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County Treasurer, PETER SWABY, C.P.F.A

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# Statement of Responsibilities for the Statement of Accounts

## **The Authority's responsibilities**

The authority is required:

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

The Accounts were approved by Cabinet on 17 August 2004.



Councillor J G Williams  
Chair, Cabinet

## **The County Treasurer's responsibilities**

The County Treasurer is responsible for the preparation of the authority's statement of accounts which, in terms of the Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2004.

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

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

## **The County Treasurer has also:**

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

## **Certificate of County Treasurer**

I certify that the Statement of Accounts present fairly the financial position of Derbyshire County Council at 31 March 2004 and its income and expenditure for the year then ended.



Peter Swaby  
County Treasurer  
**10 August 2004**

# Statement on the System of Internal Financial Control

## 1. Scope of Responsibility

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

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

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

The system of internal control is an ongoing process designed to support the Council's operation and manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved.

## 3. The next section outlines the internal control environment in which the Council operates and reviews the effectiveness of the controls. This system of internal control has been in place at the Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts.

## 4. The Internal Control Environment

The key elements of control are described below:

- (a) The Council sets out its objectives through a series of Plans, the major of these being the Council Plan and Service Plans, Asset Management Plans, together with Action Plans arising from Best Value Reviews and External Inspection reports, and Revenue and Capital Budgets.
- (b) The Council facilitates policy and decision making through a series of mechanisms designed with effectiveness, efficiency, economy, transparency and accountability to local people as prime objectives, all within the statutory framework within which the Council operates. The Council's policy and decision making process is set out in the Council's Constitution which describes how the Council operates and how decisions are made through Council and Cabinet, explains the role of Standards, Improvement & Scrutiny and Local Area Committees and the Council's Staff, and sets out the rights of Citizens in respect of their dealings with the Council.

The Constitution is supplemented by a range of policies and processes to support the operation of the Council, including schemes of delegation to officers, standing orders relating to the business of the Council, and codes of conduct for members and officers, an anti-fraud/corruption strategy, and a confidential reporting code.

- (c) The financial management of the Council is integrated with and influenced by many of the above processes, and includes processes for forward planning of expenditure and resources, budget consultation, setting and monitoring, and completion of final accounts, all aimed to be accurate, informative and timely. The Council also has in place financial regulations designed to support sound financial management policies and procedures, and adherence thereto, and also to reflect the Council's current political and management structure and business activities.
- (d) In order to ensure compliance with policies, procedures and statutory requirements, the Council has a range of controls and processes in place, as set out below. These processes also assist the authority in ensuring the economical, effective and efficient use of resources, in securing continuous improvement in exercising its functions, and provide for an effective performance management and reporting process.

## Statement on the System of Internal Financial Control (continued ....)

### Review of Effectiveness of Internal Controls

Control	Review of Effectiveness
Statutory roles of Council's Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing.	Council, Cabinet, Committees and Chief Officers have a full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The External Auditor is satisfied with the Council's arrangements (Annual Audit Letter 2002/03).
Internal Audit provide independent and objective assurances across the whole range of the authority's activities.	<p>The External Auditor is able to place reliance on the work of the Section (Annual Audit Letter 2002/03). The Section is continuing to develop its work programme such that resources are allocated based on a systematic assessment of the risks facing the Council in carrying out its functions.</p> <p>Cabinet has approved the Internal Audit Plan for 2004/05 and noted the progress against the 2003/04 Plan (Cabinet 11 May 2004).</p> <p>The Head of Audit Services produces a statement on the adequacy of the Council's control framework as part of the Unit's Annual Audit Report (Cabinet 1 July 2003 covering 2002/03 accounts). A similar statement will be included in the Units 2003/04 Report, which will be presented to Cabinet shortly.</p> <p>Fraud awareness publicity and training is to be further developed.</p>
External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to their statutory functions and codes of practice.	The Annual Audit Letter for 2002/03 commented positively on the Council's service performance and future plans, the management of its financial affairs and standards of financial conduct, and that the External Auditor was able to place reliance on the work performed by Internal Audit. Cabinet has responded to the recommendations made by the Auditor (Cabinet 27 April 2004).
Risk Management policies and procedures are in place with the objective of ensuring that the risks facing the authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed, and these arrangements are approved and reviewed by Cabinet following advice from the Chief Executive and all Chief Officers.	<p>The risk management policy and the corporate risk register (an identification of the most significant risks) were reviewed and approved by Cabinet (6 April 2004) and further communications and training to staff are planned, with the objective of ensuring risk management and awareness are embedded in the Council's practices and procedures. It is also important to ensure that there is a joint understanding with the Council's many partners, on the Council's procedures, requirements and reporting mechanisms relating to legal, financial, personnel or any other relevant operational issues, all designed to assist effective partnership working. This is an area which requires further monitoring and review.</p> <p>The recently developed 'Project Appraisal &amp; Management Toolkit' incorporates a risk assessment module.</p> <p>Insurance policies and funds are in place and are regularly reviewed to ensure the Council is adequately safeguarded.</p>

## Statement on the System of Internal Financial Control (continued ....)

Control	Review of Effectiveness
	<p>A 'Corporate Insurance Strategy', setting out a framework for dealing with insurable risks, including internal/external funding, the role of insurance brokers, actuarial reviews and procurement processes, was approved by Cabinet on 22 June 2004.</p> <p>The linking of risk mitigation measures to resource allocation again needs to be incorporated in the 2005/06 Budget considerations.</p>
<p>Provision of effective, efficient and responsive systems of financial management.</p>	<p>To support forward planning and ensure the Council can meet its objectives, financial strategy will be further developed. Procedures have been reviewed to ensure the requirement for earlier completion of final accounts is achieved. As part of the CPA process, the Council received the top rating of 4 for its policies and procedures, in relation to use of resources.</p> <p>Financial Regulations - new and revised regulations were implemented from 1 April 2002 and it is intended to review their operation during the current financial year, although generally they have worked successfully to date.</p> <p>Budget monitoring will be developed during 2004/05 to identify, and monitor more frequently, material and volatile items of expenditure/income. The information gained will also aid budget setting.</p> <p>The existing financial strategy document is currently under review, and an updated version is under preparation for forward financial planning purposes.</p>
<p>Codes of practice are issued by external bodies in respect of Council services and processes, with which the Council is expected to comply.</p>	<p>The Council has complied with the 2003 CIPFA Code relating to Capital Finance &amp; Treasury Management. (Approved by Cabinet 3 February 2004 and Council 11 February 2004).</p>
<p>The scrutiny function is carried out and developed through Improvement &amp; Scrutiny Committees covering a wide range of Council functions.</p> <p>The role of the Standards Committee is to promote and maintain high standards of conduct by councillors and co-opted members.</p>	<p>The Improvement &amp; Scrutiny Committees have continued to carry out reviews across a wide range of functions, with staff resources to support the Committee's workload being increased, and Cabinet has received reports and recommendations from the Committees.</p> <p>The Standards Committee has met on four occasions in the last financial year to consider issues including procedures and training to ensure effective working of the Committee.</p>
<p>Performance monitoring processes are in place to measure progress against objectives and to provide for remedial action where appropriate.</p>	<p>The Council's processes are considered to be effective and will continue to be developed through the acquisition and implementation of a new management system (approved by Cabinet 27 January 2004).</p>

