
**STATEMENT
OF ACCOUNTS
2005-2006**

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INTRODUCTION

Statement of Accounts

The Statement of Accounts provides financial details of the County Council's activities for the financial year ended 31 March 2006. This document has been prepared in accordance with the Accounts and Audit Regulations 2003 and the 2005 Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy.

The statement shows how Hertfordshire County Council applied both revenue and capital resources in 2005-06 to provide services for a population of approximately one million people.

This information is given both in general terms for the Council as a whole, and at a more detailed level for individual services which is presented on a Best Value basis as required by the Best Value Accounting Code of Practice.

Hertfordshire County Council

Hertfordshire County Council has responsibility for providing services across the whole of the county. We work with central and local government and other local organisations to help improve and provide local services for people who live, work and travel in Hertfordshire.

In 2005-06 our resources were focussed on the following challenges:

- Helping people feel safe and secure
- Tackling the causes and impact of congestion
- Dealing with worn out roads and pavements
- Reducing the impact of new development on the environment
- Maximising opportunities for all children and young people
- Supporting the independence of the growing number of older people
- Maximising efficiency savings and helping keep council tax at an acceptable level

The council is run by elected politicians that are voted in by residents to act on their behalf. Local councillors take the decisions on where money is spent, what council taxes will be charged and how local services will be developed.

We also work closely with the two other tiers of local government in Hertfordshire. There are ten district or borough councils (dealing with services such as leisure, refuse collection and planning applications) and town and parish councils who deal with local issues. In addition, we also work with other partners including the health service and Hertfordshire Police Authority.

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How the council operates

The council is made up of 77 councillors elected every four years. Each councillor represents an area of the county, called an electoral division, and has a special duty to represent the interests of people in that division. The overriding duty of councillors however is owed to the whole county.

Councillors must agree to follow a code of conduct in the way they carry out their duties. A standards committee trains and advises them on the code.

All councillors meet together at full council meetings when decisions are taken on our overall policies and the budget. Meetings are open to the public.

How decisions are made

The Cabinet is responsible for most decisions on how our services are run. It delegates responsibility for many day-to-day decisions to officers, but still retains overall responsibility for them.

The Cabinet cannot take decisions which are out of line with the overall policies or budget agreed by the full council. It can however set up Cabinet Panels which help develop policy.

Meetings of the Cabinet are open to the public, unless personal or confidential matters are being discussed.

INTRODUCTION

The services we provide

Brief summaries relating to the main front line services provided by the County Council are listed below.

Adult Care Services

Adult Care Services work closely with health services, district councils and other agencies to plan, commission and deliver prompt, effective social care services. We aim to help residents who are elderly and frail, physically disabled or have learning disabilities, and their carers, to find ways of managing better.

The department provides and arranges support, care and protection for adults who cannot manage without help, putting the users of our services and their carers at the centre of all that they do.

Adult Care Services' belief is that everyone has a right to live as independently as possible, and our efforts are focused on helping people to gain and maintain control over their own lives wherever possible.

Children, Schools and Families

Children, Schools and Families aim to achieve better outcomes for all children and young people and develop accessible services that meet the needs of children, young people, parents and the wider community.

Placing Hertfordshire's children at the centre of the department's work, it provides an extensive range of services to support every stage of development - from the birth of a child to life long learning for adults.

The service brings together professionals from a range of disciplines, working together to deliver excellent services. It works closely with many local and national organisations including voluntary groups, the police, health services, district councils and the private sector.

Corporate Services

Corporate Services provides leadership and support to enable the organisation to meet its objectives and deliver its promises to Hertfordshire.

The department supports Members (of the council) and other departments while leading and developing the strategic direction of the council. It challenges, monitors and regulates policy and service delivery to ensure that the organisation is managed efficiently and that services meet the needs of users.

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Environment

Environment is responsible for a wide range of services that affect many aspects of life in Hertfordshire, including roads and rights of way, public transport, strategic planning, waste planning and disposal, and conserving and enhancing the natural and built environment.

The department works with local people to create a better living, working and travelling environment and improve the quality of life in Hertfordshire, now and in the future.

We aim to maintain and, where possible, improve the environment and infrastructure of Hertfordshire.

Fire and Rescue

The Fire and Rescue Service is dedicated to saving life and property from fires and other emergencies – such as road traffic accidents, chemical spillages, domestic flooding and trapped livestock.

The service's key responsibilities are to prevent fires occurring and to respond if they or other emergencies occur to minimise their impact on life and property. Fire safety officers and operational crews target local communities to ensure that people are aware of the risks of fire and take appropriate action to minimise those risks in homes.

It also seeks to ensure that all homes in the county are fitted with working smoke alarms which detect fires early. Firefighters offer free home safety checks to all Hertfordshire residents and fit smoke alarms where necessary. Fire Service personnel also inspect commercial and public buildings to ensure that they comply with the requirements of various pieces of fire safety legislation.

To find out more about the services provided by each department please visit www.hertsdirect.org

REPORT BY THE FINANCE DIRECTOR

1. Introduction

The accounts have been prepared in accordance with the 2005 Code of Practice on Local Authority Accounting in Great Britain issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which incorporates the Statements of Recommended Practice on the Application of Accounting Standards to local authorities.

2. The Statement of Accounts

The accounting statements comprise:

The Consolidated Revenue Account which brings together the individual service accounts such as Education and Social Services. The summary account, therefore, reports the net cost for the year of all the functions for which the County Council is responsible, the statutory contributions it makes and shows how the cost has been financed.

The Consolidated Balance Sheet which represents the financial position of the County Council as a whole as at 31 March 2006. It shows the balances and reserves at the County Council's disposal, its long term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held. The balance sheet excludes the pension fund and various trust funds and community accounts which are administered for third parties and whose assets are not at the disposal of the County Council.

A separate Summary Trading Account for material County Council services operating in a competitive trading environment.

The Statement of Total Movement in Reserves shows the different categories of Council reserves and whether they increased or decreased in the year.

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

Pension Fund accounts which show the financial transactions and net assets relating to the provision of pensions and other benefits payable to former employees of the County Council and other approved bodies. The County Council also publishes a separate Annual Report on the Pension Fund Accounts, which gives more detailed information.

REPORT BY THE FINANCE DIRECTOR

3. Accounting Policies

Responsibility for defining how Local Authorities comply with accounting standards lies with CIPFA. The Code of Practice sets out best practice with which Local Authorities are expected to comply. The accounting policies applied in preparing the Statement of Accounts are shown on pages 100 to 107.

4. The Prudential Code for Capital Finance in Local Authorities

The Prudential Code was introduced from 1 April 2004. Under the system, individual authorities are responsible for deciding the level of their affordable borrowing, having regard to the Prudential Code, which has been given legislative backing. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities. The system is designed to encourage authorities that need, and can afford, to borrow for capital investment to do so.

Under the Prudential Code for capital, local authorities now have the option to consider additional borrowing, above the level supported by government, taking into account council investment priorities, the impact of additional borrowing on council tax, and on the level of the council's external debt.

In setting the 2005-06 revenue and capital budgets the Council made use of the greater freedom to set its own borrowing levels within limits identified by Prudential Code indicators.

5. Financial Reporting Standard 17 – Retirement Benefits

Full implementation of FRS17 was reflected for the first time in the 2003-04 accounts. Under this accounting standard the cost of pensions on an actuarial basis is reflected within the revenue accounts. FRS17 applies to the Local Government Pension Scheme, the unfunded Fire Fighters Scheme and any discretionary pension awards. The estimated pension liability as at 31 March is now shown on the face of the balance sheet. There is a neutral impact on the revenue account reported for the year as the effect of FRS17 is reversed through the use of a pension reserve. Further information explaining the effect of this is disclosed in the accounting policy applicable to pensions on page 106.

REPORT BY THE FINANCE DIRECTOR

The change has had the following effects on the results of the current and prior periods:

- although the overall bottom line to be met from council tax and government grants is unchanged, the costs disclosed for individual services are 0.2% lower (2004-05 – 0.5% lower) after these adjustments and net operating expenditure is 1.8% higher (2004-05 – 0.7% higher) than it would otherwise have been
- the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the County Council by 34.6% (2004-05 – 34.3%).

The balance sheet position includes assets and liabilities in respect of the Hertfordshire Magistrates Court Committee, rolled forward from the 2004 valuation. With effect from 1 April 2005, employees of this body transferred to the Department for Constitutional Affairs and were offered membership of the Principle Civil Service Pension Scheme. A bulk transfer of past service may take place. The basis has been agreed but the actuary does not yet know the final amount, nor how many members will transfer. The effect of the bulk transfer has therefore not been taken into account in the FRS17 Local Government report supplied by the actuary, Hymans Robertson.

6. Landfill Allowances Trading Scheme

During 2005-06 the County Council has adopted Local Authority Accounting Panel Bulletin 64 - Landfill Allowances Trading Scheme. This requires the Council to reflect costs and income relating to allowances supplied and used in its waste disposal operation. Such costs and income are reflected within the Waste Disposal line of the Cultural, Environmental and Planning service. Landfill allowance assets and liabilities as at 31 March 2006 are reflected within current assets and current liabilities on the balance sheet. The excess of allowances received over those applied when using landfill sites has been shown within specific reserves on the balance sheet. Note 27 to the balance sheet explains how this reserve can be used.

REPORT BY THE FINANCE DIRECTOR

7. Prior Year Adjustments

Comparative figures for 2004-05 have been amended for the following items. The changes have no effect on the level of general balances or reserves available to the Council.

Deferred Charges

The Statement of Recommended Practice (SORP) requires that, unless the Council controls the economic benefits from capital expenditure, it should be written off to revenue in the year the expenditure is incurred. This is referred to as a deferred charge and can apply when the County Council incurs capital expenditure on a building which it does not own. In 2004-05 the Council incurred £5.796m of such expenditure primarily on school buildings. The 2004-05 accounts did not follow SORP presentation requirements in respect of these transactions. Within these accounts comparative figures for 2004-05 have been restated to ensure SORP compliance. The material changes result in the consolidated revenue account net cost of services total being increased by £5.796m with a reversing entry being shown in the appropriation section. Material balance sheet restatements relate to operational land and buildings, fixed asset restatement account and the capital financing account.

Debtors and Creditors

Debtors and receipt in advance creditors were overstated by £8.021m in the 2004-05 accounts by the inclusion of invoices raised on Health Authorities in respect of services provided in 2005-06. Within these accounts comparative balance sheet figures for 2005 in respect of debtors and creditors have been restated.

Related Parties

Following clarification within the 2005 Statement of Recommended Practice, these accounts do not reflect short term investments made on behalf of the Hertfordshire Police Authority. The practice in previous years has been to show these investments on the face of the balance sheet together with a related party liability as the deposits are made in the name of the County Council. Comparative figures for 2004-05 have been restated.

REPORT BY THE FINANCE DIRECTOR

8. Financial Summary 2005-06

Revenue

In 2005-06, the net spending of the County Council was £1,078.217 million resulting in a use of general balances of £4.538 million. This has resulted in the level of general revenue balances as at 31 March 2006 falling to £31.925 million. However, this is £9.962 million higher than forecast when the revenue budget for 2005-06 of £1,074.502 million was set. This is because there was an expectation that £14.500 million of general balances would be needed to fund the budget requirement. Further analysis of the higher level of general balances than that forecast in the 2005-06 budget is shown in the table below.

	<u>£ million</u>
<u>Underspends against budget</u>	
Services (net)	1.540
Contingency	3.650
Special Provision	2.655
Office rationalisation project	1.605
Other minor variances	0.053
<u>Other Income</u>	
Additional central government grants	0.459
Total	<u>9.962</u>

Net spending is gross expenditure less service income, fees, charges and specific grants, but before deduction of revenue support grant. The money to finance services provided by the County Council is received in the main from two sources. The largest contributor is central government, in the form of revenue support grant and redistributed business rates which accounts for £670.907 million. The balance of £402.772 million is received from local taxpayers through payment of council tax.

Capital

In 2005-06 the County Council spent £161.378 million on capital schemes, including buildings, adaptations, roads, equipment and intangible assets with a life of more than one year. A summary of the expenditure and how it has been financed is shown in Note 3 to the Consolidated Balance Sheet together with details of material projects and their associated gross capital expenditure in the year.

The County Council regularly reviews its property portfolio to identify opportunities for recycling and disposal to assist the achievement of its capital programme.

REPORT BY THE FINANCE DIRECTOR

External Borrowing

During 2005-06 external borrowing increased by £112.250 million.

During the year additional loans totalling £75 million were arranged with the Public Works Loan Board. These loans together with new borrowings of £47 million from other external lenders are of a long-term nature having maturity dates ranging from June 2026 to February 2063. Public Works Loan Board borrowings of £9.750 million were repaid during the year ended 31 March 2006.

Total external borrowing as at 31 March 2006 amounted to £345.331 million and the maturity analysis of this borrowing is shown in notes 11 and 16 to the balance sheet.

9. Other Developments

The Magistrates' Courts Service transferred to the Unified Courts Administration, a new single government funded executive agency from 1 April 2005. This brings together the administration of all courts below the House of Lords. Local authorities are no longer involved in the funding of this service from 2005-06. Hertfordshire Magistrates' Courts will, with effect from 2005-06, be reported within the accounts of the Department for Constitutional Affairs.

In December 2005 the Audit Commission in its assessment report, 'Comprehensive Performance Assessment - The Harder Test', awarded the County Council its top four star rating for overall performance and judged it to be 'improving well'.

On 27 February 2006 the County Council approved a revenue budget for 2006-07 of £575.659 million. In addition a Schools budget was approved at the level of the Government's Dedicated Schools Grant (DSG) for Hertfordshire of £566.033 million. The same meeting also approved a capital budget for 2006-07 of £171.160 million. The budget resolutions resulted in a Council Tax increase of 4.95% producing a charge of £984.95 for a band D property. Further information on the Council's budget can be found on its website www.hertsdirect.org.

C J Sweeney
Finance Director
29 September 2006

STATEMENT OF INTERNAL CONTROL

1. Scope of responsibility

Hertfordshire County 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, having regard to a combination of economy, efficiency and effectiveness.

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. A key part of the system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. Through this process, the Council evaluates the likelihood of those risks being realised and the impact should they be realised, and manages them efficiently, effectively and economically.

The system of internal control has been in place at Hertfordshire County Council for the year ended 31 March 2006 and up to 27 June 2006, the date of approval of the annual report and accounts.

STATEMENT OF INTERNAL CONTROL

3. The internal control environment

The key elements of the internal control environment within Hertfordshire County Council are:

3.1 Objectives

The Cabinet approves, and the full Council adopts, the policy framework for the Authority. In order to meet the statutory requirements the authority agreed and published the 2005-06 Best Value Performance Plan (BVPP) in June 2005, which contained the Council's promises for Hertfordshire; to make Hertfordshire a better place to live and work, to offer children a better future, to help people to help themselves and to continue to be a top performing council. Following the election of the new Council work has been undertaken, with members, to focus priorities further by identifying the key challenges faced by the Council over the medium term. The first Corporate Plan was published in November 2005 as a 'working draft' for 2005-08 and provided the initial context for the continuing work on developing the future strategy for the authority. Members, Chief Officers and the Performance and Planning Group met regularly to refine the challenges and measures. The Corporate Strategy Cabinet Panel has continued to work on the Corporate Plan, the Challenges and the measures. The Cabinet will put the Corporate Plan for 2006-09 to the County Council in June 2006.

The Corporate Strategy Cabinet Panel proposed a set of interim indicators to measure the challenges agreed. The Panel is currently exploring a more robust set of indicators for 2006-09.

Shared priorities for Hertfordshire, linked to outcomes and robust targets, are set out within the Local Area Agreement, which was signed by Government Ministers at a formal signing ceremony in London on 23 March 2006.

3.2 Policy and decision making

The Council has a Constitution, which sets out, in full, the processes by which its policies are made and its decisions taken. It was revised and updated in 2004-05, and the revised Constitution was adopted by the full Council at their May 2005 meeting. In summary, it aims to:

- enable the Council to provide clear leadership to the community in partnership with the public, businesses and other organisations
- support the active involvement of members of the public in decision-making
- help Councillors represent their constituents
- enable decisions to be taken efficiently and effectively
- enable decision-makers to be held to account
- ensure that decision-makers are identifiable and that reasons are given for decisions.

STATEMENT OF INTERNAL CONTROL

The full Council is responsible for the adoption of the budget and policy framework. It is the responsibility of the Executive to implement it. There is an extensive scheme of delegation to officers, who are bound by Council policy, budget limits, and the requirements of the law in taking decisions.

3.3 Compliance

The Constitution sets out how members and officers work to ensure compliance with established policies, procedures, laws and regulations. In conformity with the CIPFA / SOLACE framework for Corporate Governance (2001), a Risk Management Policy was agreed by the Safety, Emergency and Risk Management (SERM) Board and adopted by members and management.

The Finance Board and its members (the Finance Director, the Assistant Directors of Resources for Adult Care, Children Schools & Families and Environment, the Assistant Finance Director (Corporate Services), the Head of Financial Management (HBS) and the Chief Internal Auditor) have responsibility for the management of the Key Risk process.

This role covers:-

- a. Developing and updating the process with the support and advice of the Head of Health, Safety and Risk Management
- b. Co-ordinating the process of developing the key risk register within each department, ensuring full involvement of departmental management teams and ensuring consultation with executive members
- c. Quarterly monitoring and review of the key risk register.

The Board's responsibilities with regard to both a) and b) are well established and are effectively discharged. Finance Board regularly consider items relating to the key risk areas identified in the register, for example, systems changes, major projects and volatile demand led budgets. Arrangements for formalising a comprehensive quarterly review of the register by the Board are now in place.

In line with CIPFA's 2005 guidance (Audit Committees – Practical Guidance for Local Authorities) the Head of Risk Management and the Chief Internal Auditor provided a briefing open to all members in February 2006 on the role of the Audit Panel and risk management. The Annual Report on the key risk management process was made to the Audit Panel on 30 March 2006. The Council updated the Audit Panel's remit to take full account of the CIPFA guidance.

STATEMENT OF INTERNAL CONTROL

The Audit Commission, as part the Comprehensive Performance Assessment have judged the risk management arrangements within the County Council, as part of its internal control as “performing well”. This is in contrast to over 60% of councils, whose relative performance was assessed as “at or below minimum requirements”.

