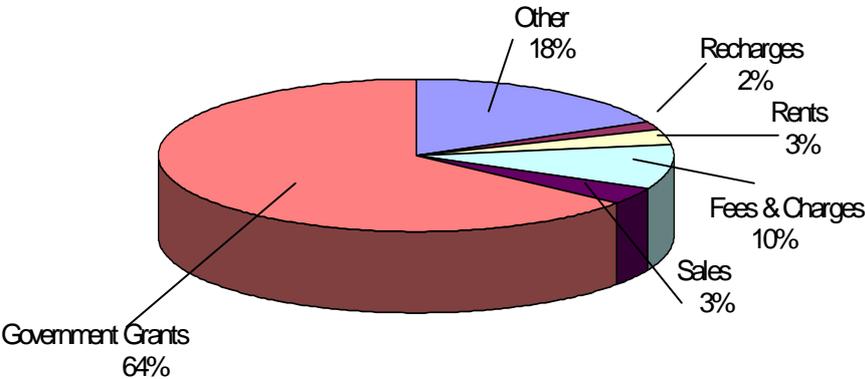
The gross cost of services was £326,308 million, which was spend on the following types of expenditure:

Analysis of Gross Service Expenditure



The gross income for the year from services was £132,813 million and came from the following sources:

Analysis of Income within Services

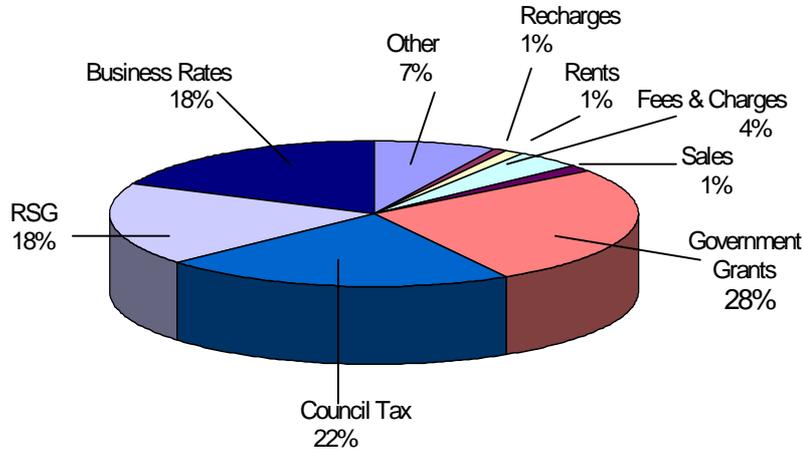


The figure for Government grants includes £38.3 million in respect of the payment and administration of Housing and Council tax benefits.

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 these items, the net total cost to be funded from government grants and Council tax was £186.5 million. The Council received £58.4 million of Revenue Support Grant (RSG), £58.9 million from the Non-Domestic Rate Pool (Business Rates) and £68.9 million from Council Tax. After transferring £300,000 from Collection fund surpluses, this resulted in a surplus of £34,000 to be added to general reserves.

The total sources of income for the Council, including service income, RSG, Business Rates and Council Tax were:

Total Revenue Income



Capital Programme

With regard to capital spending some £32 million was incurred compared with the original forecast investment in the Council's assets of £37 million. This reflects revisions in forecast spend identified and monitored throughout the year. No conditional funding resources have been lost and the Council has maximised the use of resources available.

Herefordshire Council used supported borrowing of £13.9 million, capital receipts reserve funding of £1.8 million, grants of £10.2 million, revenue contributions of £0.8 million and prudential borrowing powers of £5.1 million to fund capital expenditure in 2005/06.

Summary of Capital Expenditure

	£000
Housing Renewal Programme	1,357
Affordable Housing Grants	2,710
Education new build and refurbishment	4,861
Improvements to existing schools	1,591
Highways and Bridges	9,773
ICT Services	4,385
Other schemes	7,168
	<u>31,845</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.

	2006/07	2007/08	2008/09
	£000	£000	£000
Sources of funding			
Supported Capital Expenditure (Revenue)	13,197	12,646	10,690
Prudential Code Borrowing	8,069	5,000	5,000
Capital Receipts Reserves	4,855	4,429	5,445
Unfunded	-	-	1,035
Grants and Contributions	9,432	1,534	107
	<u>35,553</u>	<u>23,609</u>	<u>22,277</u>

When the usual sources such as grants and supported borrowing cannot fund a scheme in full then the use of unsupported Prudential Borrowing can be considered. The Council has approved an unsupported Prudential Borrowing level of £5,968,000 (plus slippage from previous years) for 2006/07 and has given indicative approval for £5,000,000 of unsupported borrowing in future years.

The Council's Borrowing

The Council had a total of £82.3 million outstanding loan debt at 31st March 2006 of which £0.4 million was repayable within 12 months.

The Council's Reserves

The Council retains a minimum level of general reserves of £3 million as a contingency against unforeseen emergencies and events. The Council's overall revenue balances of £14.5 million reflect this sum, together with the 2005/06 budget carry forwards £2.8 million. The remaining unallocated sums will be retained for future 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 12 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 31st March 2006 is £101 million, which is approximately 52% 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 31st March 2004. Further to the revaluation, the Council's employers' contribution will increase from 16.5% of pensionable pay to 19.9%, phased over 6 years up to and including 2010/11. Annual increases will be approximately 0.6% of pay. The period over which the Council's deficit will be dealt with has been increased from 13 years to 25 years, in line with Government advice. The fund position is reviewed every three years.

Magistrates Courts service and PFI Contract

As from 1st 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, in partnership with Worcestershire County Council, for the provision of Magistrates Courts within the two Counties. Contributions towards the scheme are no longer payable by the Council.

The 2005/2006 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 2005/06.

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 31st March 2006 i.e. the end of the financial year 2005/06, and represents the value of all assets and liabilities.

4 The Statement of Movement in Reserves

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

5 Cash Flow Statement

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

6 Trust Funds

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

The Statement of Accounts was authorised for issue on 30th June 2006

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

**Sonia Rees
Director of Resources
30th June 2006**

STATEMENT OF RESPONSIBILITIES

The Authority's Responsibilities

The Authority is required to:

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

The Director of Resources' Responsibilities

The Director of Resources is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. The Statement of Accounts is required to set out fairly the Authority's financial position as at 31st March 2006 and its income and expenditure for the financial year.

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

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

The Director of Resources has also:

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

Certificate of the Director of Resources

I certify that the Statement of Accounts present fairly the financial position of Herefordshire Council at 31st March 2006 and its income and expenditure for that period.

Sonia Rees
Director of Resources
30th June 2006

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

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

2. The purpose of the system of internal control

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

3. The internal control environment

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

- Establishment and monitoring of the Council's statutory obligations and organisational objectives, evidenced through the Council's Corporate and Annual Operating Plans, guidance on directorate and service plans, effective arrangements for compliance with and monitoring of legislative changes;
- An integrated Corporate, Service and Financial Planning process;
- The Performance Management Strategy which sets out the Council's approach to performance management;
- The Council's Constitution sets out members' and officers' responsibilities, and delegations to officers and committees in addition to the terms of reference of all the Council's committees;
- The Council has systems and processes as outlined in the Council's Risk Management Strategy in place to identify principal risks to the achievement of the Council's objectives, supplemented by the consideration of risk in committee reports and the decision making process;
- The Director of Resources has overall responsibility for embedding the Council's risk management process;
- There are written Financial Regulations and Contract Standing Orders, which are subject to regular review;
- Adoption of Statutory and professional standards such as the Codes of Practice recommended by the Chartered Institute of Public Finance and Accountancy;

- Financial administration procedures agreed by the Section 151 officer;
- The Council has in place a written Whistleblowing Policy, an Anti Fraud and Corruption Policy and a Code of Conduct for employees all of which have been regularly brought to the attention of all staff;
- An Audit Committee is now operating as part of the Council's internal control process, it's first meeting was held on 30th September 2005;
- An independent audit function, which submits regular assurance reports to the Council's Audit Committee;
- Adoption of a Statement of Internal Control assurance process approved by the Audit Committee on 20th February 2006; and
- Devolved financial management arrangements where managers are responsible for managing their services within available resources and in accordance with agreed policies and procedures.