## Statement on the System of Internal Financial Control (continued ....)

Control	Review of Effectiveness
Continued implementation of best value reviews and related improvement plans.	While it is not an obligation as an 'excellent council', a programme of Best Value Reviews is in place and a review of the effectiveness of Best Value improvements plans and achievements is underway.
Reports received recently from external agencies and inspectorates, which would encompass major services, and other specific external evaluations.	<p>The Council's 'excellent' status under CPA was reaffirmed in December 2003.</p> <p>The Council's rating for Social Services improved from two to three stars (Social Services Inspectorate November 2003).</p> <p>ROSPA gold medal award 2003 for continuing improvement in management of health &amp; safety (Cabinet 25 May 2004).</p> <p>Adult Education Service is highly rated by the Adult Learning Inspectorate (Cabinet Report 11 May 2004).</p>
Delivery of services by trained, skilled and experienced personnel.	The Council has demonstrated its commitment through IIP accreditation, greater priority to training needs and work aids, such as IT facilities, and improved communication with staff.

Links to information and documents to evidence the above controls/reviews are attached at Appendix 1.

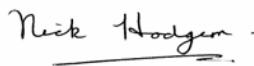
The Statement will also be integral to the 'Local Code of Corporate Governance', which will provide additional assurances in respect of Community Focus, Service Delivery Arrangements, Structures and Processes, and Standards of Conduct.

The internal controls will be subject to further review and monitoring over the next 12 months to ensure their continued effectiveness, and an action plan for undertaking the reviews will be developed.

### 5. Significant Internal Control Issues

It is considered that there are no significant internal control issues.

Signed



Chief Executive

Signed:



Chair of Cabinet

## Statement on the System of Internal Financial Control (continued ....)

### APPENDIX 1

#### Evidence for SIC

1. Annual Audit Letter 2002/03
  - DCC Website/Dnet - Financial Information - Annual Audit Letter 2002/03
  - Dnet - Democratic Services - Cabinet - 27/04/2004 meeting - External Audit - Annual Audit Letter - DCC response.
2. Annual Audit Plan 2004/05
  - Dnet - Democratic Services - Cabinet - 11/05/2004 meeting - Annual Audit Plan 2004/05
3. Risk Management Policy, Corporate Risk Register and Corporate Insurance Strategy
  - Dnet - Democratic Services - Cabinet - 06/04/2004 meeting - Risk Management; Cabinet - 22/06/2004 - Corporate Insurance Strategy
  - Dnet - Financial Information - Risk Management - Risk Management Toolkit.
4. Project Appraisal and Management Toolkit
  - Dnet - Project Appraisal and Management Toolkit.
5. Financial Regulations
  - Dnet - Financial Information - Financial Regulations.
6. CIPFA Code for Capital Finance
  - Dnet - Democratic Services - Council Meeting 11/02/2004, Cabinet Meeting
  - 03/02/2004 Prudential Code for Capital Finance and Treasury Management Strategy
7. Improvement and Scrutiny Committees
  - Dnet - Democratic Services - Member meetings - Improvement and Scrutiny Committees.
8. Standards Committee
  - Dnet - Democratic Services - Member meetings - Regulatory Committees - Standards.
9. Management System
  - Dnet - Democratic Services - Cabinet - 27 January 2004 - Performance Management System Procurement.
10. Best Value Reviews
  - DCC Website/Dnet - Democratic Services - Quick search 'Best Value'.
11. Comprehensive Performance Assessment
  - DCC Website/Dnet
12. Adult Education Service
  - Dnet - Democratic Services - Cabinet - 11/05/2004 meeting - Adult Community Education Service.



## **Statement on the System of Internal Financial Control** (continued ....)

13. Investors in People
  - Dnet - Departmental sites and/or internal information.
14. Council Plans, Service Plans, Revenue & Capital Budgets, Council Constitution, Confidential Reporting Code, Anti-Fraud Strategy etc are accessible either via the - DCC Website, Dnet or from Democratic Services.

# Explanatory Foreword

We have pleasure in presenting the Statement of Accounts for 2003-2004. This book contains all the information required by the Accounts and Audit Regulations 2003 and by the 2003 Code of Practice on Local Authority Accounting.

The statements of account are set out on pages 13 to 52. They consist of:-

- The County Fund Consolidated Revenue Account which shows the County Council's spending on services during the year and the way this spending was financed.
- The Consolidated Balance Sheet which sets out the financial position of the Council as at 31 March 2004.
- The Statement of Total Movements in Reserves.
- The Cash Flow Statement which summarises the total movements of cash arising from transactions with third parties.
- The Accounts of the Pension Fund.

The Formula Spending Share (FSS) is the Government's assessment for spending that is used as a method of allocating grant and replaces the Standard Spending Assessment. The increase in FSS for 2003-04 over 2002-03 was 9.02% which was sufficient to cover pay and price inflation. In addition the County Council agreed a budget to make new investment in education, social services, libraries and public transport. This resulted in a Council Tax increase of 7.94% compared to a national average for County Councils of 12.9%.

Departments continued to exercise tight budgetary control as part of the Authority's policy of encouraging underspendings which services can then carry forward, or are returned to corporate reserves.

Capital expenditure in the year was £72.3 million of which £42.5 million was funded from loan, £5.8 million from capital receipts and revenue contributions and £24.0 million from grants. Total debt outstanding at 31 March 2004 was £318.1 million of which £301.8 million relates to long term borrowing. A detailed analysis of capital expenditure by service is provided at page 55. Details of the major capital schemes being undertaken by the Authority are shown at note 4 to the Balance Sheet.

A major accounting change in the year was the full introduction of Financial Reporting Standard 17 (FRS 17) which affects accounting for the Local Government Pension Scheme but not for the Teachers Scheme. The Standard requires that service accounts be charged with the current service cost of pensions as calculated by the actuary to replace the employer's contribution and that the Authority's share of the net assets or liabilities of the pension fund are recognised in the Balance Sheet. The changes do not affect the Authority's council tax requirement but the pension liability of £214m as at 31 March has reduced the net worth of the Authority by 29%. The 2002-03 Revenue Account and Balance Sheet have been restated on the FRS 17 basis for comparative purposes. The next actuarial valuation of the Pension Fund is at 31 March 2004 with revised employer's contributions payable from 1 April 2005.

The External Auditor's opinion on the accounts for 2003-04 is on page 16.

Peter Swaby  
County Treasurer

## General Statistics

This table shows a range of statistics which give a picture of the County Council. Derbyshire's population makes it the 11th most populous county, whilst its area makes it the 21st largest out of 34 English Counties.