The Council commissioned AON (risk consultants) in June 2005 to review the risk management arrangements in place, and they found that:

“HCC has a culture of taking risks in order to secure improvements in service delivery through innovation, and has devoted a significant amount of resources to ensure that risk is understood and well managed rather than avoided. This approach is supported and encouraged by Cabinet Members and Senior Management within the Council”.

The Environment Department are piloting the operational risk register approach. Training for senior managers has just been completed. Further information on the pilot will be provided to the Audit Committee later in the year.

The Risk Register was issued to Finance Board members in February 2006. It includes the amber/green risks, plus details of the ratings (likelihood/impact). The Finance Board were asked to share this with their Chief Officer and Executive Member.

3.4 Value for money

The Finance Board and Performance and Planning Group undertook a joint review of the key issues within services alongside the budget discussions which included the development of the ‘Strategic Compass’ corporate planning model. It is a management tool, designed to gain ownership of Hertfordshire County Council’s priorities. The Compass aims to achieve a transparent alignment between budget and service priorities, and will assist in helping the County Council to meet the higher level requirements of the CPA Use of Resources assessment.

This corporate planning process was undertaken for the first time in 2005-06. A key element was the use of available evidence, including relative performance and cost information to develop service profiles. Officers analysed these strategic compasses as a context for revenue and budget proposals. This enabled officers to assess how best to manage resources to achieve the key outcomes. Councillors then considered this evidence through a similar series of meetings with Chief Officers to determine budgetary decisions based on the priorities for the organisation.

Feedback on the use of this tool for budget planning will lead to it being improved and used again for the process to be undertaken in Autumn 2006.

STATEMENT OF INTERNAL CONTROL

The new SAP system was accompanied by considerable changes in procurement, accounting and HR processes. There was huge commitment from the dedicated SHARP team and from many other staff, and the project continues to be managed in a highly professional and effective way. Business Process Reengineering is a key element in the Team's current work.

During 2005-06 a Procurement Project was launched with the following objectives

- Provide clear routes for efficient and effective purchasing in HCC - Identify the most cost effective way to purchase goods and services
- Promote the advantages of these and set up measures to monitor them - give people the information to allow them to purchase efficiently
- Rationalise the supplier base to allow more targeted effort - cleanse data and focus with key suppliers to reduce transaction costs
- Improve communications with suppliers - promote a 2 way exchange with suppliers re costs of doing business
- Encourage the uptake of e-opportunities - reduce manual intervention in the buying/paying process.

Key Targets of the project were to:

- Reduce transaction costs
- Save money on stationery, postage and processing
- Identify efficient methods of purchasing
- Reduce the number of suppliers.

Initial successes include:

- School milk invoices reduced from 20,000 to 12
- Project savings for 2005-06 of £404,000, largely through improved procurement processes with a full year projected savings in 2006-07 of £1,123,000
- In addition, the introduction of purchasing cards for small value large volume purchases estimated to save £100,000 in 2006-07 and £150,000 in a full year through reducing processing of imprest claims and small value invoices.

3.5 Financial Management

The Comprehensive Performance Assessment included a 'Use of Resources' assessment during 2005 for the first time, for which the Council completed the optional self assessments. HCC achieved an overall score of three out of four for the use of resources.

STATEMENT OF INTERNAL CONTROL

During Summer 2005, the Finance Director commissioned IPF Consultants to conduct a review of HCC's Financial Management using the CIPFA Financial Management Model "Improving financial management and effectiveness in the public service".

From the analysis of the on-line survey results and subsequent interviews with selected finance staff and budget managers a best practice matrix was completed which showed that overall Hertfordshire CC received high scores with there being no "red" areas within the best practice matrix and only one score of 2 out of 4. There are, of course, individual areas where there is potential for improvement to be made, and these are being considered further.

The results show the Council's strengths as:

- the financial management in relation to governance, internal control, internal audit, financial accounting, the integrity of financial transactions and corporate procurement
- the external (and internal) confidence in the integrity of financial transactions
- clear information provided to external financial service users (by the Money Advice Unit)
- user-centred approach to dealing with customers through the Customer Service Centre and focus upon equalities issues
- financial accountability at a strategic level
- the skills of and relationships between budget holders and finance staff.

And the areas to be improved upon as:

- the development of financial management competencies through training, particularly for non-finance staff
- providing budget managers with appropriate access to information to be fully accountable for their budgets
- the Council's approach to budget consultation
- the way in which financial services are organised to support their customers
- the development of a medium term financial strategy
- greater focus upon the achievement of value for money
- the level of understanding across the organisation of contracts
- minimising risks associated with partnership working
- communication of resource allocation decisions and their rationale

STATEMENT OF INTERNAL CONTROL

The Administration's 2006-07 Revenue and Capital budget planning framework and corporate planning process set out the work required from services to submit both revenue and capital budget information, and to do this alongside the development of their strategic compass. Services identify and collect evidence of all "Gershon" savings and key actions taken for each service area, together with quality cross checks to demonstrate maintenance of service quality, review the pressures for change and identify uncertainties which impact on years two to four of the Medium Term Financial Forecast in preparation for officer and member budget review meetings. It was particularly important that pressures and savings identified for both years 2006-07 and 2007-08 were robust as the County Council was required to publish information about its aspirations for council tax for both 2006-07 and 2007-08.

Financial Regulations set out the rules for the control and management of the council's finances and assets. They were revised and updated in May 2005. Throughout 2005-06 there was monthly financial management reporting to Executive Members and Scrutiny Committee spokesmen and these reports were also entered on to the Money pages of Connect, the Council's intranet. The Quarterly Monitor to Cabinet, and the associated controls which operated throughout 2005-06, were sound. The Audit Committee have included the budget monitor report which identifies significant financial issues and budget variances as a standing item on their quarterly cycle.

The tighter deadlines for the 2005-06 accounts, have been addressed and weekly updates are sent to Finance Managers setting out key tasks and deadlines.

Internal Audit undertook a review of the overall financial management controls for each Department. The controls were sound in all key respects, and improvements had been made to the control environment largely due to improvements in financial reporting from SAP. Demand-led volatile budgets continue to be of concern, particularly where the Council has a statutory duty to provide a service. The quarterly budget monitor report to members includes a particular focus on such areas of uncertainty and necessary management action.

STATEMENT OF INTERNAL CONTROL

3.6 Performance Management

Adequate performance management arrangements existed:

- The large majority of staff in corporate and service departments operated a comprehensive and effective performance and development scheme
- The Investors in People standards have been adopted and all departments except Adult Care Services have achieved accreditation
- Key performance indicators (PI's) are established and monitored by officers and members
- Comparative performance data is used as part of the strategic compass reviews, for target setting purposes, and to support decisions that drive improvements
- The authority continuously improves its performance management and the technology by which it makes the data available to members, officers and the public. The "balanced scorecard" is also being developed for use as a key management tool.

Individual and corporate objectives are linked:-

- Members set the county council Challenges
- Each department develops its Strategic Compasses and PI's to monitor service outcomes in the department business plan
- Units then identify how their work supports the Service Outcomes
- Staff identify, through the linking of the tasks and objectives in their performance and development plans, how their job helps the department and the county council to achieve its objectives.

The Spring 2006 edition of Herts Direct, which is delivered to all households in Hertfordshire, set out the council's performance for 2005-06 with each service reporting on its achievements, disappointments and plans for the future.

To improve linkages with other plans and the budget, the format of the Improvement Plan responding to the CPA has changed to include information regarding measures of success and resources required.

Service planning guidance is available on our intranet, Connect, which contains a checklist for services when devising their plans and emphasises the importance of alignment of plans and strategies from individual performance development plans to the promises and national priorities.

STATEMENT OF INTERNAL CONTROL

In the reporting of results of the Audit Commission CPA for all councils published in December 2005, the Direction of Travel took precedence over the star rating with HCC reported as a council that is improving well and demonstrating a 4 star overall performance.

The Audit Commission Context and Performance Information profile for Hertfordshire indicates that 60% of performance indicators have improved since 2002-03 with 40% of indicators in the 'Best' quartile.

4. Review of Effectiveness

Hertfordshire County Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The 2005-06 review of the effectiveness of the system of internal control was informed by the work of the internal auditors, who led the review, and by managers within the authority who had responsibility for the development and maintenance of the internal control environment. It was also informed by comments made by the external auditors and other review agencies and inspectorates.

The Executive, on behalf of the authority, charges the Audit Committee with keeping the effectiveness of the Council's systems for internal control under review and reporting any recommendations for improvement to the Executive.

The plans and work of Internal Audit and of the external auditors were regularly reported to the Audit Panel, which scrutinised the auditors' work, and management's actions in response to their recommendations.

The Council has six member Scrutiny Committees, covering:

- Adult Care and Community Safety
- Children Schools and Families
- Environment
- Health
- Overview and Scrutiny
- Resources

Each Scrutiny Committee has the power to review or scrutinise decisions made, or functions discharged, whether or not they are the responsibility of the Executive.

STATEMENT OF INTERNAL CONTROL

In 2005-06 scrutiny committees' reviews included consideration of:

- Value for money, with topic groups scrutinising individual schemes and issues (such as The St. Albans City Centre Safety Scheme) and securing appropriate executive member and officer responses
- Financial management, with consideration of the budget monitor on the agenda for each meeting of the individual scrutiny committees as well as the Overview and Scrutiny Committee
- Performance management, with topic groups exploring issues in greater depth, enabling members to drill down and give sufficient time to addressing concerns.

Recommendations from scrutiny committees will be monitored by the Overview and Scrutiny Committee, generally 4-6 months after the recommendations have been made. The recommendations and findings are discussed at the Overview & Scrutiny Committee and with the executive member and senior officer responsible.

Internal Audit also provided an independent opinion on the adequacy and effectiveness of the council's system of financial control, including in particular:

- the key controls operating within and around the core financial systems
- high level financial management in each department and corporately
- arrangements for the letting and monitoring of contracts
- controls over information management and security.

In the Chief Internal Auditor's opinion, the above arrangements were adequate and effective in 2005-06, with sound controls in all key areas.

The service chief officers signed a Service Assurance Assessment, covering the following functions in operation in their service during the year:

- service plans preparation and agreement
- performance against the indicators in the plans
- performance reporting
- staff resources and responsibilities
- value for money
- partnership arrangements
- risk management
- robust processes for service developments
- consideration of safety and environmental impacts
- financial probity

STATEMENT OF INTERNAL CONTROL

- actions taken in response to external inspectorate reviews
- information and communication systems.

The Audit Commission's draft Audit and Inspection Annual Letter which relates to 2004-05 was issued in January and discussed by the Audit Panel in February 2006. All relevant control issues identified are being addressed. The CPA update process included a rigorous examination of how the Council is run and resulted in the acknowledgement that the Council is improving well and demonstrating a 4 star overall performance.

Other external inspections during 2005-06 were:

- Children's Services Annual Performance Assessment
- Adult Services Delivery and Improvement Statements
- Adult and Community Learning Inspection
- ACS achieved ISO accreditation
- ACS Beacon Status report on Carers' Services.

Chief Officers maintain records of complaints, including those referred to the Local Ombudsman (no cases of maladministration causing injustice were reported in June 2005 for the year 2004-05), and keep executive members and scrutiny committee spokesmen informed of complaints related to their services. In October 2005 the Resources Scrutiny Committee established a topic group to consider the handling of complaints.

Adult Care Services undertook a business process review of finance, and a review is in progress to explore the possible centralisation of transaction-based finance tasks.

Internal Audit has undertaken the review which has led to this Statement of Internal Control, with the involvement of the Monitoring Officer, Finance Director and other senior officers. The Finance Director and the County Secretary as Monitoring Officer have advised us, as signatories to this statement, on the implications of the review, and actions proposed to address weaknesses and ensure continuous improvement of the system is in place are set out below.

5. Significant Internal Control Issues

While there were no major control weaknesses in 2005-06, the Council took or proposed to take a number of actions to further improve its system of internal control, including its performance management and risk management arrangements. These were as follows:

STATEMENT OF INTERNAL CONTROL

Actions Taken

- Strategic Compass work – as referred to in 3.4
- HCC's Medium Term Financial Strategy was drafted and incorporated in item 8 relating to the Proposed budget 2006-07 – 2009-10 presented to the County Council on 27 February 2006
- CPA Use of Resources – the Council completed the CPA self-assessment for the new CPA use of resources assessment, which focuses on financial management
- IPF review of Financial Management –see section 3.5
- AON Review of Risk Management –see section 3.3
- The Risk Manager provided member training; which has enabled them to review and advise on the risk management process
- Published working draft version of Corporate Plan – see section 3.1
- Negotiation of the Local Area Agreement
- Balanced scorecard - development of the SAP system performance management module was undertaken, and SMB used the balanced scorecard to understand better how actions that the Council takes impact on the quality of the services it provides, and on the delivery of its priorities and targets
- Chief Officers and Executive Members were consulted during the identification of risk process and a report to the Strategic Management Board identified priority risks
- Improved public access to our services through our internet site and the Customer Service Centre
- Revisions to the Constitution following the May 2005 elections.

Actions Proposed

- Publish the Corporate Plan by 30 June 2006, with a full description of the policy implications, key actions and performance measures
- The improvements to controls, identified by service departments during the Service Assurance Assessment of performance management processes, will be actioned
- Further efficiency savings resulting from the rationalisation of office accommodation through the Way We Work project will continue
- Shared Services review for HR and finance, incorporating improvements identified in the course of the CIPFA Financial Management review
- The e-Government User Group comprising representatives from each service has considered and agreed customer service/response standards which should be adopted during 2006-07 by all departments
- Central monitoring of all inspection report recommendations will be undertaken
- The performance management balanced scorecard approach will continue to become embedded within service departments
- Schemes of sub-delegation and authorised signatories will be reviewed

STATEMENT OF INTERNAL CONTROL

- various arrangements will be made to support the delivery of the LAA, including:
 - establishing a Reference Group to oversee delivery
 - clarifying the roles, responsibilities and resources of block and target leads
 - agreeing an information and performance management framework with partners
 - finalising a communications protocol and governance arrangements
 - setting out process for pump priming and reward grant allocation
 - looking towards first six month review of LAA progress with the Government Office
 - arrangements for annual refresh.

We are satisfied that the above represents a fair view of the authority's existing internal control system and planned improvements.

Caroline Tapster
Chief Executive

David Beatty
Leader

Date: 27 June 2006

Date: 27 June 2006

THE STATEMENT OF RESPONSIBILITIES

This statement sets out the respective responsibilities of the County Council and the Finance Director for the accounts.

The County Council's responsibilities

The Council 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 Finance Director;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts before 30 June 2006.

I confirm that these accounts were approved for submission to Audit by the County Council at the meeting held on 27 June 2006.

Signed on behalf of Hertfordshire County Council

David Beatty
Leader

Date: 27 June 2006

THE STATEMENT OF RESPONSIBILITIES

The Finance Director's responsibilities

The Finance Director is responsible for the preparation of the Council'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.

In preparing this Statement of Accounts, the Finance Director 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 Finance Director has also:

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

Finance Director's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the County Council and the Hertfordshire County Council Pension Fund as at 31 March 2006 and the income and expenditure for the year then ended.

C J Sweeney
Finance Director

27 June 2006

CONSOLIDATED REVENUE ACCOUNT

The consolidated revenue account reports, on a Best Value basis, the net cost for the year of the functions for which the Council is responsible, and shows how the cost has been financed.

CONSOLIDATED REVENUE ACCOUNT

Net Cost 2004-05 £000	Service	Note	Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
	<u>CONTINUING OPERATIONS</u>				
630,912	Education		892,147	226,582	665,565
37,339	Fire		43,180	1,722	41,458
73,695	Highways, Roads and Transport Services		93,218	13,955	79,263
268,007	Social Services		428,528	139,701	288,827
52,182	Cultural, Environmental and Planning Services		70,024	13,299	56,725
10,864	Central Services		34,712	17,425	17,287
2,963	Court Services		1,091	166	925
(151)	Housing Services		<u>22,420</u>	<u>22,272</u>	<u>148</u>
1,075,811	Net cost of services		1,585,320	435,122	1,150,198
	<u>Other operating Income and Expenditure</u>				
(46)	Trading account net deficit / (surplus)		560		560
1,461	Insurance Fund	1	10,123	11,186	(1,063)
1,897	Precepts and levies		2,013		2,013
(64,023)	Asset Management Revenue Account	2		65,556	(65,556)
229	Premium on debt restructuring		229		229
6,131	Capital Charges – non operational assets		7,616		7,616
(4,859)	Interest and investment income	3		6,458	(6,458)
55,562	Pensions interest cost	4	71,116		71,116
(43,161)	Expected return on pension assets	4		<u>49,201</u>	<u>(49,201)</u>
1,029,002	Net operating expenditure		1,676,977	567,523	1,109,454
	<u>Appropriations</u>				
410	Contributions to / (from) revenue reserves		1,617		1,617
(164)	Contributions to / (from) capital reserves				0
(7,249)	Contribution to / (from) Pensions Reserve	4		19,630	(19,630)
1,511	Contribution in lieu of interest		1,910		1,910
(453)	Contribution from deferred credits			429	(429)
	<u>Contributions to/(from) capital financing account</u>				
9,256	Financing of capital expenditure		21,748		21,748
(34,847)	Provision for repayment of external loans	5		39,646	(39,646)
2,736	Amortisation of deferred grants and contributions		<u>3,193</u>		<u>3,193</u>
1,000,202	Amount to be met from government grants and local taxation		1,705,445	627,228	1,078,217
	<u>Sources of Finance</u>				
(378,932)	Precept on Council Tax Collection Funds			399,969	(399,969)
(1,992)	Surplus on Collection Funds			2,803	(2,803)
(271,257)	National Non-Domestic Rate			328,840	(328,840)
(364,499)	Revenue Support Grant			<u>342,067</u>	<u>(342,067)</u>
(16,478)	Net general fund (surplus) / deficit		<u>1,705,445</u>	<u>1,700,907</u>	<u>4,538</u>
19,985	General Revenue Balances brought forward				36,463
<u>16,478</u>	Net general fund surplus / (deficit)				<u>(4,538)</u>
<u>36,463</u>	General Revenue Balances carried forward				<u>31,925</u>
	<u>School Revenue Reserves</u>				
36,786	Balance at beginning of the year				43,304
<u>6,518</u>	Surplus / (deficit) for the year				<u>667</u>
<u>43,304</u>	Balance at end of the year				<u>43,971</u>

SERVICE REVENUE ACCOUNTS

This section sets out the Service revenue accounts.