4. Review of effectiveness

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

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

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

Internal Audit Service

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

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

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

The Monitoring Officer

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

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

Officers of the Council

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

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

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

Audit Commission and other review agencies/inspectorate

In their Annual Audit and Inspection letter 2004/05 the Audit Commission stated that the Council's systems of internal control met the minimum requirements for the Use of Resources assessment. To improve the Council needed to develop:

- risk management, particularly with respect to partnership working and quarterly reporting to Cabinet on risk management issues;
Directorates have been asked to include on DMT agendas, major projects e.g. Accommodation Strategy/Hereford Connects have risks logs associated with them. Corporate risk logs are circulated regularly for amendment. Risk Management issues are reported to Cabinet on a two monthly basis as part of the integrated Performance Reports
The Audit Manger has attended a CIPFA seminar on risk management in partnerships and a risk management protocol for partnerships is being developed;
- the assurance framework, in particular mapping strategic objectives to risks, controls and assurances; *The Audit Committee has adopted a Statement of Internal Control Assurance Framework, which meets the Audit Commission's requirements;* and
- the role of the Audit Committee to provide effective leadership on audit and governance issues. *The Council's Audit Committee is now fully operational and the terms of reference as set out in the CIPFA Guidance on Audit Committees have been adopted.*

The Council's Use of Resources assessment gained a 3 out of 4, however the internal control element was assessed as a 2 out of 4. An action plan has now been developed with the aim of improving the internal control score by the time of the next assessment.

Benefits Fraud Inspectorate

The inspectorate gave the service a 3 star rating, which equated to a good performance overall. It found that the Council's service in relation to claims administration, user focus, and resource management was good, with security arrangements being excellent.

Corporate Assessment and Joint Area Review

The outcome for the Council as a whole continued to be a positive one with the Council's overall score being that of a three star authority and under the new direction of travel statement, the authority was seen as "Improving Adequately".

Although the Council had a Performance Management Framework there was a need for it to be robustly and consistently implemented across the Council.

In overall terms there was a positive assessment of the review of Services for Children and Young People, however there was a major qualification to the overall assessment and that was in relation to the important area of ' Staying Safe'.

The Council has in place action plans to address the issues raised, the Corporate Management Board and Cabinet carry out regular monitoring of these plans. The Council has also set up Prince 2 Project Boards to ensure that the required improvements are met.

5. Significant internal control issues

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

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

There were four issues identified for improvement:

- The Council does not have a Code of Corporate Governance in line with best practice. *A Code of Corporate Governance will be developed in line with CIPFA/SOLACE guidance and be submitted for approval by 31st August 2006;*
- Risk Management is embedded at Corporate and Directorate levels and the Council has well defined procedures for recording and reporting financial and non-financial risks. There is now a need to embed risk management at Key Manager level to ensure a consistent approach across the Council. *The Director of Resources is now the Council's lead officer and an action plan has been developed to speed the process and includes training, guidance for Directorate Management Teams, a survey of key managers and a review of the current Risk Management Strategy for completion by 31st August 2006;*
- 'Staying Safe' improvements within the Children and Young People Directorate raised as part of the Joint Area Review. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan;* and
- There is the need to ensure that the Council's Performance Management Framework is robustly and consistently followed across the Council. *A Prince 2 Project Board is now in place to ensure that satisfactory progress is made on the Cabinet's approved action plan.*

Cllr R. Phillips
Leader of the Council

N. Pringle
Chief Executive

S. Rees
Director of Resources

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 2005, 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 made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet. The largest and by far the most material provision is an insurance provision, which has been subject to an independent evaluation.

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Consolidated Revenue Account after service expenditure has been calculated. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the net cost of services. The reserve is then appropriated back into the Consolidated Revenue Account so that there is no charge against Council Tax for the expenditure.

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 2005/06 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 4.95% 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 the 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 recorded in the balance sheet at cost and 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 2005/06 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

The capital programme is funded on an accruals basis under the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice.

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 Finance, Property, Legal, Committees, Administration, and Human Resources. The costs have been recharged to services on the following basis;

Legal, Committees and Administration	Estimated time spent
Human Resources	Estimated time spent and pro-rata to the number of staff in Directorates.
Finance	A combination of estimated time spent and numbers of transactions.
Property services	Estimated time spent and pro-rata to property maintenance
Accommodation	Staff numbers in each building.

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.

INFO in Herefordshire 'one-stop shops' have been recharged to services based on the number of queries and transactions dealt with during the year.

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 Directorates, such as Adult and Community Services, Environment and Children and Young People's Services.

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.

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

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

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 2005/06 accounts which would materially affect the fair presentation of the accounts had a different estimation technique been applied.

CONSOLIDATED REVENUE ACCOUNT

2004/05 Net £000	2005/06 Expenditure £000	2005/06 Income £000	2005/06 Net £000
1,281 Central services	13,209	11,544	1,665
(94) Court services	235	0	235
25,387 Cultural, environmental and planning services	45,681	18,454	27,227
87,101 Education services	130,546	34,360	96,186
15,078 Highways, roads and transport services	22,998	6,933	16,065
4,768 Housing services	42,762	35,310	7,452
39,433 Social services	68,029	24,618	43,411
3,933 Corporate and democratic core	4,242	612	3,630
453 Non-distributed costs	(3,072)	0	(3,072)
2,682 Other services	1,678	982	696
180,022 Net Cost of Services	326,308	132,813	193,495
4,029 Precepts and Levies			2,040
0 Pooled Capital receipts			437
68 (Surplus)/Deficit from Trading accounts			816
956 Deferred charges written off			0
(10,036) Return on Pension assets			(10,135)
12,510 Pensions interest			13,758
(10,464) Asset Management Revenue Account			(8,718)
(87) Gains and losses on repurchase of borrowing			0
(1,681) Interest and Investment Income			(1,945)
175,317 Net Operating Expenditure			189,748
(1,791) Pensions appropriation			359
0 Pooled receipts appropriation			(437)
244 Revenue Contribution to capital			802
(3,079) Appropriations to/(from) Capital Financing Account			(6,652)
1,837 Transfer to/(from) Reserves			2,698
172,528 Amounts to be met from Government Grants and Local Taxation			186,518
Sources of Finance			
(65,464) Council Tax			(68,926)
(400) Transfer from Collection Fund			(300)
(62,011) Revenue Support Grant			(58,372)
(49,297) Contribution from Non-Domestic Rates			(58,954)
(177,172)			(186,552)
(4,644) Net (Surplus)/Deficit for the year			(34)
(9,847) Balance on General Fund brought forward			(14,491)
(14,491) General Fund Revenue Balance 31st March			(14,525)

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Precepts and levies

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

2004/05	2005/06
£000	£000
1,851 Parish Councils	1,979
1,610 River Authorities	108
297 Magistrates Court	0
<u>271</u> Former HWCC debt financing	<u>(47)</u>
<u>4,029</u>	<u>2,040</u>

The reduced levies to River Authorities resulted from a change in funding arrangements for the Environment Agency. Also, from 1st April 2005 Magistrates Courts transferred to Her Majesty's Magistrates Court service and the Council ceased to make any contributions to the cost of the service.