The next section shows the council's revenue spending and the sources of finance. Before the start of each financial year the County Council prepares a budget taking account of known commitments and estimated pay and price increases. It deducts income received from charges and other sources and grants received from Central Government for specific services.

The Authority's budget requirement is then funded from three sources. Revenue Support Grant is a general grant received from central government. National non-domestic rates are levied on non-domestic properties with the rate poundage set by central government. Receipts are redistributed to individual local authorities based on residential population.

The balance is collected from the Council Tax which is based on the assessed capital values of domestic properties grouped into 8 bands.

In addition to revenue spending, the County Council spends money on the provision of land and buildings, roads and other assets which last for a number of years. These assets are financed by borrowing; from capital receipts built up from selling unwanted assets, or from other funds.

## General Statistics (continued ...)

		Financial Year		Financial Year	
		2002-03		2003-04	
<b>Area and Population</b>					
Area of County (hectares)		254,270		255,077	
Population		742,600		746,900	
Density per hectare		2.92		2.93	
<hr/>					
<b>Revenue Expenditure</b>		£'000	%	£'000	%
Employees		443,259	57	494,218	55
Running Expenses		316,891	40	376,654	42
Debt charges		22,250	3	24,203	3
<hr/>					
<b>Gross expenditure</b>		£782,400	100	895,075	100
Gross expenditure per head of population		£1,053.60		£1,198.39	
<hr/>					
<b>Income</b>		£'000	%	£'000	%
Precepts		206,269	26	224,372	25
Revenue Support Grant		181,377	23	230,978	26
Non-Domestic Rates		196,947	25	196,974	22
Specific Grants		118,052	15	161,302	18
Other sources		79,755	11	81,449	9
<hr/>					
<b>Total Income</b>		£782,400	100	£895,075	100
<hr/>					
<b>Rateable Value</b>		£ million		£ million	
Non Domestic Rateable Value		359,178		355,655	
<hr/>					
<b>Council Tax</b>					
Tax Base (Equivalent Band D properties)		242,480		245,921	
Band D Council Tax (County Council element only)		£846.44		£913.68	
<hr/>					
<b>Capital Expenditure</b>		£'000		£'000	
Gross expenditure		64,345		72,296	
Capital expenditure per head of population		£86.65		£96.79	
Met from:			%		%
Loans		32,009	50	42,455	59
Capital Receipts and other Internal Funds		11,453	18	5,829	8
Capital grants and contributions		20,883	32	24,012	33
<hr/>					
		£64,345	100	£72,296	100

# Statement of Accounting Policies

The information presented in this book follows the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy. The Superannuation Fund accounts have been compiled in accordance with the Statement of Recommended Practice (Financial Reports of Pension Schemes) for pension scheme accounts.

## Significant Changes in Accounting Policies

In 2003-04, the implementation of FRS 17 accounting policies will have a material effect on substantial parts of the statement of accounts and will need to be treated as a prior period adjustment arising from a change in accounting policies. As well as setting out the new policies in the Statement of Accounting Policies, an additional note will be required to summarise the effect of the change.

These accounting policies represent a change to those applied in prior years. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which we were directly responsible. The new policies better reflect our commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

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

- the overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 0.2% lower after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 1.6% 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 authority by 29% as at 31 March 2004.

## Fixed Assets

The Code of Practice on Local Authority Accounting incorporates the requirements of FRS15: Tangible Fixed Assets. The FRS sets out the principles of accounting for the valuation and depreciation of tangible fixed assets. The Code now requires assets included in the Balance Sheet at current value to be formally revalued at intervals of not more than five years and that, other than on depreciable land, depreciation should be charged on such assets. Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value.

Non operational assets and assets surplus to requirements are included in the balance sheet at the lower of net current replacement cost and net realisable value.

Infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation where applicable.

## Capital Charges

The capital charges made to service revenue accounts, central support services and DSO accounts, equate to the sum of depreciation plus a notional interest charge based on the net amount at which the fixed asset is valued as at 1 April 2003. The notional rates of interest used are 3.5% for those fixed assets included in the balance sheet at current value and 4.625% for infrastructure assets and community assets which are included in the balance sheet at historical cost.

## Depreciation

Depreciation is charged on a straight line basis using the following bases:-

Land	Nil
Infrastructure	40 years
Buildings	40 years
Vehicles	Over the life of the asset (3-8 years)
Furniture and Equipment	10 years

It is the Authority's policy not to charge depreciation in the year of acquisition but a full years charge is made in the year of disposal.

## Statement of Accounting Policies (continued ...)

No depreciation is charged against community assets such as Country Parks.

### **Government Grants**

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account or in the case of capital grants to a deferred grants account and written off over the life of the asset to which they relate.

However, where assets have no lasting benefit, it is the policy of the Authority to write off any grant received in the year of receipt.

Derelict Land Grants in relation to Community Assets are written off against the costs of acquisition and in all other cases held as a deferred liability pending disposal of the asset when it is written off as the grant is repaid.

In order to match the Authority's depreciation policy amortisation of grants commences in the financial year following that in which they are received.

### **Basis of provision for redemption of debt**

The Council operates a Consolidated Loans Pool within the County Fund as a means of administering loans raised by the authority.

Details of the minimum revenue provision for the repayment of principal which the County Council is required to make under the Local Government and Housing Act 1989 are provided on the pages containing the accounts of the Consolidated Loans Pool.

The average rate of interest charged by the Pool was 6.25% in 2003-2004 (6.42% in 2002-2003). Loan liability has been transferred from other authorities under the Local Government Act 1972 for services now the responsibility of the County Council. The loan debt continues to be serviced by District Councils and loan charges reimbursed to them by the County Council. Following Local Government Reorganisation on 1 April 1997, Derby City Council reimburses the County Council a share of loan debt outstanding at that date based on the respective council tax bases of the two authorities.

### **Capital Receipts**

Under current legislation capital receipts from the sale of the Authority's assets may be used in full to finance capital expenditure.

### **Deferred Charges**

Deferred charges represent expenditure which may properly be capitalised, but which does not represent tangible fixed assets. At 1 April 1994, deferred charges in respect of assets transferred or sold were written off to the fixed asset restatement reserve. The remaining deferred charges are amortised to revenue over an appropriate period.

### **Basis on which debtors and creditors at the year end have been included in the accounts.**

The revenue accounts of the Authority are maintained on an accruals basis which 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. Minor sums of cash income are not shown in the accounts until they are received but these are not considered material. Capital transactions have been recorded on an accruals basis.

### **Nature of substantial reserves, provisions, and contingent liabilities.**

The Council has set aside a number of financial reserves and provisions, operating as part of the County Fund, and set up for specific purposes.

Details of reserves are provided in the statement of total movement in reserves.

Any under or over spending on the delegated budgets of schools in 2003-2004 has been carried forward and will be added to or deducted from their budgets in 2004-2005. The net balance carried forward is shown in the Consolidated Balance Sheet as a reserve, but is committed to be spent on schools and is not available to the authority for general use.