Education
Fire
Highways, Roads and Transport
Social Services
Cultural, Environmental and Planning
Central Services
Court Services
Housing Services

EDUCATION SERVICE

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
5,256	Nursery Schools	7,120	1,416	5,704
283,031	Primary Schools	368,737	67,825	300,912
270,802	Secondary Schools	427,678	141,756	285,922
49,334	Special Schools	62,145	9,348	52,797
22,489	Non-School Funding	26,467	6,237	20,230
<u>630,912</u>	Total	<u>892,147</u>	<u>226,582</u>	<u>665,565</u>

FIRE SERVICE

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
2,446	Community fire safety	2,816	287	2,529
34,893	Fire fighting and rescue operations	40,364	1,435	38,929
<u>37,339</u>	Total	<u>43,180</u>	<u>1,722</u>	<u>41,458</u>

HIGHWAYS, ROADS AND TRANSPORT SERVICES

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
3,059	Transport planning, policy and strategy	5,785	1,052	4,733
11,925	Highways/roads (structural)	9,940	2,237	7,703
20,654	Construction	23,460	126	23,334
15,458	Highways/roads (routine)	18,217	904	17,313
4,357	Street Lighting	6,498	156	6,342
2,200	Winter maintenance	2,544	13	2,531
5,171	Traffic management and road safety	7,259	1,580	5,679
10,871	Public transport	19,515	7,887	11,628
<u>73,695</u>	Total	<u>93,218</u>	<u>13,955</u>	<u>79,263</u>

SOCIAL SERVICES

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
215	Service Strategy	248	2	246
	<u>Children's Services</u>			
22,655	Commissioning and social work	28,215	2,073	26,142
36,835	Children looked after	39,726	1,981	37,745
8,850	Family support services	9,111	125	8,986
2,456	Youth justice	4,142	1,586	2,556
7,397	Other children's and families' services	14,291	8,323	5,968
	<u>Adult services</u>			
90,656	Older people	148,735	56,389	92,346
24,423	Adults with physical disabilities	35,651	6,158	29,493
55,438	Adults with learning disabilities	110,720	47,377	63,343
18,263	Adults with mental health needs	36,504	15,075	21,429
331	Asylum seekers	564	314	250
488	Other adult services	621	298	323
<u>268,007</u>	Total	<u>428,528</u>	<u>139,701</u>	<u>288,827</u>

CULTURAL, ENVIRONMENTAL AND PLANNING SERVICES

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
	Cultural and Related Services			
1,264	Culture and heritage	1,635	214	1,421
1,844	Open Spaces	2,541	562	1,979
168	Tourism	202	34	168
17,707	Library service	20,447	1,651	18,796
	Environmental Services			
1,923	Community Safety (Crime Reduction)	2,723	132	2,591
(59)	Agricultural and Fisheries	1,639	1,149	490
2,619	Consumer protection	2,764	234	2,530
20	Street cleansing (not chargeable to highways)	20	0	20
3,278	Waste collection	3,101	31	3,070
17,875	Waste disposal	27,288	7,649	19,639
	Planning and Development Services			
1,357	Development control	1,655	214	1,441
1,412	Planning policy	1,752	211	1,541
897	Environmental initiatives	1,412	368	1,044
1,120	Economic development	1,796	567	1,229
757	Community development	1,049	283	766
52,182	Total	70,024	13,299	56,725

CENTRAL SERVICES

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
	Central Services to the Public			
824	Registration of Births, Deaths and Marriages	2,561	1,742	819
176	Conducting elections	383	0	383
311	Emergency Planning	777	148	629
(34)	Local Land Charges	247	301	(54)
151	General Grants, Bequests and Donations	<u>153</u>	<u>0</u>	<u>153</u>
<u>1,428</u>		<u>4,121</u>	<u>2,191</u>	<u>1,930</u>
	Corporate and Democratic Core			
4,081	Democratic Representation and Management	11,075	4,370	6,705
<u>2,201</u>	Corporate Management	<u>11,749</u>	<u>8,330</u>	<u>3,419</u>
<u>6,282</u>		<u>22,824</u>	<u>12,700</u>	<u>10,124</u>
	Non Distributed Costs			
(321)	Retirement Benefits	786	0	786
<u>3,475</u>	Unused share of IT facilities and other assets	<u>6,981</u>	<u>2,534</u>	<u>4,447</u>
<u>3,154</u>		<u>7,767</u>	<u>2,534</u>	<u>5,233</u>
<u>10,864</u>	Total	<u>34,712</u>	<u>17,425</u>	<u>17,287</u>

COURT SERVICES

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
2,199	Magistrates Courts			0
764	Coroners Courts	1,091	166	925
<u>2,963</u>	Total	<u>1,091</u>	<u>166</u>	<u>925</u>

HOUSING SERVICES

Net Cost 2004-05 £000		Gross Cost 2005-06 £000	Gross Income 2005-06 £000	Net Cost 2005-06 £000
0	Supporting People	20,890	20,890	0
	<u>Other council property</u>			
6	Travellers' sites	1,226	860	366
(157)	Non HRA council property	304	522	(218)
<u>(151)</u>	Total	<u>22,420</u>	<u>22,272</u>	<u>148</u>

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Insurance Fund

The County Council operates insurance provisions and reserves to meet self-insured liabilities in respect of fire damage, employers and third party liability and storm damage.

	2004-05	2005-06
	£000	£000
<u>Income</u>		
Recharge of premiums	(9,069)	(10,596)
Contribution in lieu of interest	<u>(574)</u>	<u>(590)</u>
	(9,643)	(11,186)
<u>Expenditure</u>		
Administration and premiums	5,146	5,354
Contribution to insurance provision	4,105	3,887
Claims	<u>1,853</u>	<u>882</u>
	<u>1,461</u>	<u>(1,063)</u>

2. Asset Management Revenue Account

This account was introduced with effect from April 1994 as part of the current system of capital accounting. The balance on the account reflects the difference between capital charges made to services reflecting the cost of acquiring and using assets in the delivery of services less the external cost of borrowing and depreciation provided on the assets during the year.

With the adoption of FRS15 "Tangible Fixed Assets" in the Accounting Code of Practice applicable from April 2000, Local Authorities can no longer not provide for depreciation on assets on the basis that the properties are maintained to such a standard that depreciation would be immaterial. The Council has therefore, based on information from its valuers, included such depreciation charges within capital charges made to services.

The following transactions were reflected through the Asset Management Revenue account.

	2004-05	2005-06
	£000	£000
<u>Income</u>		
Capital Charges	(113,239)	(121,763)
Deferred grants and contributions	<u>(2,736)</u>	<u>(3,193)</u>
	(115,975)	(124,956)
<u>Less</u>		
Provision for depreciation	39,705	41,661
Impairment	0	3,037
External interest charges	<u>12,247</u>	<u>14,702</u>
Asset management revenue account surplus	<u>(64,023)</u>	<u>(65,556)</u>

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

3. Interest and Investment Income

Amounts earned on investing cash surpluses as stated in the consolidated revenue account are after allocating interest to the Children, Schools and Families (CSF) service in respect of school bank accounts operated on a decentralised basis.

	2004-05	2005-06
	£000	£000
Gross interest and investment income	(8,909)	(10,203)
Allocated to CSF service	<u>4,050</u>	<u>3,745</u>
	<u>(4,859)</u>	<u>(6,458)</u>

4. FRS17 Retirement Benefits

As part of the terms and conditions of employment of its officers and other employees, the County Council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the County Council has a commitment to make the payments that needs to be disclosed at the time the employees earn their future entitlement.

The County Council participates in three pension schemes:

- The Local Government Pension Scheme for civilian employees. This scheme is administered by Hertfordshire County Council and is a funded scheme, meaning that the County Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Fire-fighters pension scheme – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
- The Teachers pension scheme – further information relating to this scheme which provides retirement benefits for teaching staff is shown in Note 14 to the Consolidated Revenue Account and Note 19 to the Consolidated Balance Sheet. FRS17 does not apply to the County Council's contribution to this pension scheme.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

The cost of retirement benefits is recognised in the Net Cost of Services section of the Consolidated Revenue Account when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the County Council is required to make against council tax is based on the cash payable in the year. This results in the real cost of retirement benefits being reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been reflected in the Consolidated Revenue Account during the year:

	Local Government Pension Scheme		Fire-fighters Pension Scheme		Total	
	for the year ended 31 March					
	2005 £000	2006 £000	2005 £000	2006 £000	2005 £000	2006 £000
Net Cost of Services:						
current service cost	29,579	33,732	6,900	7,200	36,479	40,932
past service costs	407	302			407	302
impact of settlements and curtailments	(728)	484			(728)	484
Net Operating Expenditure:						
interest cost	47,162	59,616	8,400	11,500	55,562	71,116
expected return on assets in the scheme	(43,161)	(49,201)			(43,161)	(49,201)
Amounts to be met from Government Grants and Local Taxation:						
movement on pensions reserve	3,390	(6,415)	(10,639)	(13,215)	(7,249)	(19,630)
	36,649	38,518	4,661	5,485	41,310	44,003
Actual amount charged against council tax for pensions in the year:						
employers' contributions payable to scheme	33,930	35,093			33,930	35,093
retirement benefits payable to pensioners	2,719	3,425	4,661	5,485	7,380	8,910
	36,649	38,518	4,661	5,485	41,310	44,003

Note 18 to the Consolidated Balance Sheet contain details of the assumptions made in estimating the figures included in this note. Note 6 to the Statement of Total Movements in Reserves details the amounts that have arisen in the year because estimates made in preparing figures for previous years have had to be revised (e.g. the expected return on investments).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

5. Provision for repayment of External Loans (Minimum Revenue Provision)

The Local Authorities (Capital Finance and Accounting) Regulations 2003 require the County Council to charge an amount to the revenue account as a minimum provision for the repayment of external debt. The County Council is currently required to provide a minimum of 4% of the Capital Financing Requirement as at the end of the preceding financial year. In order to ensure a neutral effect on local taxation the minimum revenue provision is reduced by the amount of depreciation and impairment charged to the Asset Management Revenue Account and deferred charges written off to revenue.

	2004-05	2005-06
	£000	£000
Minimum Revenue Provision	10,654	12,509
<u>Less</u>		
Depreciation	(39,705)	(41,661)
Impairment	0	(3,037)
Deferred Charges	<u>(5,796)</u>	<u>(7,457)</u>
Adjustment to Consolidated Revenue Account	<u>(34,847)</u>	<u>(39,646)</u>

6. Section 137 Local Government Act 1972

Section 137 (3) of the Local Government Act 1972 permits local authorities to contribute to charitable bodies for their work, to any non-profit making bodies providing public services and to any public appeals made by a principal authority in connection with a particular event. During 2005-06 the County Council spent £154,618 mainly on voluntary bodies working in the local area (2004-05 - £152,221).

7. Publicity

Under Section 5 (1) of the Local Government Act 1986, all local authorities are required to identify expenditure on publicity. This is given the broad definition of "any communication addressed to the public at large or any section of the public". Public notices relating to highways works are included within the other advertising category. The Council's spending on publicity was:

	2004-05	2005-06
	£000	£000
Recruitment advertising	1,678	1,299
Other advertising	604	493
Other publicity	<u>1,015</u>	<u>1,253</u>
Total	<u>3,297</u>	<u>3,045</u>

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

8. Finance and operating leases

The value of assets acquired under finance lease arrangements is considered to be immaterial. The County Council finances a range of assets, primarily vehicles and IT equipment, by means of operating leases. The amount paid under these arrangements in 2005-06 was £3.313m (2004-05 - £3.478m). Outstanding obligations, analysed by lease expiry date, under all such operating lease agreements are:

	£000
2006-07	185
2007 onwards	7,126

9. Local Authorities (Goods and Services) Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. The County Council, via Hertfordshire Business Services provides such services primarily to a number of County Councils and London Boroughs. In 2005-06 income from this source was £10.560m, (2004-05 - £10.978m) which covered the costs involved. Analysis of turnover is shown below.

	2004-05 £000	2005-06 £000
County Councils	7,515	7,549
London Boroughs	2,295	1,875
Other Local Authorities	<u>1,168</u>	<u>1,136</u>
Total	<u>10,978</u>	<u>10,560</u>

10. Agency Work

With the cessation, with effect from April 1997, of the agency arrangement relating to the provision, improvement and maintenance of Motorways and Trunk Roads on behalf of the Department of Transport, the County Council has no material agency arrangements.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

11. Taxable Remuneration

The number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 was:

Taxable Remuneration	2004-05	2005-06
50,000 - 59,999	131	202
60,000 - 69,999	49	65
70,000 - 79,999	24	32
80,000 - 89,999	9	14
90,000 - 99,999	4	3
100,000 - 109,999	1	2
110,000 - 119,999	1	2
120,000 - 129,999	3	1
130,000 - 139,999	0	2
140,000 - 149,999	0	0
150,000 - 159,999	0	0
160,000 - 169,999	1	0
170,000 - 179,999	0	1

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

12. Related Party Transactions

The Council is required to disclose material transactions with related parties. This would include bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows an assessment to be made as to the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with third parties. Details of significant revenue grants received from Government departments are shown in Note 19 to the Consolidated Revenue Account. These grants are in addition to the Council's share of the revenue support grant and redistributed business rates income as calculated by Central Government.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. Members and Chief Officers have been advised of the requirements and the need for disclosure. From the information received no material transactions involving Members and Chief Officers during the year have been identified.

Hertfordshire Police Authority (HPA)

The County Council performs a number of corporate support functions on behalf of the HPA for which a charge is raised (2004-05 £447,300, 2005-06 £474,079). The most significant of these functions involves the County Council investing surplus cash balances on behalf of the HPA. These amounts are invested in the name of the County Council with approved financial institutions with any other balances earning interest at overnight rates. Interest earned on these balances on behalf of the HPA amounted to £1.519m in 2005-06 (2004-05 - £1.959m).

The Finance Director of the County Council acts as Treasurer for the HPA.

Hertfordshire County Council Pension Fund

The County Council administers the Pension Fund on behalf of its employees and those of District Councils within the County and other admitted bodies. Cash balances are mainly invested by investment managers appointed by the Pension Fund with smaller amounts being pooled with County Council cash balances for which the Pension Fund received a contribution in lieu of interest of £1,100,499 (2004-05 £917,916).

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

13. Members Allowances

The total of members' allowances paid in the year was £1,214,852 (2004-05 £1,188,168).

14. Teachers Pension Scheme

Teachers employed by the County Council are members of the Teachers' Pension Scheme, administered by the Teachers' Pension Agency. It provides teachers with defined benefits upon their retirement, and the County Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. The contribution rate for 2005-06 was 13.50% (2004-05 – 13.50%).

In 2005-06, the County Council contributions to the Pensions Agency in respect of teachers' retirement benefits amounted to £42.517 million (2004-05 - £40.688 million).

15. Transport Act 2000

Schedule 12 of the Transport Act 2000 contains provisions for authorities to operate road user charging and workplace parking levy schemes. No such schemes have been in operation during 2005-06.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

16. Health Act 1999 Pooled Funds and Similar Arrangements

Partnership arrangements were established in December 2001 between Hertfordshire County Council and the Hertfordshire Partnership (NHS) Trust for the provision of services to the following client groups, Mental Health, Learning Disability, Drug and Alcohol Services and Children and Adolescent Mental Health Services. Mental Health Services for Older People were added to the agreement in 2005-06.

The purpose of the partnership is to provide integrated health and social care services with a single management structure. Social care staff have transferred from Hertfordshire County Council to Hertfordshire Partnership (NHS) Trust for Mental Health, Drug and Alcohol and Children and Adolescent Mental Health services. Learning Disability Nurses have transferred from Hertfordshire Partnership (NHS) Trust to Hertfordshire County Council. Social care staff for mental health services for older people were seconded to Hertfordshire Partnership (NHS) Trust from 1 April 2005.

In addition, the Joint Commissioning Partnership Board was established by the 8 Primary Care Trusts (PCTs) in Hertfordshire and Hertfordshire County Council in order to implement and direct joint commissioning for Health and Social Care services. A pooled budget funded by PCTs and Hertfordshire County Council has been set up to fund services for all the client groups plus the Joint Commissioning Team.

In April 2004 the 8 Hertfordshire PCTs and Hertfordshire County Council set up an Integrated Community Equipment Service. The service provides both health and social care equipment which enables service users to maintain their independence within their own home. A pooled budget was also set up which is hosted by the County Council. The service is managed by a Management Board which includes representatives from all contributing parties.

In March 2006 a partnership agreement and a pooled budget were set up between South East Herts PCT and Hertfordshire County Council to provide care services for older people at Westgate Nursing home, Emmanuel Lodge and Kingfisher Nursing Home. The pooled budget is hosted by the County Council.

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

The partners acting with the County Council are listed below.

Primary Care Trust

Dacorum
 South East Herts
 Welwyn Hatfield
 St Albans and Harpenden
 Royston, Buntingford and Bishops Stortford
 Watford and Three Rivers
 North Herts and Stevenage
 Hertsmere

Summary information for 2005-06, for the pooled budgets that the County Council contributed to is shown below together with comparatives for 2004-05 shown in italics.

	Funding				Over / (under) spend £000
	HCC £000	PCTs £000	Total £000	Expenditure £000	
Joint Commissioning Partnership Board	90,018	135,353	225,371	225,269	(102)
	<i>81,901</i>	<i>100,668</i>	<i>182,569</i>	<i>182,491</i>	<i>(78)</i>
Integrated Community Equipment Service	2,712	890	3,602	3,838	236
	<i>2,712</i>	<i>890</i>	<i>3,602</i>	<i>4,420</i>	<i>818</i>
Westgate – SE Herts	119	55	174	174	0

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

17. Long Term Contracts

The County Council has a number of long-term contracts that commit the Council to payments after 31 March 2007. Higher value contracts disclosed provide a range of services that include care for the elderly, highway maintenance and design, waste disposal and provision of internet access facilities. Revenue expenditure under these contracts for 2006-07 is estimated at £66.752 million. Termination dates applicable to these contracts range from 2007 to 2018.

18. External Audit Costs

In 2005-06 the Council incurred the following fees, payable to the Audit Commission, relating to external audit and inspection.