2. 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 31st March 2006 are as follows:

2004/05	2005/06
£000	£000 £000
Income	
(15,377) Capital Charges	(18,159)
<u>(4,399)</u> Release of grants and contributions deferred	<u>(1,932)</u>
(19,776)	(20,091)
Expenditure	
6,396 Provision for Depreciation	7,227
186 Amortisation of Intangible Assets	841
66 Provision for Impairment	4
<u>2,664</u> External Interest charges	<u>3,301</u>
9,312	11,373
<u>(10,464)</u> Balance transferred to the Consolidated Revenue Account	<u>(8,718)</u>

3. 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. The method of calculation is defined by statute.

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).

2004/05		2005/06
£000		£000
4,097	Minimum Revenue Provision	4,853
6,396	Less: Provision for depreciation	7,227
(4,399)	Release of grant and Contributions deferred	(1,932)
66	Provision for impairment	4
4,927	Deferred Charges write-off	5,395
186	Amortisation of Intangible Assets	841
0	PFI deferred charge	(30)
7,176		11,505
(3,079)	Transfer from Capital Financing Account to Consolidated Revenue Account	(6,652)

4. Pensions

Herefordshire Council participates in two pension schemes, the Local Government Pension Scheme and the Teachers' Pension Scheme. Both schemes provide employees with defined benefits related to pay and service, but for the purposes of FRS 17 the Teachers' Pension scheme is treated as if it was a defined contribution scheme.

(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 2005/06 the Council paid £6.14 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 2005/06 these amounted to £111,218, representing 0.24% 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:

2004/05 £000		2005/06 £000
	Net Cost of services	
6,329	Current Service cost	6,949
163	Past service cost (gain)	(4,057)
175	Curtailment cost	930
	Net Operating Expenditure	
12,510	Interest cost	13,758
(10,036)	Expected return on assets in the scheme	(10,135)
	Appropriations	
<u>(1,791)</u>	Movement on Pensions Reserve	<u>359</u>
<u>7,350</u>		<u>7,804</u>
	Amount charged against Council Tax	
<u>7,350</u>	Employer's contribution payable to the scheme	<u>7,804</u>

Note 12 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.

5. Operating leases

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

2004/05 £000		2005/06 £000
	The amount of lease rentals paid to lessors	
944	Other Land & Buildings	938
799	Vehicle, Plant & Equipment	739
	Rental received in the year for operating leases	
2,347	Other Land & Buildings	2,669

6. Publicity

Section 5 of the Local Government Act 1986 requires local authorities to record expenditure on publicity. In 2005/06 the total was £1,132,000 split as set out below;

2004/05 £000		2005/06 £000
567	Recruitment advertising	658
11	Other advertising	10
453	Other publicity	464
<u>1,031</u>		<u>1,132</u>

7. 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:

	2005/06 £000	2005/06 £000
Markets		
The Council owns and manages open and closed markets, generating income from permanent and temporary letting of premises and market stalls.	Turnover (804)	
	Expenditure 543	
	Surplus	(261)
	[Surplus 2004/05 351]	
Industrial & Commercial Estates		
The Council owns and manages a number of industrial and commercial estates in the County	Turnover (1,830)	
	Expenditure 420	
	Surplus	(1,410)
There was an increase in income in the year due to the receipt of backdated rent following a rent review.	[Surplus 2004/05 835]	
Retail Properties		
The Council owns retail premises in Hereford City centre from which it receives commercial rents	Turnover (591)	
	Expenditure 18	
	Surplus	(573)
	[Surplus 2004/05 (621)]	
ICT Services		
Information and Communications Technology Services are provided to all Council Directorates	Turnover (5,902)	
	Expenditure 6,718	
	816	
	ICT reserve (758)	
	Deficit	58
In 2005/06 £758k of ICT costs were funded from an ICT reserve, set aside in previous years from trading surpluses.	[Deficit 2004/05 68]	

8. 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 £889,000 under this power in 2005/06 and its actual expenditure was £562,743.

9. Building Regulations Charging Account 2005/06

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 2004/05 £000		Chargeable 2005/06 £000	Non- Chargeable 2005/06 £000	Total Building Control 2005/06 £000
Expenditure				
496	Employee Expenses	412	137	549
6	Premises	0	0	0
37	Transport	36	12	48
26	Supplies & Services	25	8	33
191	Central Support Service Charges	228	26	254
<u>756</u>	Total Expenditure	<u>701</u>	<u>183</u>	<u>884</u>
Income				
(756)	Building Regulation Charging	(788)		(788)
<u>0</u>	(Surplus)/Deficit for the Year	<u>(87)</u>	<u>183</u>	<u>96</u>

10. Members Allowances

Allowances are paid to members under the Local Authority [Members Allowances] [England] Regulations 2003. In 2005/06 members were paid a total of £597,544 under these regulations (£588,582 in 2004/05). This was made up of £348,820 Basic allowances, £207,812 Special responsibility allowances and £40,912 for travelling and subsistence.

11. 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 2005/06 amounted to £340,268 (£333,747 in 2004/05) comprising £175,121 for the Core Audit, £80,900 for Inspection fees and £84,247 for the audit of returns and grant claims.

12. Redundancies

The following table summarises the redundancies which occurred in 2005/06:

2005/06	Teachers	Others	Total
Number	5	22	27
Total Cost	£15,719	£297,235	£312,954
Average	£3,144	£13,511	£11,591

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

13. Employees remuneration

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

Remuneration band	No. of Employees
£50,000 - £59,999	20
£60,000 - £69,999	13
£70,000 - £79,999	3
£80,000 - £89,999	0
£90,000 - £99,999	2
£100,000 - £109,999	1
£110,000 - £119,999	0
£120,000 - £129,999	1

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

The Act empowers Local Authorities to provide goods and services to other public bodies. In 2005/06 services were provided to the following organisations:

2004/05 £000	Organisation	2005/06 £000
32	Hereford College of Art & Design	18
25	Hereford College of Technology	9
98	Hereford and Worcester Fire Brigade	93
53	Herefordshire Housing Ltd	16
208		136

15. Pooled Budget Arrangements

There are five Section 31 agreements between the Council and Primary Care Trust (PCT).

Three are hosted by the PCT:

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

The two agreements hosted by the Council are:

- Learning Disabilities;
- Integrated Community Equipment Store (ICES).

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

Mental Health

Financial contributions as detailed on the Memorandum Account are as below. The Council's gross over spend for mental health was £414,000 but under the reciprocal risk sharing

agreement for 2005/06 the PCT will fund the first £280,000 of this sum. Therefore, the total over spend of £589,000 is being funded £134,000 from the Council and £455,000 from the PCT.