## Statement of Accounting Policies (continued ...)

Provision has been made in the accounts for any losses or liabilities which are likely or certain to be incurred, but where there is uncertainty as to the amounts or dates on which they will arise.

None of the above reserves or provisions has been credited with interest.

The Authority operates an insurance fund, primarily to provide internal insurance to cover claims under the 'excess' clauses of the council's insurance policies. Details of the Fund are provided as a note to the Balance Sheet.

### **Allocation of central support services**

In compliance with the CIPFA Statement on Accounting for Overheads there is complete allocation of central support services over all services including Direct Service Organisations. A note showing the allocation of such expenses has been attached to the summary revenue account.

The Authority is currently developing an internal market for central support services under which services will have greater control over the quality, quantity and cost of such support. Each central support service will have a service level agreement with the direct services which will be agreed prior to the commencement of each financial year and will cover the services to be provided, their level and their cost.

### **Work in progress, stocks and stores**

Work in progress which will ultimately be charged to outside persons, eg private street works, is included in the accounts at cost price. Work in progress in the Property Services DLO's accounts is stated at a figure representing cost or at a professional valuation. Payments received or receivable on account are deducted in arriving at the balance sheet figure. A proportion of profit has been included only if the contract has progressed to the point where a profitable outcome can prudently be foreseen. Known losses have been allowed for.

Stocks and stores accounts are maintained for the various departments of the County Council as appropriate. Values included in the accounts at the year end are at cost price, except those in respect of DSOs which are stated at latest invoice price.

### **Pensions**

- (1) The County Council participates in two pension schemes which 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 Department for Education and Skills. The pension cost charged to the accounts is the contribution rate set by the DFES on the basis of a notional fund.

#### *Other Employees*

Other employees, subject to certain qualifying criteria are eligible to join the Local Government Superannuation Scheme. The pension costs that are charged to the Council's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis.

- (2) The pension costs included in the accounts in respect of these schemes have been determined in accordance with relevant Government regulations. As a result, the County Council does not comply with the accounting requirements of UK GAAP and the liabilities included in the balance sheet are understated in respect of pension costs. However, in accordance with standard accounting practice for local authorities, the pension costs that it would have been necessary to provide for in the accounts for the period under UK GAAP are disclosed, where appropriate, by way of a note to the County Fund Consolidated Revenue Account.

### **Leasing**

The Authority, on occasions, uses operating leases to acquire vehicles or equipment as an alternative to capital financing and annual rentals are charged directly to the revenue account.

# Auditor's Opinion

## Independent Auditor's Report to Derbyshire County Council

We have audited the financial statements on pages 18 to 42 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 13 to 15 and the Pension Fund accounts, on pages 43 to 52, which have been prepared in accordance with the accounting policies applicable to pension funds set out on pages 13 to 15 and pages 43 to 44.

This report is made solely to Derbyshire County Council, as a body in accordance with Part II of the Audit Commission Act 1998. Our work has been undertaken so that we might state to Derbyshire County Council those matters we are required to state to it in an auditors' report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to any one other than Derbyshire County Council, as a body for our audit work, for this report, or for the opinions we have formed.

### Respective Responsibilities of the Chief Financial Officer and Auditor/Auditors

As described on page 3 the Chief Financial Officer is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements presents fairly:

- the financial position of the Council 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 funds assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

We review whether the statement on internal control on pages 4 to 9 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. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered whether the statement on internal control covers all risk and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. We are not required to consider nor have we considered, information regarding future projections included within the statements of accounts.



## Auditor's Opinion (continued...)

### Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards 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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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 our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

### Opinion

In our opinion the financial statements present fairly the financial position of Derbyshire County Council as at 31 March 2004 and its income and expenditure for the year then ended.

### Opinion on the Pension Fund accounts

In our opinion the Pension Fund accounts present fairly the financial transactions of the Derbyshire County Council Pension Fund during the year ended 31 March 2004, and the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

Signature:

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style.

Date:

25 November 2004

KPMG LLP  
Chartered Accountants  
Birmingham

# County Fund Consolidated Revenue Account

This table shows the County Council's spending on services during the year, and the way this spending was financed. It is divided into the major services, and shows gross expenditure, income from fees, charges and specific grants and net expenditure. This is compared with the revised estimate for the year.

Before the start of each financial year the County Council prepares a budget taking account of known commitments and estimated pay and price increases. It deducts income received from charges and other sources and grants received from Central Government for specific services.

The Authority's budget requirement is then funded from three sources. Revenue Support Grant is a general grant received from Central Government. National non-domestic rates are levied on non-domestic properties with the rate poundage set by Central Government. Receipts are re-distributed to individual local authorities based on residential population.

The balance is collected from the Council Tax which was introduced as the local tax with effect from April 1993. It is based on the assessed capital values of domestic properties grouped into 8 bands.

The Service Headings within the consolidated Revenue Account are in accordance with the Service Expenditure Analysis issued by CIPFA as part of the Best Value Accounting Code of Practice.

# County Fund Consolidated Revenue Account

2002-03			2003-04		
Net Expenditure			Gross Expenditure	Income	Net Expenditure
£000	Services		£000	£000	£000
365,044	Education		544,052	152,914	391,138
1,358	Central		18,138	16,552	1,586
2,313	Courts		8,010	5,520	2,490
34,052	Cultural,Environmental& Planning		41,448	5,351	36,097
47,525	Highways,Roads & Transport		66,809	16,672	50,137
143,688	Social Services		252,267	95,962	156,305
6,431	Non Distributed Costs		6,517	247	6,270
5,487	Corporate & Democratic Core		5,019	10	5,009
<b>605,898</b>	<b>NET COST OF SERVICES</b>		<b>942,260</b>	<b>293,228</b>	<b>649,032</b>
(493)	Surplus/Deficit on Trading Operations				(916)
(51,050)	Tfr from Asset Management Revenue Account				(36,826)
(2,233)	Interest received				(2,682)
(1,000)	Pensions Interest & expected return on assets				11,576
25,518	Levies & Precepts				27,209
<b>576,640</b>	<b>Net Operating Expenditure</b>				<b>647,393</b>
(1,760)	Contributions from ( ) or to Revenue reserves				6,786
2,000	Contributions from ( ) or to Pensions reserve				(8,746)
(2,625)	Contributions from ( ) Or to Capital financing reserve				1,219
	<b>Amount to be met from government grants and local taxpayers</b>				<b>646,652</b>
(206,269)	Precepts				(224,372)
(181,377)	RSG				(230,978)
(196,947)	NNDR				(196,974)
(10,338)	<b>(Surplus)/Deficit for the year</b>				(5,672)
6,799	County Fund Balance 1 April 2003				17,137
10,338	Contribution to( ) or from revenue				5,672
17,137	Balance 31 March 2004				22,809

# Notes to County Fund Consolidated Revenue Account

## 1. Traded Operations

Disclosed on the face of the consolidated revenue account are the trading results relating to industrial development activities. The Authority provides a number of factory units located on industrial estates throughout the County to provide accommodation for companies and provides a number of small business centres. Performance for the year was as follows:

