

Cabinet
20 June 2005**4. MONEY MATTERS****Recommendation**

**Annual statutory
financial statements for
the financial year ending
31 March 2005
(Section 1)**

1. **The Director of Financial Services recommends that:**
 - (a) **the annual financial statements for the year ending 31 March 2005 be endorsed and recommended for approval by the County Council at its meeting on 30 June 2005 (section 1);**
 - (b) **his conclusions concerning cost effective money market activities be endorsed (section 2); and**
 - (c) **his conclusions concerning satisfactory financial progress so far this year be endorsed (section 3).**
2. ***Excellent progress has been made with earlier preparation of last year's financial statements.*** The accountants completed the financial statements and entered the last phase of this work on 23 May when the Audit Commission's independent external auditors PricewaterhouseCoopers began their final examination of the accountants' working papers, draft revenue account and balance sheet together with a number of formal statements of representation.
3. The culmination of this work is the presentation of the audited final accounts for last year to the Cabinet on 20 June before being recommended to the County Council for approval on 30 June. The statutory deadline has been beaten by one month.
4. The statements are at Appendix 1.
5. The external auditors appointed by the Audit Commission have indicated they will issue an unqualified audit opinion subject to:
 - (a) the County Council approving the statements, and
 - (b) there are no matters arising from the public inspection of the statements which will be available from 11 July to 5 August.
6. They will produce a brief interim report for discussion at Cabinet. Please see Appendix 2. The final report will be available later in the year.

7. **The provisional financial results show that revenue spending by Directorates was within overall operating cash limits of £453.345 million.** There has again been some modest use of between year budget flexibility. Details are summarised in Appendix 3.

8. **County Fund general revenue balances have increased by £6.1 million to £19.7 million at 31 March 2005.** This strengthening has been possible by use of prudential borrowing powers to fund capital investment rather than use earmarked revenue reserves (£4.8 million). In addition favourable money market activity has had a beneficial impact on the final results for the year.

9. The Council is on course to use £4.8 million of general balances to support the revenue budget for 2005/06 and retain around £15 million as a reasonable contingency fund.

10. School balances have declined very slightly to £14.1 million over the last financial year (see Appendix 4).

11. Other revenue reserves earmarked for specific purposes have been reviewed. It is judged prudent to retain around £30 million to meet potentially adverse circumstances.

12. **Capital investment amounted to £71.2 million with most of this being spent on schools, local transport and corporate services.** Resources have been preserved through the capital reserve for future investment to ensure commitments are fully funded.

13. **The local government staff pension fund ended the year with an operating surplus of £39.2 million.** The value of the Fund at 31 March 2005 was £908.9 million. This is an increase of £109.3 million or 13.7% over the previous year. The fund was subject to a full independent actuarial review at 31 March 2004. Although the fund's position has improved over the year the value of assets represents 67% of the obligations to current and future pensioners. Contributions by all employers are being increased to strengthen the fund. The Council's budget for 2005/06 and medium term financial plan provides for this strengthening. The pension fund scheme is being reviewed by the Government to ensure it can be afforded over the longer term.

14. The Director of Financial Services recommends that the annual financial statements for the year ending 31 March 2005 be endorsed and recommended for approval by the County Council at its meeting on 30 June 2005.

15. In accordance with Financial Regulations and the Council's Treasury Management Policy Statement the Director of Financial Services is required to report annually on the activities of the Treasury Management operation.

Borrowing and Lending Transactions 2004/05 (Section 2)

16. This section of the report summarises the borrowing and lending transactions for last year. The borrowing is used to fund capital projects and to replace loans repaid during the year. The lending transactions comprise short-term investment of cash balances on the London Money Markets.

Borrowing Transactions – Worcestershire County Council

17. The borrowing transactions and debt outstanding for the Council in 2004/05 are summarised in Appendix 5. The total debt increased from £182.555 million to £211.760 million during the year, an increase of £29.205 million.

18. During 2004/05 the opportunity was taken to reschedule one of the Council's longer-term loans. An £8 million variable rate loan from the Public Works Loan Board (PWLB) at 4.875% was converted to a money market loan of 4.29% for the first 10 years. Thereafter the lender has the option to increase the interest rate and the Council the option to repay the loan. In addition debt, at a variety of rates, transferred from another council during local government reorganisation was also rescheduled. The total annual savings from rescheduling are estimated to be £75,000.

19. The total of new longer-term loans taken during the year amounted to £45 million, which includes the conversion of £8 million of variable debt to a money market loan. Loans totalling £37 million were taken to replace debt repaid and fund capital projects. These details are as follows:

Lender	Amount £m	Period Years	Interest Rate %
PWLB	4	27	4.8
PWLB	5	26	4.8
PWLB	5	26	4.75
PWLB	5	26	4.7
PWLB	6	26	4.6
PWLB	5	27	4.55
PWLB	5	28	4.55
DEPFA Bank	2	10/40	4.29
	37		

20. The Council's Local Bond Scheme was discontinued for new investment in October 2001. As at 31 March 2005 there was 1 Bond Holder remaining, investing £2,000.

21. The total debt consists of longer and short-term debt (as shown in Appendix 5). The longer-term debt of £211.186 million falls due for repayment as follows:

Within	£m	% of Total Debt
1 year	0.002	0
1 – 2 years	20.000	9.5
2 – 5 years	29.922	14.1
5 – 10 years	21.266	10.1
10 years and over	139.995	66.3
	211.185	100.0

22. The average rate of interest on longer-term debt for 2004/05 stood at 4.59% compared with 4.54% in 2003/04.

23. The short-term debt, which consists of local deposit loans and is repayable at seven days notice, totalled £0.575 million at 31 March 2005, a decrease of £0.215 million over the year.