2004/05 £000		2005/06 £000
	<u>Budget</u>	
13,357	Herefordshire PCT	14,341
<u>4,411</u>	Herefordshire Council	<u>4,351</u>
<u>17,768</u>	Total Funding	<u>18,692</u>
	<u>Expenditure</u>	
13,357	Herefordshire PCT	14,516
<u>4,411</u>	Herefordshire Council	<u>4,765</u>
<u>17,768</u>	Total Expenditure	<u>19,281</u>
0	Net over/(under) spend	589

Hillside Intermediate Care

The main contributory factor for the over spend is the pressure on staff related costs, as agency staff have been employed to cover vacancies and sickness absence. The overspend is being split between the Council and the PCT.

2004/05 £000		2005/06 £000
	<u>Budget</u>	
827	Herefordshire PCT	802
<u>355</u>	Herefordshire Council	<u>357</u>
<u>1,182</u>	Total Funding	<u>1,159</u>
	<u>Expenditure</u>	
827	Herefordshire PCT	933
<u>355</u>	Herefordshire Council	<u>419</u>
<u>1,182</u>	Total Expenditure	<u>1,352</u>
0	Net over/(under) spend	193

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.

2004/05 £000		2005/06 £000
	<u>Budget</u>	
447	Herefordshire PCT	486
<u>305</u>	Herefordshire Council	<u>332</u>
<u>752</u>	Total Funding	<u>818</u>
	<u>Expenditure</u>	
447	Herefordshire PCT	486
<u>305</u>	Herefordshire Council	<u>332</u>
<u>752</u>	Total Expenditure	<u>818</u>
0	Net over/(under) spend	0

The agreements hosted by Herefordshire Council were as follows:

Learning Disabilities

Financial contributions as detailed on the Memorandum Account are as below. The PCT's gross overspend for learning disabilities was £77,000, but under the reciprocal risk sharing agreement for 2005/06 the Council fund the first £280,000 of the PCT deficit, and therefore the full deficit of £915,000 will be funded by the Council:

2004/05 Budget £000	2004/05 Expenditure £000		2005/06 Budget £000	2005/06 Expenditure £000
		<u>Primary Care Trust</u>		
1,360	1,360	Commissioning Gross	1,326	1,326
1,334	1,468	Southbank Gross	1,346	1,472
	(134)	Southbank Income	0	(49)
0	0	LDP Initiatives	200	200
		PCT contribution to Health staff Gross	<u>276</u>	<u>276</u>
<u>273</u>	<u>273</u>	Net	<u>3,148</u>	<u>3,225</u>
<u>2,967</u>	<u>2,967</u>			
		<u>Herefordshire Council</u>		
10,415	12,500	Gross	12,217	13,194
<u>(4,083)</u>	<u>(4,654)</u>	Income	<u>(4,576)</u>	<u>(4,715)</u>
<u>6,332</u>	<u>7,846</u>	Net	<u>7,641</u>	<u>8,479</u>
<u>9,299</u>	<u>10,813</u>	Net Budget/Expenditure	<u>10,789</u>	<u>11,704</u>
	<u>1,514</u>	Net over/(under) spend		<u>915</u>

Integrated Community Equipment Service

2004/05 £000		2005/06 £000
	Gross Funding	
395	Herefordshire Council	406
(185)	Transfer Budget to Capital	0
68	Herefordshire PCT	70
<u>5</u>	Education	<u>12</u>
283	Total Funding	488
	Expenditure	
547	Revenue	492
<u>(295)</u>	Transfer to Capital	<u>0</u>
252	Total Expenditure	492
<u>(31)</u>	Net over/(under) spend	4

16. 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;

2004/2005			2005/2006	
Receipts	Payments		Receipts	Payments
£000	£000		£000	£000
Government departments and agencies				
73,783	0	- Office of the Deputy Prime Minister	69,302	15
35,187	0	- Department for Works and Pensions	37,966	1
20,374	0	- Department of Education and Skills	25,985	0
7,550	0	- Department of Health	11,858	0
182	0	- Department for Environment, Food & Rural Affairs	427	0
1,063	0	- Department for Transport	1,443	0
6,333	25	- Advantage West Midlands	3,015	28
1,492	0	- Government Office for West Midlands	933	0
552	0	- Home Office	597	0
70	0	- Cabinet Office	7	0
449	0	- Lottery	1,350	0
249	4	- Countryside Agency	183	0
94	0	- Legal Services Commission	8	0
2,982	142	- Learning and Skills Council	2,928	53
10	0	- Arts Council	112	0
0	2	- Basic Skills Agency	0	0
8	0	- Welsh Assembly	0	0
0	0	- Countryside Council for Wales	136	0
0	0	- Dept for Constitutional Affairs	144	0
0	0	- Welfare Food Reimbursement	14	0
0	8,342	Teachers pension scheme	0	8,924
Worcestershire County Council				
0	9,405	- Worcestershire pension scheme	0	9,385
112	2,719	- Other	155	2,645
8,580	6,198	Herefordshire Primary Care Trust	5,023	7,839
0	4,671	Mercia Waste	38	6,116
196	9,202	West Mercia Police Authority	103	9,768
93	3,759	Hereford & Worcester Fire Authority	103	3,998
78	559	Courtyard Trust	14	417
1,318	17,052	Herefordshire Jarvis Service	689	18,538
0	2,064	Owen Williams	1	2,140
115	1,467	Halo	210	1,973
15	1,587	West Mercia Supplies	9	2,201
3	2,796	Shaw Healthcare	36	4,147

The amounts shown above are the 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 2005/06 are not material, with the exception of grants and other payments to local

charities, which total £160,534. The relevant members did not take part in the Council's decision to allocate these grants.

17. Private Finance Initiative

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 31st March 2006, 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. It is hoped that the renegotiations will be concluded during the second quarter of 2006/07. 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 2007/08 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.

The new Whitecross High School PFI project reached financial close in January 2005 and opened on the due date on 5th June 2006. The project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. At the end of this period the school will transfer to the Council's ownership.

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 (NDR). The Collection Fund balances are consolidated with the Consolidated Balance Sheet.

2004/05 £000	Note	2005/06 £000 £000	
Income			
Council Tax:			
70,390	1	73,410	
8,789		9,627	
79,179			83,037
34,234	2		34,814
113,413			117,851
Total Income			
 Expenditure			
9,165			9,614
3,760			3,966
65,464			68,926
91			132
26			88
 Non Domestic Rates			
33,942	2		34,525
292			289
112,740			117,540
Total Expenditure			
673	3		311
Surplus/(Deficit) for the year			
322	3		656
Balance brought forward			
995	3		967
Balance carried forward			

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 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the Council, West Mercia Police Authority and Hereford & Worcester Fire Authority, and dividing this by the Council Tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of Council Tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due. The average Council Tax for a Band D property in 2005/06 was £1,228.63 with a range between £1,199.16 to £1,270.11. The Council Tax base used for setting the Council Tax in 2005/06 was 67,152.

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	6,170.30
B	£40,001 to £52,000	7/9	12,179.00
C	£52,001 to £68,000	8/9	12,163.10
D	£68,001 to £88,000	9/9	11,151.80
E	£88,001 to £120,000	11/9	11,760.20
F	£120,001 to £160,000	13/9	7,994.60
G	£160,001 to £320,000	15/9	4,998.80
H	Over £320,000	18/9	293.00
Crown			196.10
			<hr/> 66,906.90
	Other adjustments		245.59
			<hr/> 67,152.49

Council Taxpayer Income	£000	£000
Council Tax debit @ 1 st April		92,396
Add:		
Redebits	60,993	
Banding Change	401	
Additional – 2 nd Homes	469	
Additional – Empty Properties	322	62,185
	<hr/>	
Less:		
Discounts	7,898	
Exemptions	2,815	
Benefits – Statutory	9,596	
Benefits – Non Statutory	31	
Disablement Relief	130	
Transitional Relief	(3)	
Void Assessments	162	
Empty Assessments	60,542	81,171
	<hr/>	<hr/>
		73,410

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	34,524,596.71
Cost of Collection Allowance	<u>289,129.48</u>
Income from Business Ratepayers	<u>34,813,726.19</u>
NNDR Entitlement	58,954,415.00

£34,524,596.71 is the contribution due to the NNDR pool for 2005/06 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 received NNDR entitlement of £58,954,415, which is its redistributed share. This figure is calculated on a per head of population basis.