	2003-04 £'000	2002-03 £'000
Turnover	1,710	1,654
Expenditure	(793)	(1,161)
Surplus	917	493

In addition the Authority has a number of operations which used to operate under the compulsory competitive tendering provisions which have now been repealed. Details for the year are as follows:

	Turnover £'000	Surplus/Deficit() £'000
Building construction and maintenance	20,259	256
Grounds maintenance	2,184	48
Building cleaning	7,575	75
Allroads-Highways maintenance	31,412	268
Catering (excluding school meals)	93	13

## 2. Section 137 Expenditure

Section 137 of the Local Government Act 1972, as amended by the Local Government and Housing Act 1989, allows local authorities to incur expenditure on activities or projects which will bring direct benefit to their area or its inhabitants and which are not specifically authorised by other powers. Expenditure incurred under this section in any financial year may not exceed the sum of £1.90 per head of resident population i.e. about £1.4 million. Expenditure incurred under section 137 in 2003-2004 was as follows:-

	2003-04 £'000	2002-03 £'000
Grants to voluntary organisations	260	252
Community Venture Scheme	<u>27</u>	<u>20</u>
	<u>287</u>	<u>272</u>

## Notes to County Fund Consolidated Revenue Account (continued...)

### 3. Local Authorities (Goods and Services) Act 1970

Under this statute local authorities are empowered to supply goods and services to specified public bodies such as colleges, grant maintained schools, the Derbyshire Police Authority and the Peak Park Joint Planning Board. The Act provides that separate accounts shall be kept and the following statement shows the income received for the goods and services supplied by the County Council during 2003-2004:-

	£'000
Educational Services	305
Computer Services	128
Financial Services	447
Architectural Design and Property Management Services	26
Legal Services	181
Environmental Services vehicle maintenance	475
Other	33

### 4. Central Support Services

The following statement shows for the financial year 2003-2004 central support service expenditure and the subsequent recharge to services etc:-

Central Departmental Expenditure	£'000	£'000	Allocations	£'000	£'000
<b>Office of the Chief Executive</b>			<b>Cabinet Portfolios</b>		
Management and General	339		Education	5,296	
Policy and Research	1,577		Chief Executive (exc Central)	101	
Public Relations	922		Other Services (exc Central)	3,353	
Scrutiny Committee	<u>249</u>		Public Protection	358	
		3,087	Transport	15	
<b>Corporate Resources Department</b>			Education Trading	257	
County Treasurer's Division	4,763		Libraries & Leisure	1,102	
County I.T. Division	4,016		Environmental Services	2,837	
County Secretary's Division	2,527		Social Services	<u>6,702</u>	
County Personnel Division	2,362				20,021
Director of Corporate Resources	423				
County Property Division	3,248		Capital		1,050
Business Support	1,802				
Administrative Support	<u>5</u>				
		19,147	Allroads	29	
<b>Other Services</b>			Cleaning DSO	583	
County Buildings	4,855		Catering DSO	169	
Change Management Programme	1,429		Superannuation Fund	834	
Network Upgrade	1,276		Inter-Departmental Schemes	15	
Corporate Activities	2,218		Partnerships	<u>87</u>	
Corporate Management	1,796				1,717
Miscellaneous Services	<u>1,315</u>	<u>12,890</u>			
		35,124			
Less - Internal Salaries & IT Recharges					
Office of the Chief Executive	(457)				
Corporate Resources Department	(4,658)				
Other Central Services	<u>(7,221)</u>	<u>(12,336)</u>			
		<u>22,788</u>			<u>22,788</u>

## Notes to County Fund Consolidated Revenue Account (continued...)

### 5. Related Party Transactions

The County Council receives Revenue Support Grant and National Non-domestic Rates from the Office of the Deputy Prime Minister and the amounts received are disclosed in the Consolidated Revenue Account. Grants for specific projects or services are received from other government departments and an analysis is provided as a note to the Cash Flow Statement.

The County Council issues a precept on each of the District Councils in the County ie. excluding Derby City Council which is a unitary authority. The total sum raised by way of precept is disclosed in the Consolidated Revenue Account. Derbyshire Police Authority is an independent body which issues its own precept on the District Councils. Derbyshire Fire Authority is also independent but issues a levy directly on the two constituent authorities. The County Council element is disclosed in a separate note to the Consolidated Revenue Account together with details of other bodies which issue levies or precepts on the County Council.

A number of services are provided to the Police and Fire Authorities by the County Council ie. financial, legal, personnel IT and property totalling £846,000 in 2003-2004 to the Police Authority and £121,000 to the Fire Authority.

The County Council is the administering authority for the pension fund and a note on the fund's related party transactions is included as a note to the pension fund accounts. In addition, surplus funds held by the pension fund may be lent to the County Council on a temporary basis through the Consolidated Loans Pool. The amount at 31 March 2004 was £5,000,000.

The Authority operates a car loan scheme with loans outstanding to Chief Officers at 31 March 2004 totalling £43,500.

Otherwise no council member or chief officer or parties related to them has undertaken any disclosable related party transactions during the year.

### 6. Publicity

Under the Local Government Act 1986, local authorities are required to keep a separate account of expenditure on publicity and this is analysed below. Certain classes of publicity are exempt from the provisions of the Act and are therefore excluded from the account eg documents which the authority is required to publish by law, invitations to tender and publicity relating to the provision of social services and the running of educational establishments.

	<b>2003-04</b>	<b>2002-03</b>
	<b>£'000</b>	<b>£'000</b>
Recruitment Advertising	1,340	1,268
Non Recruitment Advertising	225	200
Other Publicity	498	505
Cost of Public Relations and Central Advertising Units not included above	696	719
	<b><u>2,759</u></b>	<b><u>2,692</u></b>

## Notes to County Fund Consolidated Revenue Account (continued...)

### 7. Operating Leases

- (a) The Authority uses leased vehicles, specialised plant and equipment under the terms of operating leases. The amount paid under these arrangements in 2003-04 was £3,956,000 (£3,181,000 in 2002-03).
- (b) The Authority is committed to making payments of £2,579,000 in 2004-2005 comprising the following:

	£'000
Leases expiring within 1 year	281
Leases expiring between 2-5 years	1,322
Leases expiring after 5 years	<u>976</u>
	<u>2,579</u>

### 8. Pension Costs

- (a) *Teachers*  
In 2003-04 the County Council paid £25.9 million to the Department for Education and Skills in respect of teachers' pension costs, which represents 13.49% of teachers' pensionable pay.

In addition, the County Council is responsible for annual compensation payments in the form of "added years" awarded on premature retirement. In 2003-04 these, together with annual increases in line with the cost of living, amounted to £3.6 million, representing 1.9% of pensionable pay.

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

The authority participates in two pension schemes:

- the Local Government Pension Scheme for civilian employees, administered by the County Council - this is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Teachers Pension Scheme is an unfunded scheme, administered by the Department for Education and Skills. The pension cost charged to the accounts is the contribution rate set by the DFES on the basis of a notional fund.