Borrowing Transactions – The Former Hereford and Worcester County Council (HWCC)

24. The only debt outstanding at 31 March 2005 under HWCC relates to a contribution from a Herefordshire Village Trust towards a joint use capital scheme. Discussions with Herefordshire Council are in progress to resolve its application.

Lending Transactions

25. The temporary lending transactions for 2004/05 of the Council's cash balances, which include investments that can be recalled in less than 1 day's notice, are summarised as follows:

	£m	£m
Balance at 01/04/2004		88
Investments made during the year (442)	1882	
Less		
Investments recalled during the year	1861	21
Balance at 31/03/2005		109

26. All investments are only made in accordance with the Council's Treasury Management Policy and to institutions that satisfy the criteria in the Council's Treasury Management Practices.

27. The County Council's returns on its investments closely mirrored the movement in the Bank of England base rate. At the beginning of the year the base rate stood at 4.0% with

**Performance this Year
(Section 3)**

three subsequent rate rises of 0.25% in the first half of the year, the base rate ended the year at 4.75%.

28. The average rate earned on investments during 2004/05 was 4.58%, which outperformed the Council's benchmark target by 0.08%. The interest earned on investments totalled £4.354 million.

29. The Director of Financial Services concludes that the management of capital debt and short-term investments continues to be cost effective.

30. The overall revenue resources funding operational activity this year are:

	£m
Council Tax	175.022
Revenue Support Grant	139.952
Redistributed National Non Domestic Rates	167.180
Use of reserves	4.850
Sub Total	487.004
Specific Government Grants based on latest allocation	109.642
Total	596.646

31. The funding is deployed as follows:

Directorate	Funding		
	General £m	Specific £m	Total £m
Educational Services	275.011	65.469	340.480
Social Services	124.982	36.243	161.225
Environmental Services	50.336	7.930	58.266
Corporate Services	19.169	0	19.169
Financial Services	17.506	0	17.506
Total	487.004	109.642	596.646

32. Budgets will be realigned within the overall cash limits to be consistent with the new directorate structures approved by the Council on 26 May 2005.

33. Money market activity has continued to prove beneficial. It has been possible to secure £18 million of this year's long-term capital borrowing requirement at a fixed rate cost of 4.5%. Temporary cash surpluses have been invested at a rate of 4.78% compared to the Council's benchmark of 4.72%.

34. The Council is required to submit the second part of its Annual Efficiency Statement for this year to the Office of the Deputy Prime Minister (ODPM) on 15 June, please see Appendix 6. This part of the Statement covers efficiency gain in the last financial year. The Council declared its gain at around £3 million and this will count towards meeting this year's target of £6.6 million. There are strict rules governing the calculation of efficiency gains and the calculations are subject to external audit verification.

35. Local mapping will set new standards of excellence

- (a) Martin Finch, Worcestershire's Head of Financial Practice, has been a leading member of the Local Government Association team that has created a new mapping agreement benefiting the public sector in one of the widest collective procurement exercises ever conducted. The Improvement and Development Agency (IDeA) have confirmed agreement from each of the selected service providers to set up the Mapping Services Agreement (MSA). The agreement provides for a comprehensive range of mapping data and support services for use in local authorities across Great Britain. Three suppliers have been selected to provide the services – Ordnance Survey, Intermap, and Intelligent Addressing.
- (b) By following a joint procurement strategy, the IDeA will achieve potential savings for local government of more than £100 million over four years. The use of a collaborative approach to procurements fits well with the Government's recommendations within the Efficiency Review, and the financial savings to local government come not only in reduced charges from suppliers, but also in major economies from the central procurement compared to the cost of individual tendering by each authority.
- (c) IDeA has replaced a 10-year agreement for local government's mapping requirements in an open procurement process carried out by its wholly-owned subsidiary Local Government Information House (LGIH). The agreements reached give access to the latest mapping technology for all local authorities in England, Scotland and Wales, as well as ensuring that Fire, Police and National Park authorities also have access to the same information. The products and services selected represent the most technically advanced and highest quality standards available, and provision will continue for four years allowing the take-up of new products as they are needed.

36. The Director of Financial Services concludes that satisfactory progress has been made over the first ten weeks of this financial year.



Supporting Information

- **Appendix 1** – Annual Statement of Accounts 2004/05
- **Appendix 2** – External Auditor's Interim Audit Report
- **Appendix 3** – Operating activity financial results 2004/05
- **Appendix 4** – School Budget carry forward summary.
- **Appendix 5** – Statement of borrowing transactions 2004/05
- **Appendix 6** – Annual Efficiency Statement

Contact Points

County Council Contact Points

Worcester (01905) 763763, Kidderminster (01562) 822511 or Minicom: Worcester (01905) 766399

Specific Contact Points

Mike Weaver, Director of Financial Services, 01905 766500, email mweaver@worcestershires.gov.uk

Martin Finch, Head of Financial Practice and Standards, 01905 766510, email mfinch@worcestershires.gov.uk

John White, Head of Operational Financial Management (Education and Financial Services), 01905 766577, email jwhite@worcestershires.gov.uk

Patrick Birch, Head of Business Support, Social Services, 01905 766942, email pbirch@worcestershires.gov.uk

Tony Dipple, Acting Head of Financial Appraisal, 01905 766268, email adipple@worcestershires.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Director of Financial Services) the following are the background papers relating to the subject matter of this report:

- Statement of Accounts 2003/04.
- Budget Books 2004/05 and 2005/06.
- Cabinet report dated 21 April 2005.