Business rateable value as at 31 st March 2006	£101,311,008	
Business rate multiplier	42.2p	
Non-domestic Ratepayers Income	£000	£000
Non-domestic debit @ 1 st April		41,687
Add:		
Transitional Premium		50
Less:		
Empty Allowances	2,217	
Transitional Relief	1,727	
Discretionary Relief	184	
Mandatory Relief	2,483	
Write-offs	279	
Interest on Refunds	33	6,923
Income due from non-domestic ratepayers	<u>33</u>	<u>34,814</u>

Note 3

Contributions to Collection Fund Surpluses

Council Tax	£000	£000
Surplus at 31.3.05		995
Less: Payments		
Hereford & Worcester Fire Brigade	1	
West Mercia Police Authority	38	
Herefordshire Council	<u>300</u>	<u>339</u>
		656
Surplus balance brought forward		656
Surplus financial year 2005/06		311
Surplus balance carried forward		967

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2006

31.3.05 £000		Note	31.3.06 £000	31.3.06 £000
	Fixed Assets	1		
2,320	Intangible Fixed Assets		4,883	
	Tangible Fixed Assets			
	Operational Assets			
174,507	- Other land and buildings		201,852	
2,096	- Vehicles, plant, furniture and equipment		3,314	
60,033	- Infrastructure assets		67,477	
1,790	- Community Assets		1,790	
<u>37,048</u>	Non-operational Assets		<u>37,343</u>	
277,794				316,659
538	Long-term debtors	2		409
14	Long-term investments	3		<u>14</u>
<u>278,346</u>	Total Long-term Assets			<u>317,082</u>
	Current Assets			
129	Stocks and work-in-progress	4	131	
17,899	Debtors	5	26,580	
33,133	Short-term Investments	6	37,889	
0	Landfill Allowance	7	1,085	
<u>2,304</u>	Cash and bank		<u>2,041</u>	
53,465				67,726
	Current Liabilities			
27,900	Creditors	8	28,463	
10,351	Short term borrowing	9	1,386	
<u>4,551</u>	Cash overdrawn		<u>6,308</u>	
<u>42,802</u>				<u>36,157</u>
289,009	Total Assets less Current Liabilities			348,651
58,296	Long-term borrowing	9	81,853	
10	Debt Liability	10	8	
0	Pooled receipts liability	11	151	
102,186	Pensions liability	12	100,614	
<u>1,135</u>	Provisions	13	<u>2,555</u>	
<u>161,627</u>				<u>185,181</u>
<u>127,382</u>	Total Assets less Liabilities			<u>163,470</u>
22,499	Capital contributions deferred	14		34,344
96,087	Fixed asset restatement account	15		118,258
65,496	Capital financing account	16		61,726
(102,186)	Pensions reserve	12		(100,614)
465	Deferred credits	17		252
18,291	Usable capital receipts	18		20,070
11,244	Earmarked reserves	19		13,942
14,491	Revenue balances			14,525
<u>995</u>	Collection Fund balances			<u>967</u>
<u>127,382</u>	Total net worth			<u>163,470</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Fixed Assets

(a) Movement in Fixed Assets

	<i>Operational assets</i>				<i>Non-operational assets</i>			<i>Intangible assets</i>	<i>Total</i>
	Other land and buildings	Vehicles plant and equip	Infra-structure assets	Comm-unity assets	Held for Invest-ment	Under Constr-uction	Surplus Assets		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value at 31st March 2005	174,507	2,096	60,033	1,790	32,606	2,251	2,191	2,320	277,794
Additions	7,792	2,028	10,480	273	224	478	76	3,404	24,755
Disposals/deletions	(142)				(52)		(2,150)		(2,344)
Revaluations	20,855			(287)	3,240		718		24,526
Reclassifications	2,224			14	(525)	(2,054)	341		0
Depreciation for year	(3,381)	(810)	(3,036)						(7,227)
Amortisation for year								(841)	(841)
Impairment losses for year	(3)				(1)				(4)
Net book value at 31st March 2006	201,852	3,314	67,477	1,790	35,492	675	1,176	4,883	316,659

(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 2005/06 fixed assets of £113.890 million were revalued, consisting of £93.880 million Operational Land and Buildings and £20.010 million of Non-operational assets.

(c) Analysis of Fixed Assets

The major fixed assets held by the Council as at 31st March 2006 includes:

	31.03.06
Children and Young People's Services	
Primary Schools	76
Secondary Schools	14
Special Schools	5
Pupil Referral Units	2
Other Educational Establishments	5
Children and Family Centres	3
Youth Centres	8
Adult and Community Services	
Homes for older people	5
Day Centres	5
Homeless Shelter	1
Other Social Services Establishments	5
Libraries	6
Heritage, Museums & Galleries	5
Leisure Centres	6
Swimming Pools	4
Other Leisure/Community Facilities	4
Environment	
Principal County roads	350 km
Distributor/Access roads	2,911.5 km
Cemeteries	4
Crematorium	1
Public Conveniences	30
Travellers Sites	5
Bus Stations	2
Car Parks	42
Open Markets	2
Household Waste Sites	3
Other	
Smallholdings (non-operational assets)	74
General Buildings and Offices	26
Operational Depots	10
Registrars	2
Other Non operational Assets	235
Other Community Assets	157

2. Long-term Debtors

An analysis of Long-term debtors is as follows;

2004/05		2005/06
£000		£000
125	Staff car loans	100
24	Housing Advances	6
27	Computer loans	12
30	Ross Festival loan	0
59	Waste Management PFI	69
0	Whitecross PFI	21
<u>273</u>	HRA Mortgages	<u>201</u>
<u>538</u>		<u>409</u>

3. 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	0.950	3½% War Stock
	0.527	0.312	2½% Consolidated Stock
Leominster District	0.078	0.067	3½% Conversion Stock
	1.744	1.471	3½% War Stock
	0.394	0.233	2½% Consolidated Stock
	<u>3.869</u>	<u>3.033</u>	
South Herefordshire District	10.000		ADC Debenture Stock 1996/2011
	<u>0.140</u>		Parochial investment
Balance at 31 st March 2006	<u>14.009</u>		

4. Stocks and Work-in-progress

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

2004/05		2005/06
£000		£000
19	Rail passes	4
1	Record office	0
77	Tourist Information offices	76
2	Museums	4
18	Highways salt and grit	45
12	IT Stock	2
<u>129</u>		<u>131</u>

5. Debtors

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

2004/05		2005/06
£000		£000
6,008	Directorate Service Areas	6,574
81	School loan accounts	282
35	ICT	115
424	Herefordshire In Touch	0
835	Joint Funding	1,037
2,414	Capital	2,888
1,952	VAT	2,027
64	Treasury management	204
118	Leased cars	98
3,270	Debtors system	7,972
80	Fairer charging	111
2,987	Collection Fund	5,782
60	Other	49
<u>18,328</u>		<u>27,139</u>
<u>(429)</u>	Provision for bad debts	<u>(559)</u>
<u>17,899</u>		<u>26,580</u>