## Notes to County Fund Consolidated Revenue Account (continued...)

For the Local Government Pension Scheme we recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the CRA after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	<b>Local Government Pension Scheme</b>	
	<b>2003-04 £'000</b>	<b>2002-03 £'000</b>
<b>Net Cost of Services:</b>		
• current service cost	23,589	21,000
• past service costs	414	1,000
<b>Net Operating Expenditure:</b>		
• interest cost	43,229	35,000
• expected return on assets in the scheme	(31,653)	(36,000)
<b>Amounts to be met from Government Grants and Local Taxation:</b>		
• movement on pensions reserve	(8,746)	2,000
<b>Actual amount charged against council tax for pensions in the year:</b>		
• employers' contributions payable to scheme	26,833	23,000

The capital cost of discretionary increases in pensions payments (ie discretionary "added years") agreed by the Authority:-

- (a) In the year is £0.3 million and:-
- (b) In earlier years for which payments are still being made is £22.3 million\*

\*This value is calculated in accordance with advice from the Fund's Actuary.



## Notes to County Fund Consolidated Revenue Account (continued...)

### 9. Asset Management Revenue Account

This account is required under the capital accounting system introduced in 1994-95. The balance on the account, which represents the excess of capital charges over depreciation and interest charges, is transferred to the consolidated revenue account. Movements on the Account in 2003-2004 were as follows:-

	£'000	£'000
Reversal of capital charges made to services		(59,808)
Capital grants released from the government		(16,426)
External interest payable	14,890	
Provision for depreciation	<u>24,518</u>	<u>39,408</u>
<b>Balance as per Consolidated Revenue Account 31 March 2004</b>		<b><u>(36,826)</u></b>

There is a statutory requirement that the authority set aside, each year from its revenue account, a minimum amount as a provision for credit liabilities which is known as the minimum revenue provision (MRP). The provision for depreciation is regarded as part of the MRP and in order to achieve the statutory set aside, a reduction of £13,212,000 has been made to the revenue account in 2003-2004. This represents the difference between MRP and the depreciation charged in the accounts.

### 10. Officers emoluments

The number of employees whose remuneration in the year, excluding pension contributions, was £50,000 or more in bands of £10,000 were as follows:-

Remuneration Band	Total 2003-04	Total 2002-03
£50,000- £59,999	42	53
£60,000- £69,999	36	17
£70,000- £79,999	4	4
£80,000- £89,999	4	1
£90,000- £99,999	2	1
£100,000-£109,999	1	-

### 11. Members Allowances

The total of members allowances paid in 2003-2004 to the nearest £'000 was £960,000 compared to £926,000 in 2002-03.

### 12. Audit Costs

In 2003-04 the Authority incurred the following fees relating to external audit and inspection:

	2003-04 £'000	2003-02 £'000
• Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	290	225
• Fees payable to the Audit Commission in respect of statutory inspection	68	61
• Fees payable to the Audit Commission for the certification of grant claims and returns	90	125
• Fees payable in respect of other services provided by the appointed auditor	-	3

## Consolidated Balance Sheet

The balance sheet overleaf combines all of the County Council's activities . It includes the County Fund, from which services are provided, the consolidated loans pool which provides resources for capital spending, and the Direct Labour and Direct Service Organisations. It excludes the Pension Fund and Trust Funds. The remainder of the book provides further details on these activities.

County Council spending can be divided into two distinct types. Most of the authority's spending is on salaries, wages and running costs. These costs go towards providing Education, Social Services and other services, and are borne year in year out, so long as the services are provided by the County Council. This type of spending is called revenue, since it is met from that year's income from precepts, grants and other sources.

The second type of spending is on the provision of assets which will last a number of years. The building of a school or a road are examples. These assets will provide a benefit to the authority for a number of years. This type of spending is called capital, and it is met from loans and other long term funds. As with all borrowing, it is necessary to repay with interest the sum borrowed. These repayments will be made over the life of the asset, and will be a revenue expense to be met from annual income.

Fixed assets have been included in the balance sheet at their current value ie replacement cost less depreciation, except for infrastructure and community assets which are shown at historical cost. Operational assets are occupied or used in the direct delivery of services. Infrastructure includes facilities required to enable other developments to take place eg roads. Community assets have no determinable useful life but which the authority intends to hold in perpetuity eg parks and historic buildings.

The County Council has liabilities for debt outstanding to finance capital expenditure together with the debt taken over for assets transferred under local government reorganisation. The latter is shown as loan liability transferred from other authorities.

In addition, the County Council owes money to creditors for goods and services supplied at 31st March but not paid for until after that date. These, together with debtors and cash, are analysed between the various activities as a note to the balance sheet.

**CONSOLIDATED BALANCE SHEET** (continued ...) as at

**31 March 2003**

**£000**

**Notes**

**£000**

**31 March 2004**

**£000**

	<b>Fixed assets</b>	1-5		
730,239	Land & buildings		781,282	
39,348	Vehicles, plant, equipment		37,752	
121,482	Infrastructure		137,186	
2,057	Community		2,615	
27,506	Non-Operational		27,399	986,234
9,270	Deferred Charges	7		8,811
55,597	Long Term Debtors	18		53,617
985,499	<b>Total long-term assets</b>			<b>1,048,662</b>
	<i>Current Assets</i>			
4,652	Stocks/WIP	13	7,317	
36,163	Debtors	17	42,277	
116,814	Short term investments	11	168,297	217,891
	<i>Current Liabilities</i>			
(78,875)	Creditors	19	(102,210)	
(11,343)	Temporary loans		(16,350)	
(19,665)	Cash overdrawn		(24,595)	(143,155)
1,033,245	<b>Total assets less current liabilities</b>			<b>1,123,398</b>
(277,437)	Long term Borrowing	14		(302,217)
(7,025)	Loan Liability OLAS			(6,746)
1,000	Asset relating to defined benefit pension scheme			32,653
(272,000)	Liability relating to defined benefit pension scheme			(246,747)
(45,125)	Govt. grants deferred			(54,443)
(5,118)	Provisions Insurance Fund	9		(6,699)
(4,644)	Other			(5,168)
<b>422,896</b>	<b>TOTAL ASSETS LESS LIABILITIES</b>			<b>534,031</b>
	<i>Represented by</i>			
504,206	Fixed Asset Restatement reserve			523,685
140,148	Capital Financing reserve	6-8		143,580
4,022	Usable capital receipts reserve			6,303
(271,000)	Pensions Reserve			(214,094)
	<i>Earmarked Reserves</i>			
539	DLOs			1,121
11,003	LMS			14,998
16,841	Other			35,629
17,137	County Fund Balance			22,809
<b>422,896</b>	<b>TOTAL EQUITY</b>	12		<b>534,031</b>

# Notes to the Consolidated Balance Sheet

## 1 Fixed Assets

Fixed assets of the Authority have been included in the balance sheet at their current value and details of the valuation policy are given in the Statement of Accounting Policies.