	2004-05	2005-06
	£000	£000
External Audit Services – Section 5 Audit Commission Act 1998	235	221
Certification of Grant Claims – Section 28 Audit Commission Act 1998	101	56
Other Audit Commission Services	<u>31</u>	<u>3</u>
Total	<u>367</u>	<u>280</u>

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

19. Government Grants

Revenue grants that are specific to a service will be accounted for on an accruals basis within income of the relevant Best Value service line. The more significant grants are shown below.

	2004-05 £000	2005-06 £000
<u>Learning and Skills Council</u>		
Grant for Sixth Formers	60,325	66,787
Adult and Community Learning Grant	2,200	2,893
<u>Department for Education and Skills</u>		
Standards Fund	33,691	39,046
School Standards Grant	20,297	21,313
Teachers Pay Reform Grant	16,514	16,841
Targeted Transitional Support Grant	7,783	3,928
Choice Protects	-	801
<u>Department of Health</u>		
Supporting People – Services and Implementation	23,649	21,749
Access and system capacity	9,223	11,757
Preserved Rights	7,023	5,403
Residential Care Allowance	7,132	3,554
Carers	1,972	3,391
Mental Health	2,264	2,350
National Training Standards	627	2,032
Delayed Discharges	1,713	2,013
Children's Fund	-	1,355
Safeguarding Children	1,284	1,280
Children and Adolescents Mental Health Services	863	1,207
Young People Substance Misuse	957	701
National Training Strategy	-	508
<u>Home Office</u>		
Criminal Justice Intervention Programme	-	894
<u>Department for Transport</u>		
De trunking Grant	1,922	1,970
Rural Transport Grant	682	709
Travel Plan Bursaries	161	161

CONSOLIDATED BALANCE SHEET

This statement shows the balances and reserves at the County Council's disposal, its long-term indebtedness and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

The Balance Sheet excludes the Pension Fund and various trust funds, whose assets are not at the disposal of the Council, and are administered for third parties.

The Balance Sheet represents the financial position of the County Council as a whole as at 31 March 2006.

CONSOLIDATED BALANCE SHEET

		2005		2006	
	Note	£000	£000	£000	£000
Intangible Assets	1		2,958		3,490
Fixed Assets	2				
Operational Assets					
Land and Buildings			1,641,843		1,658,635
Vehicles, Plant & Equipment			27,303		41,310
Infrastructure Assets			232,539		293,307
Non-operational Assets					
Land and Buildings			129,211		170,869
Vehicles, Plant & Equipment			0		0
Assets under construction			<u>24,517</u>		<u>10,788</u>
			2,058,371		2,178,399
Long-term Investments	5		0		6,000
Long-term Debtors	6		<u>5,587</u>		<u>2,766</u>
Total Long-term Assets			2,063,958		2,187,165
Current Assets					
Stocks and Work in Progress	7	3,872		3,307	
Landfill Usage Allowances	8	0		5,868	
Debtors	9	93,068		69,852	
Short Term Investments	10	158,335		259,750	
Cash and Bank		<u>66,094</u>	<u>321,369</u>	<u>68,227</u>	<u>407,004</u>
Total Assets			2,385,327		2,594,169
Current Liabilities					
Short-term Borrowing	11	9,808		108	
Creditors	12	189,964		209,675	
Landfill Usage	13	0		4,521	
Related Parties	14	270		78	
Bank Overdraft	15	<u>95,852</u>	<u>295,894</u>	<u>88,001</u>	<u>302,383</u>
Total Assets less Current Liabilities			2,089,433		2,291,786
Long-term Borrowing	16	223,273		345,223	
Provisions	17	10,549		11,195	
Liability related to defined benefit pension schemes	18	<u>636,795</u>	870,617	<u>669,895</u>	1,026,313
Total Assets Less Liabilities			<u>1,218,816</u>		<u>1,265,473</u>
Fixed Asset Restatement Account	20		1,576,189		1,624,533
Capital Financing Account	21		101,241		105,591
Deferred Grants & Contributions	22		76,978		100,600
Deferred Premiums	23		(5,083)		(4,854)
Deferred Credits	24		4,056		3,617
Usable Capital Receipts Reserve	25		2,231		8,803
Pensions Reserve	26		(636,795)		(669,895)
Specific Reserves	27		62,563		64,180
General Balances	28		37,436		32,898
			<u>1,218,816</u>		<u>1,265,473</u>

C J Sweeney
Finance Director
29 September 2006

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Intangible Assets

Expenditure incurred on intangible assets during 2005-06 amounted to £0.890 million. Types of expenditure shown as intangible assets include purchased software, including upgrades, software licences and costs associated with internet portal and web design. Expenditure will be written off over the appropriate useful life of such types of expenditure.

	Software and Licences £000	Portal and Web Design £000	Total £000
<u>Gross Book Value</u>			
Balance as at 31 March 2005	1,136	1,822	2,958
Additions	890	0	890
Balance as at 31 March 2006	<u>2,026</u>	<u>1,822</u>	<u>3,848</u>
<u>Depreciation</u>			
Balance as at 31 March 2005	0	0	0
Depreciation for the year	176	182	358
Balance as at 31 March 2006	<u>176</u>	<u>182</u>	<u>358</u>
<u>Net Book Value</u>			
Balance as at 31 March 2005	1,136	1,822	2,958
Balance as at 31 March 2006	<u>1,850</u>	<u>1,640</u>	<u>3,490</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

2. Fixed Assets

	- Operational -			- Non-Operational -			TOTAL
	Land and Buildings	Vehicles, P&E	Infra- structure	Land & Buildings	Vehicles, P&E	AUC	
	£000	£000	£000	£000	£000	£000	
Gross Book Value							
Balance at 31 March 2005	1,792,676	64,032	271,912	133,942	27	24,517	2,287,106
Additions	18,075	19,253	51,810	1,448		56,549	147,135
Disposals and transfers	(19,059)	(1,573)		(13,744)			(34,376)
Restatements	420	1,048	18,650	80		(20,198)	0
Revaluations	38,275			51,916		(50,080)	40,111
Balance at 31 March 2006	1,830,387	82,760	342,372	173,642	27	10,788	2,439,976
Depreciation							
Balance at 31 March 2005	150,833	36,729	39,373	4,731	27	0	231,693
Depreciation for the year	24,023	6,046	9,692	1,542			41,303
Impairment loss for the year	3,037						3,037
Depreciation on Disposals	(1,955)	(1,325)		(65)			(3,345)
Restatements	(27)			27			0
Revaluations	(4,159)			(3,462)			(7,621)
Balance at 31 March 2006	171,752	41,450	49,065	2,773	27	0	265,067
Net Book Value							
Balance at 31 March 2005	1,641,843	27,303	232,539	129,211	0	24,517	2,055,413
Balance at 31 March 2006	1,658,635	41,310	293,307	170,869	0	10,788	2,174,909

Properties used in service delivery include:

- 401 Primary Schools (excluding 7 Foundation Schools)
- 15 Nursery Schools
- 60 Secondary Schools (excluding 16 Foundation Schools)
- 6 Middle Schools
- 26 Special Schools
- 9 Education Support Centres
- 25 Adult Care Services Day Centres
- 73 Adult Care Services Residential Units
- 13 Adult Care Services Team Offices
- 32 Fire Stations
- 53 Libraries and Archive and Local Studies Centres

The County Council is also responsible for the following infrastructure

- 304 miles Principal Roads
- 2,693 miles Other Roads

NOTES TO THE CONSOLIDATED BALANCE SHEET

Fixed Asset Valuation

Fixed assets have been valued for balance sheet purposes as follows: -

Land and Buildings

A.Rinu MRICS, Amey Property Services Ltd, the County Council's former external valuer, revalued all the Council's properties as at 1 April 2001.

During 2005-06 in accordance with previous instructions received from Hertfordshire County Council, Lambert Smith Hamptons, the Council's external valuers, provided valuations for assets in seven of the ten districts, as part of its rolling programme of asset revaluations. In addition, valuations were provided for the small number of County Council assets that lie outside of the district areas. This review revalued land and building assets on a market value basis as at 1 April 2005 and resulted in a £94.894 million unrealised increase in the value of land and buildings. Similar assets in the other three districts were revalued in the previous financial year. The valuations provided relate to operational and non operational assets, but do not include any schools within the districts covered. These will be valued in a separate exercise during 2006-07. An impairment provision of £3.137 million was made against the carrying value of the New Briars JMI School in Hatfield. The school has been taken out of use due to ground problems associated with old chalk mining works.

Following the transfer of the Magistrates' Courts Service to the Unified Courts Administration, capital assets with a net book value of £14.293 million and deferred grants of £0.199 million relating to such assets were written off to the Fixed Asset Restatement Account.

Upon revaluation, properties are valued in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual, except that not all of the properties are inspected. This is neither practicable nor considered by the valuer to be necessary for the purpose of the valuation exercise. The valuation bases adopted are as follows: -

Properties regarded by the County Council as operational are valued on the basis of open market value for existing use, or where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost.

Properties regarded by the County Council as non-operational have been valued on the basis of open market value.

The accounting treatment applied to land and building capital expenditure incurred within the year is explained in the accounting policy relating to fixed assets.

Material and permanent changes, in addition to formal revaluations, in asset values as advised by valuers retained by the County Council, are reflected within the accounts in the year they occur.

Vehicles, plant and equipment

Valued at depreciated historic cost as a proxy for current replacement cost.

Infrastructure assets

Valued at depreciated historic cost.

NOTES TO THE CONSOLIDATED BALANCE SHEET

3. Summary of capital expenditure and sources of finance

Capital expenditure for the year, including that incurred on intangible assets and deferred charges, amounted to £161.378 million and is analysed on a County Council service basis below.

Service	Total £000
Adult Care Services	3,655
Children Schools and Families	79,833
Corporate Services	20,121
Environment	52,889
Fire	2,943
Libraries, Heritage and Archives	1,937
Total	<u>161,378</u>

The effect of the above expenditure on the Council's capital financing requirement together with sources of finance is shown below.

	2005-06 £000
Opening Capital Financing Requirement	303,963
<u>Capital Investment</u>	
Intangible assets	890
Operational assets	89,138
Non-operational assets (including assets under construction)	57,997
Deferred Charges	13,353
	<u>161,378</u>
<u>Sources of Finance</u>	
Capital receipts	(19,055)
Grants and contributions	(64,354)
Revenue provision (including MRP)	(34,257)
	<u>347,675</u>
Closing Capital Financing Requirement	
Explanation of movements in the year	
Increase in underlying need to borrow (supported by Government financial assistance)	43,266
Increase in underlying need to borrow (unsupported by Government financial assistance)	12,955
Minimum Revenue Provision	(12,509)
Increase in Capital Financing Requirement	<u>43,712</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

Material capital projects and their associated gross capital expenditure in the year include:

Service	Project	£000
Adult Care Services	E Government in ACS	566
Children Schools and Families	Education facilities - Watford area	3,574
	The Firs	2,446
	Goffs Science Block	2,436
	Broxbourne Design & Technology	2,261
	Turnford	1,553
	Alban Wood	1,548
	Kings Langley Mobiles	1,451
	Howe Dell	1,346
	Birchwood	1,219
	St.Albans Girls School P.E. & Sport	984
	Bowmansgreen	944
	HALS Accommodation	927
	Oxhey Wood	919
Corporate Services	The Way We Work - Apsley One	4,849
	SHARP Implementation	4,721
	Hertfordshire Business Services	
	Warehouse	750
Environment	Baldock Bypass	13,820
	St Peters Street, St Albans City Centre –	
	Highway Improvements & Traffic Calming	1,700
	New Essex Road Bridge, Hoddesdon	1,000
	Potters Bar – Traffic Signal Improvement	
	Scheme	740
	Herts Advanced Passenger System	555
	Royston Household Waste Recycling	
	Centre	550
	Luton Road, Harpenden – Carriageway	
	improvement	534
Fire	St Albans Fire Station	1,653

NOTES TO THE CONSOLIDATED BALANCE SHEET

4. Significant commitments under capital contracts

The value of material commitments for capital contracts as at 31 March 2006 is estimated at £25.304 million. The more significant items included in this amount are shown below.

	£000
<u>Schemes under construction</u>	
Hatfield, Howe Dell - New School	8,008
Cheshunt, Turnford Secondary School	2,839
Bishop's Stortford, Birchwood High School - Sports Hall	2,428
St Albans, Verulam School - Sports Hall	1,354
St Albans Girls School - New Sports Hall	980
<u>Schemes with Letter of Intent or Contract Let</u>	
Stevenage, Shephalbury Meadow Federation school	3,590

	2005	2006
	£000	£000
5. Long Term Investments		
Deposits with approved financial institutions	<u>0</u>	<u>6,000</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

	2005 £000	2006 £000
6. Long Term Debtors		
Housing Adaptations	1,242	1,140
Advance Contractural Payment	1,000	1,000
Keyworker Housing Advances	460	460
Housing Advances and Mortgages	100	89
Car Loans	100	77
Transferred Debt - University of Hertfordshire	<u>2,685</u>	<u>0</u>
	<u>5,587</u>	<u>2,766</u>
7. Stocks and Work in Progress		
Trading Services	3,559	2,898
Education	117	243
Fire Service	134	103
Cultural, Environmental and Planning Services	49	49
Social Services	<u>13</u>	<u>14</u>
	<u>3,872</u>	<u>3,307</u>
8. Landfill Usage Allowances		
<u>Biodegradable Municipal Waste Allowances</u>	<u> </u>	<u> </u>
290,472 tonnes at £20.20 per tonne	<u> 0</u>	<u>5,868</u>

Landfill allowances issued by the Department for the Environment, Food and Rural Affairs valued at the weighted average at which 2005-06 allowances have been traded during the year. These allowances will be used to meet the 2005-06 landfill liability with any excess allowances either being carried forward to meet future landfill liabilities or traded with other waste disposal authorities.

NOTES TO THE CONSOLIDATED BALANCE SHEET

	2005 £000	2006 £000
9. Debtors		
Other	73,265	65,039
Payments in Advance	7,865	5,142
Grants recoverable	8,472	3,097
H.M.R.C. - Value Added Tax	5,716	0
Recoverable Fire Damage	<u>26</u>	<u>166</u>
	95,344	73,444
Less Provision for Doubtful Debts	<u>(2,276)</u>	<u>(3,592)</u>
	<u>93,068</u>	<u>69,852</u>

10. Short Term Investments

Deposits with approved financial institutions	<u>158,335</u>	<u>259,750</u>
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The County Council holds the following investments in companies. The accounting treatment in respect of the following investments is explained in the accounting policy applicable to group accounts on page 104. Copies of the accounts for these companies can be obtained from the County Secretary, Hertfordshire County Council, County Hall, Hertford SG13 8DQ (Contact telephone: 01992 555535).

Investments in Companies

Name	Nature of Business	Owned %	Nominal Value £
Exemplas Holdings Ltd	Business advice and support services	33	33
Hertfordshire Careers Services Ltd	Provision of careers guidance, information and employment services	Not applicable	A company limited by guarantee
Hertfordshire Building Preservation Trust	To preserve buildings of special historic or architectural interest	Not applicable	A company limited by guarantee
The Hertfordshire Groundwork Trust Limited	A registered charity which carries out environmental improvement in Hertfordshire	Not applicable	A company limited by guarantee

NOTES TO THE CONSOLIDATED BALANCE SHEET

	2005 £000	2006 £000
11. Short Term Borrowing		
Public Works Loan Board	9,750	50
Unredeemed Stock	<u>58</u>	<u>58</u>
	<u>9,808</u>	<u>108</u>
12. Creditors		
Sundry Creditors and Receipts in Advance	130,331	151,739
Contractor Deposits	21,995	33,146
Grants received in advance	<u>37,638</u>	<u>24,790</u>
	<u>189,964</u>	<u>209,675</u>

Contractor deposits represent funds received to finance both revenue and capital projects undertaken by the County Council. Latest forecasts estimate that £12.771 million will be applied to projects more than one year after the balance sheet date.

13. Landfill Usage

<u>Biodegradable Municipal Waste Landfilled</u>		
223,820 tonnes at £20.20 per tonne	<u>0</u>	<u>4,521</u>

The estimated liability, calculated at the weighted average value at which 2005-06 landfill allowances have traded during the year, for biodegradable municipal waste disposed to landfill.

14. Related Parties

<u>Hertfordshire Police Authority</u>		
Accrued Interest on managed cash balances	<u>270</u>	<u>78</u>

15. Bank Overdraft

The overdrawn position reflects both unpresented cheques drawn before the end of the financial year and a central Schools Treasury Management account position that has not been offset against positive balances within the schools pooled banking account arrangements which are shown within cash and bank balances on the balance sheet. The bank position is managed on a daily basis as part of the Treasury Management function.

NOTES TO THE CONSOLIDATED BALANCE SHEET

	2005 £000	2006 £000
16. Long Term Borrowing		
Public Works Loan Board repayable:		
One to two years	50	46
Two to five years	115	74
Five to ten years	6	724
After ten years	153,702	227,979
Other repayable:		
After ten years	<u>69,400</u>	<u>116,400</u>
	<u>223,273</u>	<u>345,223</u>

17. Provisions

The following provisions have been set aside in the 2005-06 accounts to meet future expenditure where liabilities are known or expected.

Insurance - to meet known claims for which it is anticipated the Authority may be liable.

Mental Health Act 1983 (Section 117) – to meet the reimbursement to Social Services clients of costs associated with aftercare services.

New Roads & Street Works Act 1991 - income received from public utilities under Section 74 of the Act that must be spent on specific transport related activities.

Legal Charges – charges on properties owned by clients in residential care that may be disputed.

Home Care – payments to staff in respect of annual leave, sickness, gratuities and non contractual overtime due to changes in service conditions.

County Council Elections – used to meet the cost of elections held in May 2005.

	2005 £000	Increase/ (Decrease) £000	2006 £000
Insurance	7,989	1,520	9,509
Mental Health Act 1983	737	0	737
New Roads & Street Works Act 1991	425	0	425
Legal Charges	400	0	400
Home Care	624	(500)	124
County Council Elections	<u>374</u>	<u>(374)</u>	<u>0</u>
Total	<u>10,549</u>	<u>646</u>	<u>11,195</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

18. Liability related to defined benefit pension schemes

Note 4 to the Consolidated Revenue Account contains details of the County Council's participation in the Local Government Pension Scheme and the Fire-fighters Pension Scheme in providing civilian and uniformed officers with retirement benefits.

Hymans Robertson, an independent firm of actuaries, has valued the County Council Fund asset share and liabilities for both the County Council Fund and Fire-fighters Pension Scheme.