6. Short-term Investments

(a) Internally Managed

	£000	£000
Balance at 1 st April 2005		25,990
Investments made during year (266 transactions)	2,148,496	
Investments recalled during year	<u>(2,144,066)</u>	
Balance at 31 st March 2006		<u>4,430</u> <u>30,420</u>

(b) Externally Managed

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

2004/05		2005/06
£000		£000
6,948	Certificates of Deposit	2,118
179	Fixed Interest Securities	5,315
16	Deposit accounts	36
<u>7,143</u>	Balance at 31st March	<u>7,469</u>

Total Short-term Investments at 31st March 2006

£37,889,030

7. Landfill Allowance Trading Scheme

The Landfill Allowances Trading Scheme (LATS) came into operation on 1st April 2005. DEFRA allocates tradable landfill allowances to waste disposal authorities (WDAs), who may use the allowances to meet their liability for landfill usage or sell them to another WDA. If authorities use more landfill than their allowance they have to purchase additional allowances

from other WDAs or pay a penalty to DEFRA. The asset showing on the balance sheet represents the market value of the 2005/06 allowances (53,716 tonnes at £20.20 per tonne).

8. Creditors

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

2004/05		2005/06
£000		£000
13,392	Directorate Service Areas	12,624
2	ICT	21
416	Herefordshire In Touch	183
998	Joint Funding	1,511
684	Capital	962
7,470	Creditors' system	9,409
514	Treasury management	686
2,143	Payroll	3
1,107	Collection Fund	1,441
366	Purchase ordering system accruals	858
808	Other	765
<u>27,900</u>		<u>28,463</u>

9. Borrowing

a) Borrowing Analysis

Total borrowing can be analysed as follows:

	Range of Interest Rates %	Debt 1.4.05 £000	Loans Raised £000	Loans Repaid £000	Debt 31.3.06 £000
Public Works Loan Board - Maturity	3.7 – 10.25	48,807	18,000	(3,000)	63,807
Public Works Loan Board - Annuity	4.25 - 5	6,913		(424)	6,489
Money Market - Maturity	1.6 – 4.5	12,000			12,000
		<u>67,720</u>	<u>18,000</u>	<u>(3,424)</u>	<u>82,296</u>

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

1) £6,000,000 borrowed on 4th 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 24th 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.

b) Loan Maturity

An analysis of loans as at 31st March 2006 by maturity is:

2004/05		2005/06	2005/06
£000	LONG TERM BORROWING	£000	£000
6,443	Maturing within 1 - 2 years	5,464	
6,206	Maturing within 2 - 5 years	4,009	
1,424	Maturing within 5 - 10 years	1,689	
3,979	Maturing within 10 - 15 years	3,862	
40,244	Maturing in more than 15 years	66,829	
<u>58,296</u>			81,853
9,424	Borrowing repayable within 12 months		443
<u>67,720</u>			<u>82,296</u>

c) Trust Funds

A number of Trusts funds have investments with the Council totalling £942,273

10. Debt Liability

Herefordshire's proportion (24.6%) of the Ex-Hereford and Worcester County Council's Public Works Loan Board outstanding debt on 31st March 1998 was transferred to Herefordshire on 30th 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 31st March 2006 is £8,428 and is recognised as a debt liability.

11. Pooled Receipts liability

A proportion of specified housing capital receipts have to be paid into a Government pool for redistribution. The liability of £151,000 shown on the balance sheet represents 75% of future receipts of mortgage income, which will have to paid over to the government when the money is received.

12. 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 £763,305 remaining payable, which related to the March 2006 contributions paid to the scheme in April 2006.

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 31st 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 31st March are:

	31 March 2005 £m	31 March 2006 £m
Market Value of Assets	153.2	191.7
Liabilities	<u>(255.4)</u>	<u>(292.3)</u>
Surplus/(Deficit)	<u>(102.2)</u>	<u>(100.6)</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	2.9%	2.9%
Rate of increase in salaries	4.4%	4.4%
Rate of increase in pensions	2.9%	2.9%
Discount rate	5.4%	4.9%

(c) Pension Scheme assets

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

	31 March 2005		31 March 2006	
	£000	%	£000	%
Equities	122,234	79.8	156,643	81.7
Government Bonds	20,219	13.2	23,775	12.4
Other Bonds	8,425	5.5	8,436	4.4
Cash/Liquidity	2,298	1.5	2,876	1.5
	<u>153,176</u>		<u>191,730</u>	

The expected rate of return on these assets was:

	Beginning of year	End of year
Equities	7.5%	7.0%
Government Bonds	4.7%	4.3%
Other Bonds	5.4%	4.9%
Property	6.5%	6.0%
Cash/Liquidity	4.75%	4.5%

(d) Movement in scheme deficit during the year.

2004/05		2005/06	
£000		£000	
(58,309)	Surplus/(Deficit) at beginning of year	(102,186)	
(6,329)	Current service cost	(6,949)	
7,350	Employer contributions	7,804	
(338)	Past service/curtailment (cost)/gain	3,127	
(2,474)	Net interest/Return on Assets	(3,623)	
<u>(42,086)</u>	Actuarial gain or (loss)	<u>1,213</u>	
<u>(102,186)</u>	Surplus/(Deficit) at end of year	<u>(100,614)</u>	

The provisions of the Local Government pension scheme changed at the end of the year to allow members to take a higher lump sum than the standard amount by commuting part of their pension. The Actuary has assumed that 50% of members will take up this option, which is less costly for the scheme and this has created a past service gain of £4.1 million.

The net liability represents the difference between the value of the Authority's pension fund assets at 31st March 2006 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 1st April 2006 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 31st 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.

13. Provisions

The provisions at 31.3.06 are listed below;

2004/05 £000		2005/06 £000
22	Village focus grants	22
73	Former Hereford and Worcester liabilities	73
885	Insurance	1,020
47	Legal Claim	0
108	Learning and Skills Council	0
0	Redundancies	373
0	Landfill Allowances liability	1,067
<u>1,135</u>		<u>2,555</u>

An insurance provision is held to cover the cost of policy excesses in relation to expected property and liability claims. The sum involved is calculated using a detailed assessment of likely claims, based on the claims experience of this authority and the former authorities. The 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.

14. 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.

Balance as at 1 st April 2005	£000 (22,499)
Add: Grants received in the year	(13,777)
Less: Transfer to AMRA	1,932
Balance as at 31 st March 2006	<u>(34,344)</u>

15. 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.

2004/05		2005/06
£000		£000
(96,528)	Balance as at 1 st April	(96,087)
(546)	Revaluation and Restatement of Fixed Assets	(24,516)
987	Disposal of Fixed Assets	2,345
<u>(96,087)</u>	Balance as at 31 st March	<u>(118,258)</u>

16. 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.

2004/05		2005/06
£000		£000
(63,783)	Balance as at 1st April	(65,496)
(4,327)	Capital Financing - Capital Receipts	(1,827)
(244)	Capital Financing - Revenue	(802)
0	Credit cover provided	(270)
3,079	Appropriation to Consolidated Revenue Account	6,652
41	Write down of Deferred Charges (long-term debtors)	18
(262)	Write down of debt transfer	(1)
<u>(65,496)</u>	Balance as at 31st March	<u>(61,726)</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.