Two new schools which have been funded through the Private Finance Initiative at Tupton Hall and Chapel-en-le-Frith remain the property of the provider and therefore are not included in the Balance Sheet or the figures below.

### MOVEMENT OF FIXED ASSETS 2003-2004

	OPERATIONAL ASSETS				NON-OPERATIONAL ASSETS	
	Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Land & Buildings £'000	TOTAL £'000
<b>VALUE</b>						
<b>Opening Value as at 1 April 2003</b>	<b>767,963</b>	<b>54,864</b>	<b>139,037</b>	<b>2,057</b>	<b>27,506</b>	<b>991,427</b>
Additions	27,901	1,373	19,077	440	1,679	50,470
Disposals	(8,206)	(598)	-	-	(2,451)	(11,255)
Transfers	(1,502)	(16)	-	119	1,399	0
Revaluations	42,542	811	-	(1)	(734)	42,618
<b>Value as at 31 March 2004</b>	<b>828,698</b>	<b>56,434</b>	<b>158,114</b>	<b>2,615</b>	<b>27,399</b>	<b>1,073,260</b>
<b>DEPRECIATION</b>						
<b>Opening Balance 1 April 2003</b>	<b>37,724</b>	<b>15,516</b>	<b>17,555</b>			<b>70,795</b>
Charge for the year	15,281	5,864	3,373	-	-	24,518
Previous Year Adjustment	(3)					(3)
Adjustments for						
Revaluations	(5,159)	(2,291)	-	-	-	(7,450)
Disposals	(427)	(407)				(834)
<b>Balance 31 March 2003</b>	<b>47,416</b>	<b>18,682</b>	<b>20,928</b>			<b>87,026</b>
<b>NET BOOK VALUE AT 31 MARCH 2004</b>	<b>781,282</b>	<b>37,752</b>	<b>137,186</b>	<b>2,615</b>	<b>27,399</b>	<b>986,234</b>

## 2 Fixed Assets held by the County Council

A brief analysis of the Authority's principal assets is set out below:

Schools		Nos			Nos
- Nursery		8	Social Services	-	Residential centres
- Primary		358		-	Day Centres
- Secondary		47	Libraries		
- Special		10	Magistrates Courts		
			Depots		

The Council also holds a number of miscellaneous properties including administrative buildings, dwelling houses, garages and industrial estates.

## Notes to the Consolidated Balance Sheet (continued ...)

### 3. Fixed Asset Valuation

The freehold and leasehold assets which comprise the Authority's fixed asset portfolio have been valued internally as at 1 April 2000 by Adrian Avery MRICS. The valuations are in accordance with the Statement of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors, except that buildings were not inspected where this was either impracticable or considered by the valuer to be unnecessary for the purpose of valuation. Static plant and machinery is included within the valuation of buildings. Buildings regarded by the Authority as operational have been valued at open market value for existing use or where there was insufficient evidence of market transactions for that use, at the depreciated replacement cost. Non-operational buildings have been valued on the basis of open market value.

Procedures have been put in place for a rolling programme of revaluations at 20% per annum together with ad hoc and additional valuations which will be carried out where it is considered there has been a material change to the asset.

### 4. Capital Contracts

Listed below are schemes over £500,000 where there is still significant expenditure outstanding as at 31 March 2004.

	<b>Total Estimated Cost £'000</b>	<b>Expenditure Incurred £'000</b>	<b>Expenditure Outstanding £'000</b>
<b>Committee</b>			
<b>Education</b>			
Bolsover C E Junior School	2431	159	2272
Breadsall Behavioural Support Centre	500	134	366
Chesterfield Brookfield	1670		1670
Chesterfield Parkside School	872	314	558
Eckington School	1216	820	396
Frederick Gent School	8729	3842	4887
Glossop Adult Education Centre	1506	76	1430
Little Eaton Primary	652	195	457
Long Eaton Brooklands Junior School	2122	68	2054
NE Derbys Surestart	1158	866	292
New Mills School	1597	927	670
Queen Elizabeth Grammar School	6971	6789	182
Springwell Community School	1347	137	1210
The Ecclesbourne School	1000	262	738
<b>Social Services</b>			
Bolsover Surestart	1250	146	1104
Erewash Surestart	1497	97	1400

## Notes to the Consolidated Balance Sheet (continued ...)

### 5. Deferred Purchase Scheme

The Council has an outstanding sum due under a "Deferred Purchase" scheme entered into in 1988 and renegotiated in 1995. The scheme financed the completion of the Tapton Bypass with repayments up to the year 2005. The balance outstanding at 31 March 2004 was £425,000.

### 6. Capital Financing Reserve

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

### 7. Deferred Charges

Deferred Charges represent expenditure which may properly be capitalised but which does not represent fixed assets eg capital salaries. Expenditure in the year was £3,611,000 which was written off to the capital financing reserve.

In addition charges for the early redemption of loans, which arise from restructuring the Authority's debt portfolio, are written off over the life of the replacement borrowing. Movements in deferred charges during the year were:

	£'000
Balance as at 1 April 2003	9,270
Written off during year	<u>(459)</u>
<b>Balance as at 31 March 2004</b>	<b><u>8,811</u></b>

### 8. Provision for Credit Liabilities

The provision for credit liabilities represents sums set aside for the repayment of debt and forms part of the capital financing reserve. Movements in the provision are as follows:-

	£'000
Balance as at 1 April 2003	5,928
Minimum Revenue Provision	<u>11,306</u>
	17,234
Amounts applied to repay loans	(11,306)
Amounts used for discharge of liabilities under credit arrangement	<u>(116)</u>
<b>Balance as at 31 March 2004</b>	<b><u>5,812</u></b>

## Notes to the Consolidated Balance Sheet (continued ...)

### 9. Insurance Fund

The authority operates an insurance fund primarily to meet the estimated outstanding claims under the 'excess' clauses of the council's insurance policies. Settlement of claims is likely to be spread over a number of years. Movements on the fund during the year were as follows:-

	£'000
Opening balance 1 April 2003	6,378
plus Internal insurance premiums	3,178
Funding for Risk Management initiatives	100
less Claims settled and risk management expenditure	(1,656)
<b>Closing balance 31 March 2004</b>	<b><u>8,000</u></b>

The fund balance as at 31 March 2004 can be analysed as set out below:-

	£'000
Provision to meet notified outstanding claims	6,524
Provision to meet risk management initiatives	175
Reserve to meet claims not yet notified	1,267
Reserve to meet risk management initiatives	34
<b>Fund balance 31 March 2004</b>	<b><u>8,000</u></b>

That element of the fund relating to provisions represents obligations as at 31 March as a result of past claims and events where a reliable estimate can be made of the obligation. The reserve element is an estimate of possible obligations related to claims or events which have not yet been notified.

### 10. Associated Companies

The County Council maintains involvement with a number of companies which are either regulated or influenced ie Derbyshire Waste Ltd, CLASP (1988) Ltd, the National Stone Centre, Creswell Heritage Trust, Creswell Trading Company Ltd and Derbyshire Connexions Partnership Ltd.