The underlying assets and liabilities for retirement benefits attributable to the County Council as at 31 March together with the movement from the previous year are shown below.

	Local Government Pension Scheme		Fire-fighters Pension Scheme		Total	
	2004-05 £000	2005-06 £000	2004-05 £000	2005-06 £000	2004-05 £000	2005-06 £000
Estimated liabilities in scheme	1,111,955	1,312,799	212,500	249,400	1,324,455	1,562,199
Estimated assets in scheme	687,660	892,304	0	0	687,660	892,304
Net (asset)/liability	424,295	420,495	212,500	249,400	636,795	669,895
Liability at 1 April	250,071	424,295	152,300	212,500	402,371	636,795
Current service cost	29,579	33,732	6,900	7,200	36,479	40,932
Employer contributions	(33,930)	(35,093)	(5,011)	(4,937)	(38,941)	(40,030)
Contribution in respect of unfunded benefits	(2,719)	(3,425)			(2,719)	(3,425)
Transfers in from other authorities			350	267	350	267
Transfers out to other authorities				(815)	0	(815)
Past service cost	407	302			407	302
Impact of settlements and curtailments	(728)	484			(728)	484
Interest cost	47,162	59,616	8,400	11,500	55,562	71,116
Expected return on assets in the scheme	(43,161)	(49,201)			(43,161)	(49,201)
Difference between the expected and actual return on assets	(20,040)	(128,832)			(20,040)	(128,832)
Experience gains and losses arising on scheme liabilities	29,995	(21,323)	17,763	(1,415)	47,758	(22,738)
Changes in financial assumptions underlying the present value of scheme liabilities	167,659	139,940	31,798	25,100	199,457	165,040
Liability at 31 March	424,295	420,495	212,500	249,400	636,795	669,895

NOTES TO THE CONSOLIDATED BALANCE SHEET

The liabilities show the underlying commitments that the County Council has in the long-term to pay retirement benefits. The total liability as at 31 March 2006 of £669.895 million has a substantial impact on the net worth of the County Council as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean:

- the deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- finance is only required to be raised to cover Fire-fighters pensions when the pensions are actually paid.

Liabilities have been valued on an actuarial basis using the projected unit method that assesses the future liabilities of the fund dependent on assumptions about mortality rates, salary levels and other items discounted to their present value. In order to assess the value of the Hertfordshire County Council Pension Fund's liabilities the actuary has rolled forward the value of the employer's liabilities calculated as at the latest formal funding valuation of 31 March 2004, revised in November 2005 following a data cleaning exercise, allowing for the different financial assumptions required under FRS 17. The actuary, in assessing the value of the employer liabilities in respect of the Fire-fighters Scheme, has rolled forward the value of the liabilities reported in the latest full actuarial valuation of employer liabilities as at 31 December 2004, allowing for actual pay and pension increases on an aggregate basis. The actuary has also allowed for the effect of benefits paid from the Fire-fighters Scheme.

NOTES TO THE CONSOLIDATED BALANCE SHEET

The main assumptions used in the calculations for both the Local Government and Fire-fighters Pension Schemes are:

	31 March 2005 % per annum	Real % per annum	31 March 2006 % per annum	Real % per annum
rate of inflation	2.9		3.1	
rate of increase in salaries	4.4	1.5	4.6	1.5
rate of increase in pensions	2.9		3.1	
rate for discounting scheme liabilities	5.4	2.4	4.9	1.7

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. Consequently, the valuation of the Council's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change in the pension scheme.

The Fire-fighters Pension Scheme has no assets to cover its liabilities. In calculating the asset share applicable to the County Council Fund, the actuary has rolled forward the employer's share of the assets allocated as at the latest formal funding valuation as at 31 March 2004, allowing for investment returns (estimated where necessary), the effect of contributions paid into, and estimated benefits paid from, the Fund by the employer and its employees. Assets in the Local Government Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

	31 March 2005			31 March 2006		
	Expected Return %	Asset Distribution %		Expected Return %	Asset Distribution %	
	£000		£000			
Equity investments	500,741	7.7	679,684	7.4	76.2	
Bonds	102,002	4.8	115,067	4.6	12.9	
Property	41,541	5.7	50,121	5.5	5.6	
Cash	<u>43,376</u>	4.8	<u>47,432</u>	4.6	<u>5.3</u>	
Total	<u>687,660</u>	7.0	<u>892,304</u>	6.8	<u>100.0</u>	

NOTES TO THE CONSOLIDATED BALANCE SHEET

19. Defined Contribution Scheme – Teachers’ Pension scheme

The scheme is a defined benefit scheme, administered by the Teachers Pension Agency (TPA). Although the scheme is unfunded, the TPA uses a notional fund as a basis for calculating the employers’ contribution rate paid by local education authorities. However, it is not possible for the County Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted for on the same basis as a defined contribution scheme. As at 31 March 2006, £5.263 million, including employee contributions was due to the TPA.

The County Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the Teachers’ scheme. These benefits are fully accrued in the pension liability shown in Note 18 to the Consolidated Balance Sheet. During 2005-06 the cost of these unfunded discretionary awards amounted to £3.425 million (2004-05 - £2.719 million).

	2005	2006
	£000	£000
20. Fixed Asset Restatement Account		
Balance as at 1 April	1,573,742	1,576,189
Net book value of assets disposed	(12,192)	(31,031)
<u>Revaluations and restatements</u>		
Fixed Assets	(9,831)	47,732
Deferred grants and contributions	24,470	31,643
	<u>1,576,189</u>	<u>1,624,533</u>

The capital accounting conventions for local authorities require the establishment of a fixed asset restatement account. The balance represents the difference between the valuation of assets under the previous system of capital accounting, subsequent revaluations and the net book value of assets disposed of.

NOTES TO THE CONSOLIDATED BALANCE SHEET

21. Capital Financing Account	2005	2006
	£000	£000
Balance as at 1 April	99,113	101,241
<u>Capital financing</u>		
capital receipts	24,983	19,055
revenue contributions	9,256	21,748
Minimum revenue provision adjustment	(34,847)	(39,646)
Amortisation of deferred grants and contributions	<u>2,736</u>	<u>3,193</u>
	<u>101,241</u>	<u>105,591</u>

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, deferred charges written off and that required to be charged to revenue to repay the principal element of external loans.

22. Deferred Grants and Contributions

Balance as at 1 April	70,594	76,978
Income Receivable	39,213	64,354
Revaluations, Restatement and Disposals	(24,470)	(31,643)
Deferred Charges	(5,623)	(5,896)
Depreciation of Grants and Contributions	<u>(2,736)</u>	<u>(3,193)</u>
	<u>76,978</u>	<u>100,600</u>

23. Deferred Premiums

Premium on debt restructuring		
Balance as at 1 April	(5,352)	(5,083)
Discounts received	40	0
Amount written off to revenue account	<u>229</u>	<u>229</u>
	<u>(5,083)</u>	<u>(4,854)</u>

This balance represents the premiums paid and discounts received on the repurchase of borrowing not yet written off to the revenue account.

NOTES TO THE CONSOLIDATED BALANCE SHEET

24. Deferred Credits	2005	2006
	£000	£000
University of Hertfordshire re transferred debt	3,486	3,057
Keyworker Housing Advances	460	460
Future repayments due on Mortgages and Advances	110	100
	<u>4,056</u>	<u>3,617</u>

25. Usable Capital Receipts Reserve

Balance as at 1 April	5,703	2,231
Capital receipts received	21,511	25,627
Capital receipts used for financing	<u>(24,983)</u>	<u>(19,055)</u>
	<u>2,231</u>	<u>8,803</u>

The usable capital receipts reserve represents the capital receipts available to either repay external debt or finance capital expenditure.

26. Pensions Reserve

Adoption of FRS17 Retirement Benefits requires the establishment of a pensions reserve. It enables the authority to show the pension fund liability on the face of the balance sheet whilst also ensuring a neutral effect on local taxation. The deficit reflected by this reserve is not an immediate claim on the County Council's balances or reserves.

Balance as at 1 April	(402,371)	(636,795)
<u>Actuarial Gains and Losses</u>		
Difference between the expected and actual return on assets	20,040	128,832
Experience gains and losses arising on scheme liabilities	(47,758)	22,738
Changes in financial assumptions underlying the present value of scheme liabilities	(199,457)	(165,040)
Consolidated Revenue Account Appropriation	(7,249)	(19,630)
	<u>(636,795)</u>	<u>(669,895)</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

27. Specific Reserves

The following reserves are either designated as “earmarked funds” within the total County Council Funds or established under specific legislation.

School Revenue Reserves - balances carried forward from schools delegated underspendings.

Self Insurance - a reserve to cover for uninsured liabilities in respect of employers liability, third party insurance and potential costs incurred as a result of storm damage.

Capital Payback - contributions from services in respect of approved capital programme projects in order to finance future capital expenditure.

Quantum Care rent abatement - represents the estimated rents received from Quantum Care to be used to support the cost of the abatement that will be allowed against future rents.

Underspendings carried forward - previous financial year's underspendings which will finance expenditure in future years.

NNDR revaluation reserve – to manage fluctuations associated with rateable values of the County Council's properties.

Landfill Allowances Trading Scheme – a surplus due to usage of biodegradable municipal waste (BMW) allowances below the Council's cap. This reserve can either be used to meet future BMW liabilities or traded with other waste disposal authorities.

Education trading carry forwards - surpluses within the education trading units of the Children, Schools & Families service.

Statutory Planning Authority Inquiries – to meet costs associated with attending public meetings as the statutory planning authority.

Hadham Towers Restoration - to provide for essential restoration work to return the Hadham Towers Waste Disposal site to its original use as agricultural land when the tip is full.

Fire Pensions - a reserve to cover potential costs that may arise as a result of retirement dates occurring earlier than previously anticipated.

Energy and Water Conservation – to be applied to investment in energy and water saving measures.

NOTES TO THE CONSOLIDATED BALANCE SHEET

Hermis Development - to meet future expenditure incurred in the development of the Hermis software.

Former Direct Service Organisation Reserves - reserves relating to the Childcare Litigation Unit.

Hertfordshire Business Services Repairs and Renewals – a reserve to cover the replacement and maintenance of equipment and the refurbishment of buildings.

Fire Cover Review – to assist with a potential funding shortfall associated with the relocation of Watford and St Albans fire stations.

Education school building provisions - to finance future capital expenditure.

Central Services Repairs & Renewals - to finance the future replacement of equipment.

	Balance 2005 £000	Increase/ (Decrease) £000	Balance 2006 £000
School Revenue Reserves	43,304	667	43,971
Self Insurance	4,541	1,063	5,604
Capital Payback Reserve	3,357	1,014	4,371
Quantum Care rent abatement	1,976	171	2,147
Underspends carried forward	4,819	(2,702)	2,117
NNDR revaluation reserve	1,157	264	1,421
Landfill Allowances Trading Scheme	0	1,346	1,346
Education trading carry forwards	907	121	1,028
Statutory Planning Authority Inquiries	500	63	563
Hadham Towers Restoration	496	0	496
Fire Pensions	489	0	489
Energy and Water Conservation	150	0	150
Hermis Development	135	1	136
Former DSO Reserves	138	(14)	124
HBS Repairs and Renewals	390	(281)	109
Fire Cover Review	41	0	41
Education school building provisions	36	0	36
Central Services Repairs & Renewals	127	(96)	31
Total	<u>62,563</u>	<u>1,617</u>	<u>64,180</u>

NOTES TO THE CONSOLIDATED BALANCE SHEET

28. General Balances

General Balances are an available resource to finance future revenue and capital expenditure.

	Balance 2005 £000	Increase/ (Decrease) £000	Balance 2006 £000
<u>Revenue Reserve</u>			
County Fund Balances	<u>36,463</u>	<u>(4,538)</u>	<u>31,925</u>
<u>Capital Reserve</u>			
Balance at 1 April 2005			973
Withdrawal from reserve			<u>0</u>
Balance at 31 March 2006			<u>973</u>
General Balances at 31 March 2006			<u>32,898</u>
<u>Balance at 31 March 2005</u>			
Revenue Reserves			36,463
Capital Reserve			<u>973</u>
General Balances at 31 March 2005			<u>37,436</u>

29. Contingent Liabilities

At 31 March 2006 the County Council was aware of the following potential liabilities it may face in the future. These items have not been reflected in the accounts as there is no certainty that an actual liability may arise, or because there is uncertainty as to the amount of liability or when it will arise.

Contingent liabilities identified are:

Municipal Mutual Insurance

In common with many other local authorities, the County Council insured with the Municipal Mutual Insurance (MMI) Company until 31 March 1993 and continues to be dependent on its continued solvency for the payment of a significant number of claims. The latest Scheme of Arrangement issued by MMI as at 31 March 2006 indicates that the amount liable to clawback from the County Council, should the Company not remain solvent is estimated at a maximum amount of £4.254 million.

NOTES TO THE CONSOLIDATED BALANCE SHEET

Section 117 Mental Health Act 1983

A decision by the Court of Appeal in July 2000 declared that local authorities have no legal powers to charge for aftercare services provided by them under Section 117 of the Mental Health Act 1983. The County Council may now face restitutionary claims from people who assert that they have paid monies to the Council when there was no lawful requirement for them to make such payments. Following a further review of charges made to clients who may be covered by Section 117, latest estimates forecast a potential liability of £0.821 million above the amount that has been provided for as at 31 March 2006.

30. Foundation Schools

The School Standards and Framework Act 1998 changed the status of Grant Maintained schools to Foundation Schools maintained by the local education authority. The change for funding purposes took effect from 1 April 1999. Fixed assets and long term liabilities remain vested in the Governing Bodies of individual Foundation schools and therefore values and amounts have not been consolidated in this balance sheet. In this authority area there are 23 Foundation schools.

31. The Euro

The County Council introduced new financial systems in April 2004 that are fully Euro compliant. To date the County Council has incurred no direct costs relating to the introduction of the Euro and no provisions have been established at this stage for possible future costs as uncertainty continues over the entry of the United Kingdom into the European Monetary Union.

32. Trust Funds

The County Council acts as Treasurer and Financial Adviser primarily to a number of educational prize funds, endowments, scholarships and bequests that generally have specific Trustees to manage them. Capital is invested in accordance with the Trustees instructions in a range of external investments or, if held as cash by the County Council, such balances will earn interest at the market seven-day rate. These funds do not represent assets of the Council and have not been included in the balance sheet. As at 31 March 2006 the total value of educational endowments is £536,490 (31 March 2005 - £529,466).

TRADING ACCOUNTS

During the financial year ended 31 March 2006, the County Council operated the following material Trading Accounts within a competitive environment.

(Surplus)/ Deficit 2004-05 £000	Name and description of operations	Gross Cost 2005-06 £000	Gross Income 2005-06 £000	(Surplus)/ Deficit 2005-06 £000
(118)	<u>Hertfordshire Catering</u> Hertfordshire Catering is the County Council's education caterer, who provides a quality catering service to over 500 primary, middle and secondary schools in Hertfordshire, as well as to other organisations.	16,299	16,362	(63)
144	<u>Hertfordshire Business Services (HBS)</u> HBS offers a professional purchasing, supply and contract management service to the County Council. HBS acts as client manager for the school meals service, vehicle maintenance and three major third party contracts. HBS is a leading member of the Central Buying Consortium consisting of 17 local authorities and negotiates both joint and County Council specific contracts.	37,956	37,259	697
(20)	<u>Hertfordshire Reprographics</u> Hertfordshire Reprographics are the County Council's in-house print unit. It provides a range of reprographic services including printing, fast print, plan print and photocopying.	1,620	1,686	(66)
(52)	<u>Childcare Litigation Unit</u> The Childcare Litigation Unit provides legal support for the County Council's children's services.	1,034	1,042	(8)
(46)	Total Trading Services			560

The above results are based on the Best Value Accounting Code of Practice. They include the effect of capital charges, defined benefit pension scheme and discretionary pension costs shown on an FRS17 basis and reserve movements shown as appropriations in the consolidated revenue account. The deficit in respect of Hertfordshire Business Services arises from one-off costs largely relating to the move to new premises at Mundells, Welwyn Garden City. These costs have been met as planned from HBS' reserves.

STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Note	2004-05 £000	2005-06 £000
Surplus / (deficit) for the year:-			
General Fund		16,478	(4,538)
Add back / (deduct)			
Movements on specific reserves		246	1,617
Appropriation from pensions reserve		<u>(7,249)</u>	<u>(19,630)</u>
Total increase in revenue resources	1	<u>9,475</u>	<u>(22,551)</u>
Increase/(decrease) in usable capital receipts		(3,472)	6,572
Total increase/(decrease) in realised capital resources	2	<u>(3,472)</u>	<u>6,572</u>
Gains on revaluation of fixed assets (net of deferred grants and contributions written off)		14,639	79,375
Impairment losses on fixed assets due to general changes in prices		0	0
Total increase in unrealised value of fixed assets (net of deferred grants and contributions written off)	3	<u>14,639</u>	<u>79,375</u>
Value of assets sold, disposed of or decommissioned	4	(12,192)	(31,031)
Capital receipts set aside		24,983	19,055
Revenue resources set aside		(22,855)	(14,705)
Movement on Government Grants Deferred		6,384	23,622
Total increase in amounts set aside to finance capital investment	5	<u>8,512</u>	<u>27,972</u>
Decrease on the pensions reserve			
Actuarial gains and losses relating to pensions	6	<u>(227,175)</u>	<u>(13,470)</u>
Total recognised gains and losses		<u>(210,213)</u>	<u>46,867</u>

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	General Fund Balances £000	Specific Reserves £000	Pensions Reserve £000
1. Movements in revenue resources			
Deficit for 2005-06	(4,538)		
Appropriations (to) / from revenue		1,617	(19,630)
Actuarial gains and losses relating to pensions			(13,470)
	<u>(4,538)</u>	<u>1,617</u>	<u>(33,100)</u>
Balance brought forward at 1 April 2005	37,436	62,563	(636,795)
Balance carried forward at 31 March 2006	<u>32,898</u>	<u>64,180</u>	<u>(669,895)</u>
			Usable Capital Receipts £000
2. Movements in realised capital resources			
Amounts receivable in 2005-06			25,627
Amounts applied to finance new capital investment in 2005-06			<u>(19,055)</u>
Total increase in realised capital resources in 2005-06			6,572
Balance brought forward at 1 April 2005			<u>2,231</u>
Balance carried forward at 31 March 2006			<u>8,803</u>
			Fixed Asset Restatement Account £000
3. Movements in unrealised value of fixed assets			
Gains on revaluation of fixed assets in 2005-06			47,732
Impairment losses on fixed assets due to general changes in prices in 2005-06			0
Amounts written off deferred grants and contributions that relate to revaluation of fixed assets in 2005-06			<u>31,643</u>
Total increase in unrealised capital resources in 2005-06 (net of deferred grants and contributions)			79,375
4. Value of assets sold, disposed of or decommissioned			
Amounts written off fixed asset balances for disposals in 2005-06			<u>(31,031)</u>
Total movement on reserve in 2005-06			48,344
Balance brought forward at 1 April 2005			1,576,189
Balance carried forward at 31 March 2006			<u>1,624,533</u>

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	Capital Financing Account £000	Deferred Grants and Contributions £000	Total £000
5. Movements in amounts set aside to finance capital investment			
Capital receipts set aside in 2005-06:			
- reserved receipts	0		
- usable receipts applied	<u>19,055</u>		
Total capital receipts set aside in 2005-06	<u>19,055</u>		19,055
Revenue resources set aside in 2005-06:			
- capital expenditure financed from revenue	21,748		
- reconciling amount re provision for loan repayment	(39,646)		
- deferred grants and contributions	<u>3,193</u>		
Total revenue resources set aside in 2005-06	<u>(14,705)</u>		(14,705)
Grants and contributions applied to capital investment in 2005-06		64,354	
Amounts written off deferred grants and contributions that relate to revaluation of fixed assets in 2005-06		(31,643)	
Amounts written off deferred grants and contributions that relate to deferred charges in 2005-06		(5,896)	
Amounts credited to the asset management revenue account in 2005-06		<u>(3,193)</u>	
Movement on Deferred grants and contributions		<u>23,622</u>	23,622
Total increase in amounts set aside to finance capital investment	4,350	23,622	<u>27,972</u>
Balance brought forward at 1 April 2005	<u>101,241</u>	<u>76,978</u>	
Balance carried forward at 31 March 2006	<u>105,591</u>	<u>100,600</u>	

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

6. Actuarial Gains and Losses

The actuarial gains and losses identified in Note 18 to the Consolidated Balance Sheet as movements on the Pensions Reserve in 2005-06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006:

	2002-03		Local Government Pension Scheme				2005-06	
	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets in the scheme as a percentage of scheme assets	(141,208)	(29.5)	67,337	11.1	20,040	2.9	128,832	14.4
Experience gains and losses arising on scheme liabilities as a percentage of scheme liabilities	(57,200)	(7.4)	412	0.0	(29,995)	(2.7)	21,323	1.6
Effect of changes in the demographic and financial assumptions underlying the present value of scheme liabilities as a percentage of scheme liabilities	0	0.0	0	0.0	0	0.0	0	0.0
Changes in financial assumptions underlying the present value of scheme liabilities	0	0.0	0	0.0	(167,659)	(15.1)	(139,940)	(10.7)
Total	(198,408)		67,749		(177,614)		10,215	

	2002-03		Fire-fighters Pension Scheme				2005-06	
	£000	%	£000	%	£000	%	£000	%
Difference between the expected and actual return on assets in the scheme as a percentage of scheme assets	0	0.0	0	0.0	0	0.0	0	0.0
Experience gains and losses arising on scheme liabilities as a percentage of scheme liabilities	(67)	(0.0)	(735)	(0.5)	(17,763)	(8.4)	1,415	0.6
Effect of changes in the demographic and financial assumptions underlying the present value of scheme liabilities as a percentage of scheme liabilities	0	0.0	0	0.0	0	0.0	0	0.0
Changes in financial assumptions underlying the present value of scheme liabilities	0	0.0	0	0.0	(31,798)	(14.9)	(25,100)	(10.1)
Total	(67)		(735)		(49,561)		(23,685)	
Total Actuarial Gains/(Losses)	(198,475)		67,014		(227,175)		(13,470)	

CASHFLOW STATEMENT

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	31 March 2005	31 March 2006
	£000	£000
REVENUE ACTIVITIES		
Cash outflows		
Cash paid to and on behalf of employees	761,273	805,050
Other operating costs	<u>580,890</u>	<u>648,435</u>
	<u>1,342,163</u>	<u>1,453,485</u>
Cash inflows		
Disbursements from the Collection Fund	380,924	402,772
Government and other Grants	221,122	226,025
Revenue Support Grant	364,499	342,067
Non Domestic Rate Income	271,257	328,840
Cash received for goods and services and other income	<u>155,192</u>	<u>221,707</u>
	<u>1,392,994</u>	<u>1,521,411</u>
Net Cashflow from revenue activities	50,831	67,926
Returns on Investments and Servicing of Finance		
Cash Outflows		
Interest and premium on debt restructuring	(11,862)	(13,609)
Cash Inflows		
Interest received	8,533	9,106
Capital Activities		
Cash Outflows		
Purchase of Fixed Assets	(129,421)	(147,530)
Cash Inflows		
Sale of Fixed Assets	21,511	26,077
Capital grants received	46,788	43,888
Contributions and other income	<u>7,563</u>	<u>19,291</u>
Net Cash (outflow) / inflow before financing	(6,057)	5,149

CASHFLOW STATEMENT

	31 March 2005 £000	31 March 2006 £000
Management of Liquid Resources		
Net (increase)/decrease in short term investments	6,105	(101,415)
Management of Long Term Resources		
Increase in long term investments	0	(6,000)
Financing		
Cash Outflows		
Repayments of amounts borrowed	(57,749)	(9,750)
Cash Inflows		
New loans raised	72,700	122,000
Net increase in cash	<u>14,999</u>	<u>9,984</u>
Reconciliation of revenue account surplus to net cashflow from operating activities		
Revenue account surplus / (deficit)	16,478	(4,538)
Servicing of finance	3,329	4,503
Capital accounting/financing	19,457	33,828
Decrease in deferred premiums	269	229
Decrease / (Increase) in stocks	(72)	565
Decrease / (Increase) in revenue debtors	(21,362)	24,185
Landfill Allowances Trading Scheme	0	(1,346)
Increase in revenue creditors & deferred income	30,236	8,237
Increase in reserves and provisions	<u>2,496</u>	<u>2,263</u>
Net Cashflow from revenue activities	<u>50,831</u>	<u>67,926</u>
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the period	14,999	9,984
Cash inflow from increase in external borrowing	(14,951)	(112,250)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	(6,105)	101,415
Cash outflow from increase in long term investments	<u>0</u>	<u>6,000</u>
Change in net debt	(6,057)	5,149
Net debt at 31 March 2005	<u>(98,447)</u>	<u>(104,504)</u>
Net debt at 31 March 2006	<u>(104,504)</u>	<u>(99,355)</u>

CASHFLOW STATEMENT

	As at 31 March 2005 £000	Cash flows £000	Other Changes £000	As at 31 March 2006 £000
Analysis of changes in net debt				
Cash in hand and at bank	66,094	2,133		68,227
Bank overdraft	(95,852)	7,851		(88,001)
		9,984		
Debt due within 1 year	(9,808)	9,750	(50)	(108)
Debt due after 1 year	(223,273)	(122,000)	50	(345,223)
		(112,250)		
Current asset investments	158,335	101,415		259,750
Long Term investments	0	6,000		6,000
Total	(104,504)	5,149	0	(99,355)

Note 1 Management of Liquid Resources

	As at 31 March 2005 £000	Movement £000	As at 31 March 2006 £000
Short Term Investments	<u>158,335</u>	<u>101,415</u>	<u>259,750</u>

PENSION FUND ACCOUNTS

These accounts give a stewardship report of the financial transactions of the fund during the year, and of the deposition of its assets at the year-end.

The County Council administers a Pension Fund covering staff employed by the County Council, the ten District Councils in Hertfordshire and 161 other bodies. The Fund includes local authority employees within Hertfordshire, except teachers and fire personnel for whom separate pension arrangements apply. The Fund exists to provide pensions and other benefits for employees, their spouses, civil partners or dependants in accordance with the Local Government Pension Scheme Regulations 1997 (as amended). The income of the Fund arises from contributions by the employees and by their employing authorities and from dividends and interest on investments. The membership of the Fund at 31 March 2006 was as follows:

Contributors	25,599
Pensioners	17,125
Former Contributors - deferred benefits	15,532

MANAGEMENT

The management of investments is undertaken by firms of Fund Managers.

FURTHER INFORMATION

The County Council publish a separate Annual Report on the Pension Fund which gives more detailed information.

PENSION FUND ACCOUNTS

FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2006

	Note	2004/05 £'000	2005/06 £'000
Contributions and benefits			
Contributions receivable	2		
Members		25,154	24,642
Employers		69,136	73,047
Transfers in from other funds			
Individual transfers		15,972	14,474
Group transfers		0	392
Other contributory income	10	<u>5,964</u>	<u>4,826</u>
		116,226	117,381
Benefits payable	3		
Pensions and pensions increase		(59,201)	(62,630)
Retirement grants		(7,120)	(8,373)
Death and ill health grants		(1,678)	(1,860)
Other benefit payments		(6)	(18)
Payment to and on account of leavers			
Transfers to other funds (individuals)		(14,268)	(21,543)
Refunds of contributions		(249)	(141)
Administrative and other expenses			
Contributions Equivalent Premium		(164)	(225)
Administrative expenses	4	(1,919)	(1,862)
Bad debts		<u>(9)</u>	<u>(21)</u>
		(84,614)	(96,673)
Net Additions (withdrawals) from dealing with Members		<u>31,612</u>	<u>20,708</u>
Returns on investments			
Change in market value of investments	8	104,611	366,335
Gross investment income	5	46,082	53,732
Taxation	5	(2,598)	(3,198)
Investment management expenses	9	(3,652)	(7,509)
Net returns on investments		<u>144,443</u>	<u>409,360</u>
Net increase in fund during the year		176,055	430,068
Net assets of the scheme			
At 1 April		<u>1,356,199</u>	<u>1,532,254</u>
At 31 March		<u>1,532,254</u>	<u>1,962,322</u>

PENSION FUND ACCOUNTS

NET ASSETS STATEMENT

	Note	2004/05 £'000	2005/06 £'000
Investments	7		
Fixed interest securities			
Public sector		95,730	132,317
Other		74,170	75,934
Equities			
UK		635,907	825,613
Overseas		418,666	575,612
Index-linked securities		41,807	47,943
Managed funds			
Property		0	0
Other		24,594	33,624
Units trusts			
Property		91,331	108,493
Other		34,416	44,412
Cash deposits		<u>101,611</u>	<u>102,720</u>
		1,518,232	1,946,668
Current assets and liabilities	11	14,022	15,654
Net assets of the scheme at 31 March		<u>1,532,254</u>	<u>1,962,322</u>

C J Sweeney
Finance Director
29 September 2006

NOTES TO THE PENSION FUND ACCOUNTS

1. Accounting Policies

The accounts have been prepared in accordance with the Statement of Recommended Practice on Financial Reports of Pension Schemes (revised November 2002), issued by the Accounting Standards Board with reference to the Code of Practice on Local Authority Accounting.

The accounts summarise the transactions and net assets of the Pension Fund. They do not, however, take account of liabilities to pay pensions and other benefits in the future. The accounts should therefore be read in conjunction with the actuarial report on page 15 of the Pension Fund Annual Report, which takes account of such liabilities.

Benefits payable and transfer values have been treated on a cash basis. All other amounts have been prepared on an accruals basis. Some estimation has been necessary to complete the accounts within the required timescale, but the amounts involved are immaterial.

2. Contributions

The contribution made by most employees is 6% of their remuneration. Manual workers who joined the scheme prior to 1 April 1998 contribute 5%.

The employer's contribution is formally reviewed every three years on the basis of the actuarial valuation and varies for each employer. The County Council's contribution for 2005/06 was 2.85 times the employee's contribution (17.1% of officers' remuneration and 14.25% of manual workers' remuneration).

From 1 April 1984, pensions' increases and compensatory pensions in relation to the major employing authorities have been charged through the Pension Fund and financed by increased levels of employers' contributions. The level of such contributions is assessed by the Fund's Actuary. Payments made in respect of other employers are recovered directly from those bodies.

Contributions Receivable:

	2004/05 £'000	2005/06 £'000
Members		
Normal	24,381	24,275
Additional	<u>773</u>	<u>367</u>
	25,154	24,642
Employers		
Normal	65,636	70,547
Additional	<u>3,500</u>	<u>2,500</u>
	69,136	73,047
Total	<u>94,290</u>	<u>97,689</u>

NOTES TO THE PENSION FUND ACCOUNTS

Contributions received are further analysed as:

	2004/05 (restated) £'000	2005/06 £'000
Administering authority	42,005	43,962
Admitted bodies	5,702	7,315
Scheduled & resolution bodies	46,583	46,412
Total	<u>94,290</u>	<u>97,689</u>

The 2004/05 contributions have been restated in the table above due to the re-categorisation of a number of employers.

3. Benefits payable – Employing Bodies

	2004/05 £'000	2005/06 £'000
Administering authority	29,986	31,141
Admitted bodies	3,254	3,975
Scheduled & resolution bodies	34,765	37,765
Total	<u>68,005</u>	<u>72,881</u>

4. Administrative Expenses

Since 1 April 1986, it has been possible to charge pensions administration expenses direct to the Fund and the County Council elected to follow this course. The expenses listed below include a charge made for the work carried out on the Pension fund by the County Council's Corporate Finance Department. Expenses incurred by the Fund's investment managers are listed in Note 9. The Fund is exempt from VAT and is therefore able to recover such deductions.

Administrative Expenses:

	2004/05 £'000	2005/06 £'000
Administration and processing	1,797	1,609
Actuarial Fees	84	214
Audit Fee	29	29
Legal and other Professional Fees	9	10
Total	<u>1,919</u>	<u>1,862</u>

5. Investment Income

Investment income in the form of both interest on fixed interest stocks and announced dividends on equity securities is accrued as at the financial year end.

NOTES TO THE PENSION FUND ACCOUNTS

Investment Income:

	2004/05 £'000	2005/06 £'000
Income from fixed interest securities		
Public sector	3,797	4,483
Other	3,174	3,373
Dividends from equities		
UK	20,521	24,513
Overseas	8,444	9,926
Income from index-linked securities	958	1,190
Income from managed funds	166	218
Income from unit trusts	4,939	4,709
Interest on cash deposits	3,920	5,182
Securities lending	91	96
Commission recapture	63	42
Class action proceeds	9	0
Gross investment income	<u>46,082</u>	<u>53,732</u>
Irrecoverable taxation	(2,598)	(3,198)
Net investment income	<u>43,484</u>	<u>50,534</u>

Tax is deducted at 20% on dividends paid on UK equities. This is not recoverable.

The Fund suffers with-holding tax on most overseas investment income. The Fund has been granted exemption from US taxation and in some instances partial recovery of other with-holding tax is possible. Provision is made for the estimated sums to be recovered and income grossed up accordingly.

6. Investment Valuations

Investments, including foreign currencies, are shown in the accounts at market value, determined as follows:

- Quoted securities are shown at market value, based where available on mid-market prices at the close of business on the Balance Sheet date or the nearest preceding business day.
- Unit Trusts (including Property) and Managed Funds are as quoted by the trusts and managers on an offer basis on the nearest issue date to 31 March.
- Unquoted securities are valued having regard to the latest dealings, professional valuations, the advice of directors, asset values and other appropriate financial information.
- Equity Futures are valued by reference to their quoted price at the balance sheet date.

NOTES TO THE PENSION FUND ACCOUNTS

All investments are shown in sterling. The market value of overseas securities and cash is shown in sterling based on exchange rates applicable at 31 March 2006. Gains and losses on exchange arising from movements in current assets and liabilities are included in the Fund Account for the year.

Rights issues are processed on ex-date. If the value of the rights on ex-date is 15% or more of the value of the underlying security, cost is allocated from the parent to the rights. If the value is less than 15%, the rights are allocated at zero cost.

7. Investment Analysis

a) Analysis of investments at market value

	2004/05 £'000	2005/06 £'000
Fixed interest securities		
UK public sector	25,042	45,541
Overseas public sector	70,688	86,776
UK quoted and unit trusts	49,087	54,298
Overseas quoted and unit trusts	<u>25,083</u>	<u>21,636</u>
	169,900	208,251
Equities		
UK quoted	632,518	825,442
UK unquoted	3,389	171
Overseas quoted	418,666	574,659
Overseas unquoted	0	0
Overseas equity futures	<u>0</u>	<u>953</u>
	1,054,573	1,401,225
Index linked securities	41,807	47,943
Managed funds		
UK	9,255	12,106
Overseas	<u>15,339</u>	<u>21,518</u>
	24,594	33,624
Unit trusts		
UK property	91,331	108,493
UK other unit trusts	13,099	15,357
Overseas other unit trusts	<u>21,317</u>	<u>29,055</u>
	125,747	152,905
Cash		
Cash deposits	101,611	103,673
Cash backing open futures	<u>0</u>	<u>(953)</u>
	101,611	102,720
Total	<u><u>1,518,232</u></u>	<u><u>1,946,668</u></u>

NOTES TO THE PENSION FUND ACCOUNTS

b) Analysis by Fund Manager

Manager	Market value £000	% of Fund
Alliance Bernstein	400,042	20.7%
Baillie Gifford	215,788	11.1%
Capital International	369,906	19.1%
Jupiter Asset Management	261,923	13.5%
Merrill Lynch Asset Management	275,986	14.3%
Schroder Investment Management	246,476	12.7%
In - House Property Trust Fund	140,776	7.3%
<u>Private equity</u>		
TTP Ventures	1,718	0.1%
Standard Life Investments	7,753	0.4%
Harbour Vest	8,425	0.4%
Permira	7,341	0.4%
Subtotal: Funds externally managed	1,936,134	100.0%
Funds held at Hertfordshire County Council	26,188	
Total	1,962,322	

8. Analysis of changes in market value of investments

	Value at 01/04/05	Purchases at cost	Sales Proceeds	Change in Market value	Value at 31/03/06
	£'000	£'000	£'000	£'000	£'000
Fixed interest					
Public sector	95,730	626,576	(593,966)	3,977	132,317
Other	74,170	54,222	(53,173)	715	75,934
Equities					
UK	635,907	306,004	(287,644)	171,346	825,613
Overseas	418,666	218,228	(215,995)	154,713	575,612
Index-linked	41,807	32,031	(27,836)	1,941	47,943
Managed funds					
Property	0	0	0	0	0
Other	24,594	9,644	(4,868)	4,254	33,624
Unit trusts					
Property	91,331	0	0	17,162	108,493
Other	34,416	8,773	(13,907)	15,130	44,412
Cash deposits	101,611	4,012	0	(2,903)	102,720
Total	1,518,232	1,259,490	(1,197,389)	366,335	1,946,668

NOTES TO THE PENSION FUND ACCOUNTS

9. Investment Management Expenses

The Fund's Investment Managers are remunerated on the basis of fees calculated as a percentage of total assets under management. Some managers also have a performance related fee, payable where performance exceeds the performance target, as set out at Appendix C to the Pension Fund Annual Report.