17. Deferred Credits

The deferred credits figure in the balance sheet is made up of £50,198 in respect of HRA mortgages (net of the amount repayable to the government), and £202,327 relating to a credit arrangement. The credit arrangement relates to leased offices and a Salt Barn 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.

18. Usable Capital Receipts

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

Usable Capital Receipts

	2005/06
	£000
Balance as at 1 st April	(18,291)
Usable receipts in the year	(3,876)
Credit cover provided	270
Applied in the year	1,827
Balance as at 31 st March	<u>(20,070)</u>

19. Movement on Specific Revenue Reserves

	Balance 31.3.05	Transfer from Revenue	Transfer to Revenue	Balance 31.3.06
	£000	£000	£000	£000
Community buildings	(64)			(64)
Commuted sums	(87)	(43)	52	(78)
Schools balances in hand	(8,919)		180	(8,739)
Industrial Estates - maintenance	(123)	(22)		(145)
Initiatives Fund	(372)	(61)		(433)
Support Services & Equipment renewals	(358)		149	(209)
IT services	(758)		758	0
Schools Balance of Risk	(335)	(38)		(373)
Winter maintenance	(108)			(108)
Planning	(24)			(24)
SRB schemes	(96)			(96)
College Hill Community Centre	0	(180)		(180)
Waste Disposal	0	(1,386)	20	(1,366)
LSC	0	(32)		(32)
School energy audits	0	(50)		(50)
Landfill Allowance scheme	0	(19)		(19)
Herefordshire Connects project	0	(1,928)		(1,928)
Wye Valley ANOB	0	(98)		(98)
	<u>(11,244)</u>	<u>(3,857)</u>	<u>1,159</u>	<u>(13,942)</u>

20. Schools Balances – Local management of schools

A sum of £8,738,677 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 £1,131,531 can be split between Primary schools (£5,288,337), Secondary schools (£3,125,323) and Special schools (£325,017).

21. 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 31st March 1998. Of this £73,246 was unapplied at 31st March 2006. 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 £85,000 has been set up in respect of the recovery of overpaid housing benefits accrued for in the 2005/06 accounts.

Bad debt provisions are also maintained for Council Tax (£392,844) and Non-domestic rates (£73,257). A small provision of £8,384 has been retained for outstanding Housing Revenue Account debts.

22. Amounts due to or from related parties

As at 31st March 2006 amounts due to and from related parties were as follows:

Related Party	Due to £000	Due from £000
Office for the Deputy Prime Minister	4,096	2,214
Department for Transport	492	0
Department for Works and Pensions	14	562
Department for Education and Skills	1,767	1,688
Department of Health	0	2
Department for Food, Agriculture & Rural affairs	4	95
Countryside Council for Wales	0	13
Learning & Skills Council	533	257
Advantage West Midlands	219	503
Government Office For West Midlands	242	522
Lottery	57	298
Arts Council	66	0
Countryside Agency	51	133
Teachers Pension	763	0
Worcestershire County Council	1,425	164
Herefordshire Primary Care Trust	975	6,049
Courtyard Trust	0	6
Herefordshire Jarvis Services	1,717	313
West Mercia Police Authority	0	5
Shaw Healthcare	74	1
Mercia Waste	963	0
Halo	68	185
West Mercia Supplies	276	42
Owen Williams	244	4
Department of Constitutional Affairs	0	28
Hereford & Worcester Fire Authority	0	15

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

23. Contingent Liabilities

- (a) When the Council's houses were transferred to Herefordshire Housing Ltd a legal agreement was entered into for a stock enhancement contract, which would result in significant VAT savings of which the Council should receive a share. It has been determined by the Inland Revenue that this contract should be subject to Corporation Tax. The effect of this would be to negate the benefits of the VAT sharing agreement. Herefordshire Housing Ltd has now obtained charitable status, which has resolved this issue for the future. It is expected that a limited proportion of the VAT share received from Herefordshire Housing for 2003/04 and 2004/05 will be returned to them, estimated to be around £290,000.
- (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 £100,000.
- (c) 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 31st March 2004 meant that the guarantee did not result in additional costs to the Council in the period covered by the review (up until 31st March 2008).

- (d) 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.
- (e) A claim has been made against the Council for defamation. The anticipated liability could be up to £50,000.
- (f) There is a claim against the Council for loss of earnings of £140,000, due to the suspension of someone's trading activity during a prosecution case against him, in which he was initially convicted, but later won on appeal.
- (g) The Council is currently negotiating compensation payments to landowners as the result of cables being laid on their land by the Council. The amounts agreed so far total £40,000.
- (h) Depending on the options taken in respect of the acquisition of a Council headquarters, there may be costs of between £100,000 and £250,000 in respect of power provision to satisfy ICT disaster recovery requirements.

24. Capital Expenditure Statement

This statement shows how capital expenditure was financed during 2005/06.

2004/05 £000	Capital Expenditure	2005/06 £000
5,462	Other land and buildings	7,792
14,425	Roads and infrastructure	10,480
275	Community assets	273
4,082	Investment and non operational assets	778
1,891	Vehicles, plant and equipment	2,028
1,530	Intangible assets	3,404
<hr/> 27,665		<hr/> 24,755
5,474	Deferred charges	7,090
59	Other	-
<hr/> 33,198		<hr/> 31,845
Financing of Capital expenditure		
17,270	Borrowing – Supported Capital Expenditure (Revenue)	13,916
2,603	- Prudential Borrowing	5,131
130	- Unsupported Credit Approval	-
8,751	Grants and Contributions	10,169
4,327	Capital Receipts	1,827
244	Revenue contribution	802
(127)	Temporary accruals	-
<hr/> 33,198		<hr/> 31,845

Specific significant contractual commitments in the Capital Programme at 31 March 2006 total £6.1 million. These are as follows:

Scheme	£000
Extra Care Housing Development, Hereford	5,280
High Town and High Street enhancement, Hereford	<u>818</u>
	<u>6,098</u>

25. Leases

The authority was committed at 31st March 2006 to making payments of £12,166,000 under operating leases, comprising the following elements:

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000
Leases expiring in 2006/07	870	623
Leases expiring between 2007/08 and 2010/11	2,542	518
Leases expiring after 2011/12	<u>7,613</u>	<u>0</u>
	<u>11,025</u>	<u>1,141</u>

With regards to the Authority's activity as a lessor, the gross value of assets held for use in operating leases was £119,326,570 as valued at 1st April 2005 and subject to £1,501,466 depreciation to 31st March 2006.