The Fund subscribes to the measurement service of The WM Company.

Acquisition costs of investment are included in the cost of purchases.

Investment Management Expenses:

	2004/05 £'000	2005/06 £'000
Administration, management and custody	3,625	7,482
Performance Measurement Services	27	27
Total	<u>3,652</u>	<u>7,509</u>

10. Early Retirement Funding

During 2005/06 a total of £4,825,597 was paid into the Fund by employing bodies towards the cost of the early retirements from their organisations during 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06. This is included in "Other Contributory Income" in the Fund Account.

The Administering Authority of the Fund has the right to invoice employing bodies for the cost of early retirements under the "Local Government Pension Scheme Regulations 1997 – Augmentation" over a selected period of time. The expected income from this in future years is as follows:

	Deferred Income Related to Early Retirement Costs £'000
2006/07	503
2007/08	331
2008/09	207
2009/10	135
2010/11	28

NOTES TO THE PENSION FUND ACCOUNTS

11. Current Assets and Liabilities

Debtors and creditors are accrued for investment income, tax, administration and investment management expenses and contributions due from admitted, resolution and scheduled bodies. Investment income due is shown gross, with the associated tax due shown under Creditors: UK and Overseas Tax.

From 1 April 2002 all transfer values from and to other pension schemes have been treated on a cash basis.

The monies owed to HM Revenue & Customs (HMRC) are in respect of tax deducted from payments to beneficiaries.

	2004/05 £'000	2005/06 £'000
Current assets - debtors		
Sums due from admitted, schedule & resolution bodies	4,364	4,713
Investment income due	10,524	12,740
UK and Overseas recoverable tax	1,032	1,046
VAT due from HMRC	117	637
Miscellaneous	<u>1,061</u>	<u>343</u>
	<u>17,098</u>	<u>19,479</u>
Current liabilities - creditors		
Tax payable to HMRC	68	51
UK and Overseas tax	1,584	1,822
Investment management fees	1,321	1,638
Miscellaneous	<u>103</u>	<u>314</u>
	<u>3,076</u>	<u>3,825</u>
Net current assets	<u>14,022</u>	<u>15,654</u>

12. Liabilities after year end

The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2006. These liabilities are valued as part of the triennial valuation process described on page 15 of the Pension Fund Annual Report.

The last actuarial valuation of the fund was carried out as at 31 March 2004. The market value of the funds asset at the valuation date was £1,360 million and represented 76% of the funds accrued liabilities, allowing for future pay increases.

NOTES TO THE PENSION FUND ACCOUNTS

13. Additional Voluntary Contributions

Scheme members have the option to make additional voluntary contributions to enhance their pension benefits. These contributions are invested separately from the Pension Fund, with either the Standard Life Assurance Company or the Equitable Life Assurance Company.

Analysis of changes in Additional Voluntary Contributions:

	2004/05 Standard Life	2004/05 Equitable Life	2004/05 Total AVCs	2005/06 Standard Life	2005/06 Equitable Life	2005/06 Total AVCs
	£'000	£'000	£'000	£'000	£'000	£'000
Value at 1 April	2,819	3,402	6,221	3,429	3,368	6,797
Income						
Contributions received	358	50	408	385	49	434
Transfer values received	121	4	125	53	0	53
	<u>479</u>	<u>54</u>	<u>533</u>	<u>438</u>	<u>49</u>	<u>487</u>
Expenditure						
Retirement Benefits	(111)	(232)	(343)	(129)	(295)	(424)
Transfer Values paid	(13)	(1)	(14)	(70)	(14)	(84)
Refunds of Contributions	<u>(1)</u>	<u>(7)</u>	<u>(8)</u>	<u>0</u>	<u>(1)</u>	<u>(1)</u>
	<u>(125)</u>	<u>(240)</u>	<u>(365)</u>	<u>(199)</u>	<u>(310)</u>	<u>(509)</u>
Change in market value	256	152	408	657	227	884
Value at 31 March	<u>3,429</u>	<u>3,368</u>	<u>6,797</u>	<u>4,325</u>	<u>3,334</u>	<u>7,659</u>

In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), additional voluntary contributions have been excluded from the Fund Account and Net Assets Statement. These contributions are held by the providers and therefore do not form part of the funds investments.

NOTES TO THE PENSION FUND ACCOUNTS

14. Related Parties

Hertfordshire County Council

The majority of the pension fund's cash is invested with the fund managers, however a small amount is invested with Hertfordshire County Council in order to manage the payment of pensions and collection of contributions. Hertfordshire County Council paid the pension fund £1,100,499 in interest during 2005/06.

Investment Committee

Five members of the Hertfordshire County Council Investment Committee were councillor members of the Hertfordshire Local Government Pension Scheme during 2005/06 and one member of the committee was in receipt of pension benefits from the scheme during the year.

15. Securities Lending

The fund has an arrangement with its custodian (ABN Amro Mellon) to lend securities from within its portfolio of stocks to third parties in return for collateral. Lending is limited to a maximum of 20% of the total Fund value.

Collateralised lending generated income of £95,741 for 2005/06 (£91,122 for 2004/05). This is included within investment income in the Pension Fund Account. At 31 March 2006 £180m worth of stock (9.2% of the Fund) was on loan, for which the Fund was in receipt of £191.6m worth of collateral.

16. Statement of Investment Principles

Under the Local Government Pension Scheme Regulations 1997 (as amended) the Fund is required to publish a Statement of Investment Principles (SIP). This is set out on pages 91 to 95.

PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

Introduction

The County Council ('the Council') is responsible for the administration of the Hertfordshire Local Government Pension Scheme (LGPS). The Council has a statutory duty to ensure that any Local Government Pension Scheme funds, not immediately required to pay pension benefits, are suitably invested.

As required by statute the Council has approved a statement of investment principles which are applied to the management of the LGPS investments ('the Fund').

In accordance with Government guidelines, the extent to which the Hertfordshire scheme complies with the 10 Principles set out in the Myners' review of Institutional Investment in the U.K. is set out at Appendix A to the Pension Fund Annual Report.

Who makes the investment decisions?

The Investment Committee of the County Council ("the Committee"), advised by the Finance Director, is responsible for setting the overall investment strategy, monitoring investment performance and then implementing relevant policies. The Committee consists of 8 County Council members; 3 (non-voting) district council members elected by the Hertfordshire Local Government Association and a non-voting Unison representative.

Day to day operational decisions are delegated to the County Council's Finance Director.

The fund's governance arrangements are set out in full in the Governance Statement in the Pension Fund Annual Report.

All investments, with the exception of property unit trusts ("PUTs"), are managed by external investment management organisations ('the managers').

From 1 July 2002, in-house staff in Corporate Finance, reporting to the Finance Director, have been responsible for the management of PUTs.

What are the investment objectives of the Fund?

- a) To comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended), specifically to ensure that all:-
 - funds are suitably invested,
 - investments are diversified,
 - relevant investment limits are not exceeded,
 - investments and investment arrangements are regularly monitored and reviewed.

- b) To ensure that the Fund has sufficient assets to pay scheme benefits.

PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

- c) To achieve a long term rate of return on the invested funds (both capital gains and income) which assists in controlling the level of employer's contributions to the Fund and also the cost of the pensions to the local tax payers where appropriate by;
- i) as a minimum matching the actuary's rate of return assumptions made when assessing the Fund's level of funding, and
 - ii) exceeding the fund benchmark by 1% measured over three year rolling periods.

Link to Funding Strategy Statement

This Statement of Investment Principles is linked to the Funding Strategy Statement, which sets out the Fund's strategy for meeting employers' pension liabilities. The aim of the Funding strategy is to ensure the long-term solvency of the Fund while not unnecessarily restraining the investment strategy set out in this document.

The two strategies set out the common objective of the Fund to maximise returns on investments to control the level of employers' contributions.

The Funding Strategy Statement can be found on the Pension Funds Website at www.hertsdirect.org/pensions.

Achieving the investment objectives

The Council, having taken appropriate professional advice, has made the arrangements set out below to reduce the risk that one or more of the investment objectives for the Fund are not achieved over the long term.

a) **Suitable Investments**

The Committee considers that the following types of investments, within specific limits, are suitable for the purposes of a pension scheme:

- cash, bank deposits and other short term money market investments;
- quoted fixed interest securities; individual securities and pooled investment vehicles;
- quoted equity investments; individual securities and pooled investment vehicles;
- property unit trusts;
- derivative instruments, but not to be used for speculative purposes;
- unquoted equity investments and private equity pooled vehicles.

b) **Fund benchmark and asset allocation**

From 1 July 2002 the Fund has adopted a specific benchmark which has been approved by the Committee, following appropriate professional advice from the investment consultant, fund managers and the performance measurement consultant. The composition of the Fund benchmark is set out at Appendix B to the Pension Fund Annual Report.

The weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund.

PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

The asset allocation set out in the benchmark is designed to spread the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each class.

In March 2006, the Investment Committee undertook a review of the investment strategy with the advice of the Investment Consultant and concluded it is still the most appropriate strategy to meet the objectives.

c) Management of Investments

The main choices when selecting a fund management style are:

- ◆ Active or passive – making independent decisions when buying or selling investments (active) or buying stocks to replicate a specific index (passive);
- ◆ Balanced or specialist – investing across a broad range of asset classes (balanced) or in a narrow, specific asset class (specialist).

Since November 2004 the Fund has used “active, specialist” managers only. The Fund’s investment management arrangements were restructured at that time, on the advice of the investment consultant to increase the potential return of the Fund.

The number of managers and the share of the Fund by type as at 31 March 2006 is shown in table 1 below, along with the comparative figures for March 2005.

Table 1

	Share of total Fund at			
	31 March 2006	No of Managers	31 March 2005	No of Managers
External, active, specialist	91.4%	6	90.6%	6
Private equity	1.3%	4	1.5%	4
In-house, active, specialist (property unit trusts)	7.3%		7.9%	

Full details of the managers, their mandates and fee basis are shown at Appendix C to the Pension Fund Annual Report.

All the managers need the approval of the Finance Director to acquire shares in any securities that are not listed on a recognised stock exchange.

PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

d) Social, environmental and ethical considerations

The Council retains external investment management organisations to select, monitor and realise the Fund's investments. The investment managers are expected to apply their professional expertise to maintain suitably diversified portfolios for a Local Government Pension Scheme. When making investment decisions the managers are expected to take account of what they reasonably believe are all relevant considerations.

e) Investment Restrictions

The following investment restrictions apply to the funds under management:

i) all limits determined under the LGPS (Investment and Management of Funds) Regulations 1998, (as amended)

ii) additional limits which have been determined by the Council:

Private Equity	- total investments are not to exceed 5 per cent of the value of the Fund.
Options, futures & contracts for differences	- Maximum 25% of UK equity portfolio. Only to be used to protect against possible adverse fluctuations in the values of other investments or cash in the portfolio.
Individual equity holdings	- the total holding in a single company is not to exceed 5% of the issued share capital.

There are no other restrictions placed on the managers' investment decision making.

f) Investment Performance Measurement

The investment performance of the Fund's managers is measured by an independent organisation, the WM Company, which reports quarterly to the Finance Director and at least annually to the Committee.

g) Monitoring of Investment Managers

The Committee meets quarterly to consider reports from each investment manager. Each manager makes a presentation in person to the Committee on an annual basis and to the Finance Director (or his representative) on a more regular basis.

h) Actuarial Valuation

The LGPS is subject to triennial valuations by an independent actuary. Employers' contributions are determined by the actuary to ensure that in the long term the fund's assets will match its liabilities. The framework for this is set out in the Funding Strategy Statement.

PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES

i) Voting of Shares

The Fund routinely votes on all matters raised by the largest 350 listed UK companies where it owns shares. The Fund's voting policy is to vote in accordance with the current principles of corporate governance best practice, as advised by the RREV (Research Recommendations and Electronic Voting) Service, provided by NAPF and ISS, except when the advice of the Fund's managers indicates such action would not be in the best financial interests of the Fund.

j) Custody Arrangements

The Fund's assets are held in custody by an independent custodian, where reasonable controls have been certified by an appropriate auditor.

This Statement of Investment Principles has been presented to the Investment Committee of Hertfordshire County Council on 20 June 2006 for approval. Copies are available on request for participating scheme employers, scheme members, pensioners and deferred beneficiaries. The statement will be reviewed on an annual basis by the Council's Investment Committee.

INDEPENDENT AUDITOR'S REPORT TO HERTFORDSHIRE COUNTY COUNCIL

Opinion on the financial statements

I have audited the financial statements and pension fund accounts of Hertfordshire County Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The pension fund accounts comprise the Fund Account, the Net Assets Statement, and the related notes. The financial statements and pension fund accounts have been prepared under the accounting policies set out within them.

This report is made solely to Hertfordshire County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements including the pension fund accounts, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements and pension fund accounts presents fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

- the financial position of the Authority and its income and expenditure for the year; and
- The financial transactions of its pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

INDEPENDENT AUDITOR'S REPORT TO HERTFORDSHIRE COUNTY COUNCIL

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended; and
- the pension fund accounts present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial transactions of the Pension Fund during the year ended 31 March 2006, and the amount and disposition of the fund's assets and liabilities as at 31 March 2006, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Debbie Hanson

District Auditor

30 September 2006

Audit Commission

1st Floor, Sheffield House, Lytton Way, off Gates Way, Stevenage, Herts SG1 3HG

INDEPENDENT AUDITOR'S REPORT TO HERTFORDSHIRE COUNTY COUNCIL

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

The authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

INDEPENDENT AUDITOR'S REPORT TO HERTFORDSHIRE COUNTY COUNCIL

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Hertfordshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 14 December 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Debbie Hanson

District Auditor

30 September 2006

Audit Commission

1st Floor, Sheffield House, Lytton Way, off Gates Way, Stevenage, Herts SG1 3HG

STATEMENT OF ACCOUNTING POLICIES

This section explains the accounting policies that the County Council has applied in preparing these accounts.

1. General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting 2005, the Best Value Accounting Code of Practice and guidance notes issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which ensures compliance with Statements of Standard Accounting Practice and Financial Reporting Standards applicable to local authorities.

2. Intangible Assets

This represents expenditure which may properly be capitalised but which does not represent tangible fixed assets. Intangible assets are recorded at cost and amortised to revenue on a systematic basis over their estimated useful economic lives.

3. Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised, provided that the fixed asset yields benefits to the authority and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to service revenue accounts.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting.

The closing balances in respect of the County Council's land and buildings as at 31 March 2001 were restated as at 1 April 2001 on the following basis:

- properties regarded by the County Council as operational were valued on the basis of open market value for existing use, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost,
- properties regarded by the County Council as non-operational have been valued on the basis of open market value.

STATEMENT OF ACCOUNTING POLICIES

The surplus or deficit arising on the initial and subsequent revaluation of fixed assets have been credited or charged to the fixed asset restatement account. During 2004-05 a rolling programme of land and building asset revaluations commenced. This programme will ensure compliance with the Code of Practice requirement that all land and building assets are revalued within a five-year period. However, permanent and material changes to asset valuations, as advised by the County Council's valuers, will be accounted for in the interim period, as they occur.

The County Council's valuers perform an impairment review on the value of buildings that have a remaining minimum useful life of 50 years as at the balance sheet date. An impairment loss caused by a consumption of economic benefits would be recognised through service revenue and asset management revenue accounts. Other impairment losses due to a general fall in prices would be accounted for in the fixed asset restatement account.

Land and building capital expenditure not considered to have added to the value of fixed assets is written off to the fixed asset restatement account. The amount written off is initially estimated based on experience in previous years. This is then compared with information subsequently advised by the Council's valuers and where there is a material difference between the estimated amount written off and that advised by valuers the accounts will be adjusted in the year the capital expenditure was incurred. If considered not to be material in relation to the Council's accounts, such a difference will be accounted for in the subsequent accounting period.

Assets other than land and buildings have been valued on the following basis:

Vehicles, plant and equipment are included in the balance sheet at depreciated historic cost as a proxy for current replacement cost.

Infrastructure assets are valued on the basis of depreciated historic cost.

4. Deferred Charges

Deferred charges represent expenditure which is classified as capital expenditure for controls purposes. The Statement of Recommended Practice requires that unless the authority controls the economic benefits resulting from such expenditure it should be written off to the revenue account in the year the expenditure is incurred.

STATEMENT OF ACCOUNTING POLICIES

5. Depreciation

Depreciation, with the exception of land which is not depreciated, is provided for on a straight line basis on those fixed assets with a finite useful life. Depreciation is not provided for in the year in which assets are acquired. The depreciation charge is abated where assets are disposed of during the financial year.

The Accounting Code of Practice requires that upon a review of asset lives, depreciation would be calculated over the revised remaining useful life of the asset.

The periods over which the various types of asset are depreciated are:

Buildings	2 – 60 years
Vehicles, Plant and Equipment	2 – 30 years
Infrastructure	8 – 60 years

6. Basis of Charging for Capital

General fund service revenue accounts and trading accounts are charged with a capital charge for all fixed assets used in the provision of the service. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. For 2005-06, the interest rates are 3.5% (2004-05 - 3.5%) for assets shown at current value and 4.95% (2004-05 - 4.8%) for assets valued at historical cost. The aggregate charge to individual services is determined on the basis of the capital employed in each service and reflects the cost of providing and consuming fixed assets used in the delivery of services.

External interest payable and the provision for depreciation are charged to the asset management revenue account, which is credited with capital charges charged to services. Capital charges, therefore, have a neutral impact on the amounts required to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans or to finance capital expenditure are disclosed separately as appropriations, on the face of the consolidated revenue account, below net operating expenditure.

STATEMENT OF ACCOUNTING POLICIES

7. Capital Receipts

Income from the disposal of fixed assets is credited to the usable capital receipts reserve. These receipts are available to either finance capital expenditure or to repay debt. Such income that is not reserved for the repayment of external loans and has not been applied in financing capital expenditure is shown on the balance sheet as usable capital receipts.

Upon disposal, the net book value of the asset is written off to the fixed asset restatement account.

8. Stocks and Work in Progress

Stocks and stores cover such items as vehicle spares, uniforms, stationery, equipment, other materials and some canteen stocks. All consumable and non-durable stocks and stores are charged to the revenue account in the year of purchase. The basis of valuation is dependent on the nature of the stock. Most stocks are valued on an historic cost basis whilst Hertfordshire Catering stocks are valued at the lower of cost or net realisable value.

9. Debtors and Creditors

The accounts are maintained on an accruals basis in accordance with the Accounting Code of Practice. The accounts are prepared on the basis of income being due and expenditure becoming payable in the financial year to 31 March 2006. This means that sums due to or from the County Council during the year are included in the accounts whether or not the cash has actually been received or paid in the year. Any differences between the actual and accrued amounts will be reflected in the accounts of the following year.

The County Council's policy for providing for bad or doubtful debts is shown below. These general rates are subject to review where special circumstances may apply.

Age of debt (months)	Provision
10 to 15	35
16 to 21	50
Over 21	100

STATEMENT OF ACCOUNTING POLICIES

10. Group Accounts

The SORP requires a local authority to prepare Group Accounts where it has material interests in subsidiaries, associates or joint ventures. The County Council, following SORP guidance, has considered its relationships with and interests in other entities and either has no group relationship with or does not exercise significant control or influence over those entities. Therefore the Council has not prepared Group Accounts for itself and those entities in which it has an interest.

11. Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and are recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

In the case of service related revenue grants, the grant is credited to the appropriate revenue account where it is matched against the expenditure to which it relates.

Revenue Support Grant and Non-Domestic Rate income are shown separately on the face of the Consolidated Revenue Account.

Capital grants are applied as sources of finance to the specific capital project. Capital accounting conventions require that where acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the deferred grants and contributions account. Accounting treatment of the grant or contribution mirrors that applied to the expenditure it has financed.

12. Provisions

Provisions are made for known liabilities that are likely or certain to be incurred but where the amount or date on which they might arise is uncertain. Provisions are charged to the revenue account in the year that they are recognised and are detailed in the notes to the accounts. Expenditure incurred on items for which the provision was originally set up is charged directly to the provision. The level of each provision is reviewed at the balance sheet date. Provisions that are no longer required will be credited back to the original service revenue account from where the provision was created.

STATEMENT OF ACCOUNTING POLICIES

13. Capital Accounting Accounts

The current system of capital accounting has required the establishment of two accounts in the County Council's balance sheet.

- the fixed asset restatement account, which represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets together with the net book value of assets disposed of and any related grants or contributions
- the capital financing account, which represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

The above accounts are not available to fund future expenditure.

14. Specific Reserves

Specific Reserves are sums of money earmarked to provide, in the main, flexibility in funding between years. A detailed make up of specific reserves is given in the notes to the accounts. Expenditure incurred on items for which the reserve was originally established is shown as service expenditure offset by a contribution from the reserve to the Consolidated Revenue Account.

15. Leases

Rentals payable under operating leases are charged to revenue on an accruals basis in accordance with Statement of Standard Accounting Practice (SSAP) 21.

16. Value Added Tax

Value added tax (VAT) is included within the accounts only to the extent that it is irrecoverable. The Council is able to recover VAT on nearly all its expenditure (input tax) and in addition, accounts for VAT on its income (output tax) where applicable.

STATEMENT OF ACCOUNTING POLICIES

17. Central Support Services

Service revenue accounts include a charge for both service and central management and administration overheads. Costs relating to the Corporate and Democratic Core and Non Distributed Costs have been identified in accordance with the Best Value Accounting Code of Practice and are shown within the Central Services revenue account.

18. Pensions

With effect from 1 April 2003, the County Council has adopted FRS17 Accounting for Retirement Benefits. This accounting standard is applicable to defined benefit pension schemes and to any discretionary awards relating to pensions. Best Value service revenue accounts are charged with the current service cost of pension benefits accrued in the year. Past service costs and gains or losses on settlements or curtailments are charged to Non Distributed Costs within Central Services. The expected return on pension fund assets and the interest cost applicable to pension liabilities are shown within the Net Operating Expenditure section of the consolidated revenue account. In order to ensure a neutral impact, the net effect of FRS17 is reversed through the pensions reserve account within the appropriation section of the consolidated revenue account. The pension liability as at 31 March, net of the County Council's share of pension fund assets, is shown with a corresponding pension reserve on the face of the balance sheet.

Pension Arrangements

The County Council participates in three different pension schemes that meet the needs of employees in particular services. All the schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Teachers: This is an unfunded scheme administered by the Teachers Pension Agency (TPA). The pension cost charged to the accounts is the contribution rate, 13.50% for 2005-06, set by the TPA on the basis of a notional fund.

Uniformed Fire fighters: This scheme is unfunded and the County Council meets any deficit.

Other employees: Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme. For 2005-06 the County Council contributes at the following rates:

Local Government Officers	17.10 %
Manual Workers	14.25 %

STATEMENT OF ACCOUNTING POLICIES

19. Repurchase of Borrowing

The Accounting Code of Practice requires gains or losses on the repurchase of borrowing to be recognised in the Consolidated Revenue Account in the year in which the repurchase occurs. However, if the repurchase is linked with a refinancing or restructuring of borrowing with substantially the same overall economic effect, gains or losses can be recognised in the Consolidated Revenue Account over the life of the replacement borrowing which is the policy that the County Council has adopted. The amount of deferred premiums not charged to revenue is shown on the face of the Consolidated Balance Sheet.

20. External Interest

Interest on external borrowing is fully accrued resulting in each financial year bearing the cost of interest related to its actual external borrowing. External investment income is credited to revenue over the period to which it relates.

21. Long Term Contracts

Long term contracts are accounted for on the basis of the Consolidated Revenue Account being charged in the year during which the cost of goods or services were received or provided.

22. Post Balance Sheet Events

Where material, events that occur after the balance sheet date that provide additional evidence relating to conditions existing at that date are reflected within the accounting statements. Material post balance sheet events that relate to conditions that did not exist at the balance sheet date are disclosed by way of a note to the balance sheet.

23. Exceptional items, extraordinary items and prior period adjustments

Where applicable, exceptional items are included in the cost of the service to which they relate whilst extraordinary items would be disclosed on the face of the Consolidated Revenue Account after ordinary activities of the County Council. Prior period adjustments, if material, would be accounted for by restating comparative figures for the preceding accounting period.

24. Audit of Financial Statements

The finances of the County Council are subject to continuous audit by the Internal Audit section of the Corporate Services Department. The financial statements are subject to external audit by the Audit Commission under the Audit Commission Act 1998. This publication includes the information and statements required to comply with the Accounts and Audit Regulations 2003. These statements are on pages 27, 37 to 48, 50 to 90 and 100 to 107.

GLOSSARY OF TERMS USED

The glossary's definitions are intended to provide the reader with a clear and concise explanation of the technical terms used in this report.

Accounting Policies

Accounting policies define the process whereby transactions and other events are reflected in financial statements.

Accrual Accounting

The inclusion of income and expenditure within the accounts for the financial year in which they are earned or incurred, not when the money is received or paid.

Actuarial Gains and losses

For defined benefit pension schemes, the changes in actuarial deficits or surpluses that arise because:

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

Agency Services

Services that are performed by or for another Authority or Public Body, where the principal, the authority responsible for the service, reimburses the agent, the authority carrying out the work, for the cost of the work carried out.

Asset

An item that has value owned by the County Council. Examples would be land, buildings and stocks.

Asset Management Revenue Account

An account the Council is required to maintain under the capital accounting arrangements that have applied from 1994. It contains the credit for capital charges and depreciation of government grants and contributions, offset by charges for fixed asset depreciation and external interest payments.

Balance Sheet

This represents a summary of all the assets and liabilities of the County Council, bringing together all the accounts of the Council except the Pension Fund and various Trust Funds whose assets are not at the disposal of the Council.

Best Value Accounting Code of Practice

The code that local authorities are required to comply with when presenting their annual accounts.

Billing Authority

The local authority responsible for collecting the Council Tax from residential properties in their area. In Hertfordshire this is the responsibility of the District Councils.

GLOSSARY OF TERMS USED

Budget

A statement of the Council's policy stated in financial terms. This includes both revenue and capital expenditure.

Capital Charge

A charge covering fixed assets used in the provision of the service. The charge comprises depreciation plus notional interest representing the cost of tying up resources in the asset.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely, maintains the value of an existing fixed asset.

Capital Financing Account

An account that reflects financing of capital expenditure from revenue and capital receipts together with the adjustment of the minimum revenue provision.

Capital Financing Reserve

The amount of debt outstanding relating to capital expenditure. This balance is used to calculate the Minimum Revenue Provision.

Capital Receipts

The proceeds from the sale of fixed assets such as land and buildings. Capital receipts can be used to repay any outstanding debt on fixed assets or, to finance capital expenditure, within rules set down by government. Capital receipts however cannot be used to finance revenue expenditure.

Capital Reserve

A County Council reserve that will be applied in financing future capital expenditure.

Carry-forwards

These are underspends at the year-end which Members and officers, under delegated powers, have agreed to carry forward to the next year to support that year's expenditure plans.

Central Support Services

Services organised on a corporate basis that support the delivery of services to the public.

Collection Fund

A fund administered by each billing authority. Council Tax monies are paid into the fund whilst part of the net revenue expenditure of the County Council is met from the Collection Fund.

GLOSSARY OF TERMS USED

Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingent Liability

A potential liability at the balance sheet date, the outcome of which is uncertain, as it is dependent on a future event.

Corporate and Democratic Core

Reflects the provision of corporate management and democratic representation and management that local authorities engage in because they are elected multi-purpose authorities. The costs of these activities are thus over and above those that would be incurred by an independent, single purpose body managing the same services. There is therefore no logical basis for apportioning these costs to services.

Council Tax

A property based tax that is administered by District, Borough and Unitary Councils.

Creditors

Amounts owed by the Council at the balance sheet date for goods and services supplied. This will include receipts in advance that have not been applied at the balance sheet date.

Current Asset

An asset that is realisable or disposable within one year.

Current Liability

Amounts that are due to be settled within one year.

Current Service Cost (Pensions)

The increase in the present value of a defined benefit scheme's liability expected to arise from employee service in the current period.

Curtailment

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- termination of employee's services earlier than expected; and
- termination of, or amendment to the terms of, a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

GLOSSARY OF TERMS USED

Debtors

Amounts due to the Council at the balance sheet date.

Deferred Credits

Amounts due to the County Council in future periods.

Deferred Grants and Contributions

Amounts received or receivable which have been used to finance capital expenditure. In accordance with capital accounting regulations these amounts will be written off over the same period as the assets to which they relate.

Defined Benefit Scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or un-funded (including notionally funded).

Defined Contribution Scheme

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current or prior periods.

Depreciated Replacement Cost

The method employed in valuing land and buildings where a market value basis is not readily available.

Depreciation

The measure of the wearing out, consumption or other reduction in the useful life of a fixed asset.

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers such as The Local Government (Discretionary Payments) Regulations 1996.

Doubtful Debts

A provision made by the Council based on age and particular circumstances relating to amounts owed to the County Council.

Emoluments

Amounts paid to employees, including expenses or non-monetary benefits that are taxable net of employee pension contributions.

GLOSSARY OF TERMS USED

Estimation Techniques

The methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence in order to give fair presentation of the accounts.

Expected Rate of Return on Pension Fund Assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Extraordinary Items

Material abnormal items which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur.

Fees and Charges

Income raised by charging users of services for the facilities. For example, the supply of school meals and home helps.

Finance Lease

Arrangements whereby the lessee is treated as owner of the leased asset and is required to include such assets within fixed assets on the balance sheet.

Financial Reporting Standard (FRS)

A statement of accounting practice issued by the Accounting Standards Board.

Fixed Asset Restatement Account

An account created as a result of the current capital accounting regulations that enables assets to be shown in the balance sheet at current values.

Formula Spending Share (FSS)

This is the process by which Government divides up the resources that its spending review has made available. The formulae compare similar pieces of data for one authority to another authority and the FSS figure is the outcome of this process. This is a way of allocating grant according to authorities' relative circumstances.

GLOSSARY OF TERMS USED

Foundation School

A school that receives funding from the Council but owns its land and buildings.

General Balances

The excess to date of income over expenditure in the Consolidated Revenue Account.

Going Concern

The concept that the authority will remain in operational existence for the foreseeable future. Revenue accounts and the balance sheet are produced on the basis that there is no intention to curtail significantly the scale of operations.

Government Grants

Assistance by government and inter-government agencies and similar bodies. Revenue grants are credited to the appropriate service revenue account whilst capital grants are credited to the Deferred Grants and Contributions Account.

Historical Cost

Capital expenditure originally incurred.

Impairment

A reduction in the value of a fixed asset below its carrying amount on the balance sheet. Examples would include loss in value due to physical damage or decline in market value due to a general fall in prices.

Infrastructure Assets

Expenditure on works of construction or improvement but which have no tangible value, such as construction of, or improvement to highways.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investments (Non-Pensions Fund)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments, other than those in relation to the Pension Fund, that do not meet this criteria are classified as current assets.

Investments (Pensions Fund)

The investments of the Pension Fund will be accounted for in the statements of that Fund. FRS17 Retirement Benefits requires authorities to disclose their attributable share of pension scheme assets.

Liquid Resources

Current asset investments that are readily disposable by the authority without disrupting its business and are readily convertible to known amounts of cash.

GLOSSARY OF TERMS USED

Long Term Borrowing

Loans repayable more than one year after the balance sheet date.

Long Term Contracts

A contract entered into for the provision of a service where the time taken to complete the contract is such that the contract falls into different accounting periods.

Long Term Debtors

Amounts due to the Council more than one year after the balance sheet date.

Minimum Revenue Provision

A specific percentage, currently 4% of the Council's capital financing requirement at the end of the previous financial year that must be set aside from the revenue account to provide for the repayment of loans.

National Non-Domestic Rates

A rate in the pound, set by Central Government at a standard countrywide rate, applied to the rateable value of each premise not being used for domestic purposes.

Net Book Value

The amount at which fixed assets are included in the balance sheet. This would be either the asset's historic cost or current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing an asset in its existing condition and its existing use.

Net Debt

The authority's borrowings less cash and liquid resources.

Net Revenue Expenditure

Gross expenditure less specific service income, but before deduction of revenue support grant and national business rates.

Non Distributed Costs

Overheads for which no user benefits and should not be apportioned to services.

Non Operational Asset

Fixed assets held by the Council but not directly used or consumed in the delivery of its services. This would include surplus properties awaiting disposal.

Operating Lease

An arrangement whereby the risks and rewards of ownership of the leased asset remain with the lessor.

GLOSSARY OF TERMS USED

Operational Asset

Fixed assets held by the Council and used or consumed in the delivery of its services for which it has either a statutory or discretionary responsibility.

Past Service Cost

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension Fund

An employees' pension fund maintained by an authority, or a group of authorities, in order primarily to make pension payments on retirement of participants. It is financed from contributions from the employing authority, the employee and investment income.

Post Balance Sheet Events

Events both favourable and unfavourable that occur between the balance sheet date and the date on which the responsible financial officer signs the Statement of Accounts.

Precept

The levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf.

Precepting Authorities

Those authorities which are not billing authorities (e.g. do not collect Council tax). County Councils, Police Authorities and joint authorities are 'major precepting authorities' and parish, community and town councils are 'local precepting authorities'.

Prior Period Adjustments

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors.

Projected Unit Method

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

GLOSSARY OF TERMS USED

Provisions

Sums set aside to meet future expenditure where a specific liability is known to exist but that cannot be measured accurately.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets the ultimate realisation of which can be assessed with reasonable certainty.

Public Works Loan Board

A government agency established to provide long-term loans to local authorities to finance part of their capital expenditure.

Rateable Value

Rateable value of a property is based on an assessment of the annual rental value for non-domestic property. Rateable value multiplied by the rate in the £ levied equals the rate payments for the year.

Related Parties

For a relationship to be treated as a related party relationship there has to be some element of control or influence by one party over another, or by a third party over the two parties.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revenue Contingency

A sum set-aside for future pay and price increases.

Revenue Contributions to Capital Outlay

Contributions from revenue to finance capital expenditure.

GLOSSARY OF TERMS USED

Revenue Expenditure and Income

This is expenditure on day-to-day running costs and consists primarily of salaries and wages, premises related costs and supplies and services. Revenue income will include fees and charges and service specific grants

Revenue Support Grant

A grant paid by central government in aid of local authority services in general, as opposed to specific grants, which may only be used for a specified purpose.

Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

Settlement

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:

- a lump-sum cash payment to scheme members in exchange for their rights to receive specified pension benefits;
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits; and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

Short Term Borrowing

Loans repayable within one year of the balance sheet date.

Short Term Investments

Deposits with approved financial institutions which, when placed, had a maturity date of less than one year.

Specific Grants

Government grants to local authorities in aid of particular projects or services.

Specific Reserves

Sums set aside to meet revenue or capital expenditure needs in the future. Reserves offer the scope for greater flexibility in financing future expenditure.

Statement of Standard Accounting Practice

A statement of common accounting practice issued by the Accounting Standards Board.

GLOSSARY OF TERMS USED

Stocks

The amount of unused or unconsumed stocks held in expectation of future use. When use will not occur until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Tangible Fixed Assets

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

Total Cost

The total cost of providing a service includes all costs including an appropriate share of all support services and overheads.

Transfer Value

The value of an employee's pension rights when transferring from one pension scheme to another.

Transferred Debt

Debt met by third party bodies following the statutory transfer of services previously provided by the County Council.

Usable Capital Receipts

Income from the sale of capital assets. These receipts are available to either finance capital expenditure or repay debt.

Useful Life

The period over which the authority will derive benefits from the use of a fixed asset.

Vested Rights

In relation to a defined benefit scheme, these are:

- for active members, benefits to which they would unconditionally be entitled on leaving the scheme;
- for deferred pensioners, their preserved benefits;
- for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses, civil partners or other dependants.

Voluntary Provision

Any additional provision over and above the minimum revenue provision required.