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 31.3.05	(96,087)	(65,496)	(18,291)	102,186	(14,491)	(11,244)	(103,423)
Net (surplus) / deficit for year		6,669		(1,572)	(34)	(2,698)	2,365
Effects of disposals and revaluations of Fixed Assets:							
Unrealised gains/ losses on revaluation of fixed assets	(24,512)						(24,512)
Impairment Review	(4)						(4)
Proceeds of Disposals	2,345		(3,876)				(1,531)
Net (surplus) / deficit	(22,171)		(3,876)				(26,047)
Financing of Fixed Assets		(2,629)	1,827				(802)
Credit cover		(270)	270				0
Balance at 31.3.06	(118,258)	(61,726)	(20,070)	100,614	(14,525)	(13,942)	(127,907)

The Pensions Reserve

Statement of Actuarial (gains) and losses

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

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

CASH FLOW STATEMENT

2004/05 £000		2005/06 £000	2005/06 £000
	Revenue Activities		
	Cash outflows		
113,746	Cash paid to and on behalf of employees	118,889	
154,362	Other operating cash payments	156,721	
25,464	Housing Benefit paid out	28,058	
33,267	National non-domestic rate payments to national pool	36,500	
11,067	Precepts paid	15,597	
337,906			355,765
	Cash inflows		
(70,652)	Council Tax income	(74,418)	
(49,297)	National non-domestic rate receipts from national pool	(58,954)	
(33,515)	Non domestic rate receipts	(33,946)	
(62,011)	Revenue Support Grant	(58,372)	
(25,169)	DWP grants for benefits	(27,536)	
(54,104)	Other government grants	(56,341)	
(57,385)	Other operating cash receipts	(48,773)	
(352,133)			(358,340)
(14,227)	Revenue Activities Cash Flow		(2,575)
	Servicing of Finance		
	Cash outflows		
2,611	Interest paid	3,130	
	Cash inflows		
(1,296)	Interest/discount received	(1,422)	
1,315			1,708
	Capital Activities		
	Cash outflows		
26,735	Purchase of fixed assets	24,413	
5,500	Other capital cash payments	7,160	
32,235			31,573
	Cash inflows		
(1,207)	Sale of fixed assets	(3,596)	
(9,144)	Capital grants received	(13,822)	
(5,475)	Other capital cash receipts	(1,122)	
(15,826)			(18,540)
3,497	Net cash inflow/outflow before financing		12,166
	Management of Liquid Resources		
12,180	Net decrease in short term investments		4,430
	Financing		
	Cash outflows		
11,135	Repayments of amounts borrowed	3,424	
	Cash inflows		
(26,000)	New loans raised	(18,000)	
(14,865)			(14,576)
812	Net decrease (increase) in cash		2,020

1. Reconciliation of Revenue Cash Flow

2004/05	2005/06	
£000	£000	£000
(4,644) (Surplus) Deficit on Consolidated Revenue Account	(34)	
<u>(673) Collection Fund surplus</u>	<u>(311)</u>	
(5,317)		(345)
(1,315) Interest/discount		(1,708)
Non-cash Transactions		
299 Contributions from (to) provisions	(1,420)	
(1,837) Contributions from (to) reserves	(2,698)	
(244) Contributions to capital	(802)	
(4,097) Provision for debt liability (MRP)	(4,853)	
<u>320 Other non-cash</u>	<u>1,411</u>	
(5,559)		(8,362)
Items on an Accruals basis		
(55) Increase/(Decrease) in stocks and WIP	2	
2,612 Increase/(Decrease) in debtors	8,212	
<u>(4,593) (Increase)/Decrease in creditors</u>	<u>(374)</u>	
<u>(2,036)</u>		<u>7,840</u>
<u>(14,227) Net cash flow from revenue activities</u>		<u>(2,575)</u>

Movement in debtors and creditors

Increase/(Decrease)	Debtors	Creditors
	£000	£000
Revenue activities	8,212	374
Capital activities	469	189
	<u>8,681</u>	<u>563</u>

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

2004/05	2005/06	
£000	£000	£000
(812) Increase (decrease) in cash in the period	(2,020)	
(14,865) (Increase) decrease in debt financing	(14,577)	
12,180 Increase (decrease) in liquid resources	4,430	
(32) Internal investment of Trust Funds	(15)	
<u>320 Revaluation of investments</u>	<u>326</u>	
(3,209)		(11,856)
<u>(34,552) Net debt at 1st April</u>		<u>(37,761)</u>
<u>(37,761) Net debt at 31st March</u>		<u>(49,617)</u>

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

3. Analysis of Net debt

	1.4.05 £000	Cash Flow £000	Non- cash £000	31.3.06 £000
Cash in hand and at bank	(2,247)	(2,020)		(4,267)
Debt due within 1 year	(10,351)	8,965		(1,386)
Debt due after 1 year	(58,296)	(23,557)		(81,853)
Short term investments	33,133	4,430	326	37,889
	<u>(37,761)</u>	<u>(12,182)</u>	<u>326</u>	<u>(49,617)</u>

4. Analysis of Government Grants

2004/05		2005/06	
Total £000		Revenue £000	Capital £000
73,783	Office of the Deputy Prime Minister	67,737	1,564
35,187	Department for Works and Pensions	37,893	72
20,374	Department for Education and Skills	21,085	4,876
7,550	Department of Health	7,128	4,699
552	Home Office	597	0
249	Countryside Agency	162	17
182	Department for Environment, Food & Rural Affairs	410	15
449	Lottery	229	1,120
6,333	Advantage West Midlands	2,238	777
1,492	Government Office for West Midlands	251	682
1,063	Department for Transport	1,443	0
2,982	Learning and Skills Council	2,655	0
70	Cabinet Office	7	0
94	Legal Services Commission	8	0
10	Arts Council	112	0
8	Welsh Assembly	0	0
50	Countryside Council for Wales	136	0
0	Department for Constitutional Affairs	144	0
0	Welfare Food Reimbursement	14	0
<u>150,428</u>		<u>142,249</u>	<u>13,822</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 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 £1,020,588 including 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 2005/06 Buchanan Trust Accounts show the cost of running the estate, including management and administration (£103,429) offset by rent received from the tenant farmers (£68,679) and income from investments (£37,795). The Trust made a surplus on its revenue account of £3,045.

The Education Trust Funds incurred a small amount of expenditure in 2005/06 and received income from investments. 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.

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

Statement of Revenue Income and Expenditure

	Balance at 1/04/05 £	Revenue Income £	Transactions Expenditure £	New funds, Investment Sales and Revaluations £	Balance at 31/03/06 £
Education (small funds)	20,793	879	(366)	757	22,063
Sylvia Short Trust	1,008,696	44,411	(40,837)	8,318	1,020,588
Buchanan Trust	1,853,804	106,474	(103,429)	34,565	1,891,414
Other Funds	48,844	4,823	(312)		53,355
	2,932,137	156,587	(144,944)	43,640	2,987,420

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 31st March 2006. Overall the asset value of Buchanan Trust has increased by £34,565. Investments (largely Treasury stocks) are at market value at 31st March 2006.

2004/05 £000	2005/06 £000
1,030 Fixed Assets	1,064
975 Investments	981
927 Cash temporarily invested with The Herefordshire Council	942
2,932 Total Assets	2,987
2,932 Represented by Trust Funds	2,987

GLOSSARY OF TERMS

Accrual

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

Actuary

An expert on pension scheme assets and liabilities

Asset

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

Asset Management Revenue Account

An account local authorities need to keep under capital accounting rules. It includes interest payments on loans, depreciation and the income from capital charges to services.

Balance Sheet

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

Capital Charge

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

Capital Expenditure

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

Capital Receipts

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

Collection Fund

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

Community Assets

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

Consolidated Revenue Account

A statement of the Council's net revenue costs in the year and how this cost was financed from Government grant and taxpayers.

Creditor

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

Debtor

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

Deferred Charges

Capital expenditure, which does not create a fixed asset.

Depreciation

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

Infrastructure Assets

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

Intangible fixed assets

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

National Non Domestic Rates

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

Non Operational Assets

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

Operating lease

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

Operational assets

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

Precept

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

Provision

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

Related Parties

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

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

Public Finance Initiative

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

Reserves

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

Revenue Expenditure

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

Revenue Support Grant

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