The activities of these companies are not considered material to the affairs of the County Council and their assets and liabilities are therefore not included in the Authority's accounts.

The Authority acts as Treasurer to the CLASP Consortium and as at 31 March 2004 is holding cash of £1,437,000 on behalf of the Consortium. The County Council also acts as lead authority for the Derbyshire Partnership Forum and held £163,000 on the Forum's behalf at 31 March.

### 11. Short Term Investments

Investments held by the Consolidated Loans Pool are short term loans to clearing banks and major building societies and are valued at cost. The amount invested at the year-end depends on the cash flow position at that date.

### 12. Net Assets Employed

The Net Assets of the County Fund can be analysed by activity as follows:-

	31 March 2003 £'000	31 March 2004 £'000
Revenue	(226,458)	(140,658)
Capital	648,376	673,568
Direct Service Organisations	539	1,121
<b>Total Equity as per Balance Sheet</b>	<b><u>422,457</u></b>	<b><u>534,031</u></b>

## Notes to the Consolidated Balance Sheet (continued ...)

### 13. Stock and Work in Progress

Stocks and work in progress can be analysed as follows:

	31 March 2004	31 March 2003
	£'000	£'000
Environmental Services	208	256
Property Services - client	1,678	23
Other	77	75
DLO's - All Roads	1,078	897
- Property Services	98	97
DSO's - Catering	185	198
- Transport	147	173
Work in progress - Property Services	<u>3,846</u>	<u>2,935</u>
	<u>7,317</u>	<u>4,652</u>

### 14. Long-term Borrowing

The total loans outstanding by the Consolidated Loans Pool at 31 March 2004 was approximately £318,142,000. £16,351,000 of this relates to temporary borrowing of surplus funds belonging mainly to the Derbyshire Fire Authority and the Derbyshire County Council Pension Fund. The balance of £301,791,000 relates to long-term borrowing and can be analysed as follows:-

	Range of Interest Rates Payable (%)	Total Outstanding at 31 March 2004 £'000	2003 £'000
Public Works Loan Board and market debt (Weighted Average Rate 6.3%)	3.2-9.625	301,791	276,791
An analysis of loans by maturity is:	£'000		
Maturing within one year -	-		
Maturing in 1-2 years	-		
Maturing in 2-5 years	11,000		
Maturing in 5-10 years	45,666		
Maturing in more than 10 years	<u>245,125</u>		
	<u>301,791</u>		

Total long-term borrowing as shown in the balance sheet is £302,217,000 which also includes £425,000 relating to a deferred purchase scheme, details of which are provided in a separate note to the balance sheet.

### 15. Trust and Other Funds

The County Council administers a number of Trust Funds. These are funds made up of donations or bequests made to the Authority. The benefactors specify the use to which the fund is to be put in many cases, the most common being the provision of educational prizes. Other funds have been established to provide for the needs of clients in the care of the Social Services Department or for the maintenance of a specific project.



## Notes to the Consolidated Balance Sheet (continued ...)

The funds are invested in accordance with the provisions of the Trustee Investments Act 1961. They are generally invested in Government Stocks to provide a high income return and where the fund is large enough to split, partly in unit trusts to provide an element of capital growth.

Other funds include savings held on behalf of residents in the County Councils Part III accommodation. Where savings of any resident exceeds £100 they are transferred to an account with the Derbyshire Building Society in order that interest can be earned on these savings.

The tables below detail the Aggregate Revenue Account and Balance Sheet for all Trust and Other Funds currently administered by the County Council.

2002-2003		2003-2004	2003-2004	2003-2004
Total		Trust Funds	Other Funds	Total
£'000		£'000	£'000	£'000
<b>Aggregate Revenue Account</b>				
1644	Opening Balance	626	1297	1923
308	Add Income	45	267	312
1952	Total Funds available in the year	671	1564	2235
-29	Less Expenditure	27	18	45
1923	Closing Balance	644	1546	2190
<b>The funds are represented by:</b>				
55	Investments	54	6	60
983	Building Society Deposits	0	1166	1166
885	Cash and temporary loans	590	374	964
1923	Total Assets	644	1546	2190
93	Number of funds	84	7	91
6	Increase in unrealised profit on investments included in expenditure	4	1	5

## Notes to the Consolidated Balance Sheet (continued ...)

### 16. European Monetary Union and the Euro

The Authority has set up an officer working party to assess the implications of the introduction of the single currency and to co-ordinate planning if the UK enters. Although the Authority has yet to conduct a full assessment of the effects of entry, new financial systems will be Euro-compliant to minimise possible changes in the future. No costs or commitments have been incurred in relation to the Euro.

### 17. Pension Liability

In accordance with the requirements of Financial Reporting Standard No 17 - Retirement Benefits (FRS 17) the Authority has to disclose its share of assets and liabilities related to pension schemes for its employees.

As explained in the Statement of Accounting Policies the Authority participates in two schemes which provide members with defined benefits related to pay and service. The Teachers Pension Scheme is administered by the Department for Education and Employment and the underlying liabilities for individual authorities cannot be identified on a consistent and reliable basis.

Staff other than teachers are admitted to the Local Government Pension Fund (LPGS) which is administered by the County Council and details of which are set out below:

#### The Authorities assets and liabilities at 31 March are:

	2003 £'000	2004 £'000
Estimated liabilities in scheme	706,000	754,986
Estimated assets in scheme	<u>435,000</u>	<u>540,892</u>
Net asset/(liability)	<u>(271,000)</u>	<u>(214,094)</u>

The figures disclosed above have been derived by approximate methods from the full actuarial valuation of the Fund carried out by Watson Wyatt as at 31 March 2001. The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The liability of £214m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit means that the financial position of the authority remains healthy.

The main financial assumptions adopted as at 31 March were:

	2003	2004
a) retail price inflation:	2.5%	2.8%
b) increases in salaries:	4.3%	4.6%
c) increases in pensions and deferred pensions:	2.5%	2.8%
d) discount rate:	6.1%	6.3%

## Notes to the Consolidated Balance Sheet (continued ...)

Assets in the 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:

	Long Term Return %	31 March 2003 %	31 March 2004 %
Equities	7.5	64	69
Gilts	4.7	14	16
Other bonds	5.5	8	2
Property	6.5	5	5
Other	4.0	9	8
Total		<u>100</u>	<u>100</u>

### 18. Provisions

Included in the total for provisions are the following material items:

	£000
Education provision for inter-authority and hospital recoupment	1,115
Environmental Services provision for remedial works and work in progress	607
Social Services provision relating to joint arrangements	732

# Statement of Total Movement in Reserves

This statement brings together all the recognised gains and losses of the Authority including those which have been recognised in the Consolidated Revenue Account and those which have not eg. profits and losses upon the disposal of fixed assets.

The statement separates the movements between revenue and capital reserves. The Fixed Asset Restatement Reserve and Capital Financing Reserve cannot be called upon to support revenue spending, the Usable Capital Receipts Reserve can be used to meet expenditure designated as expenditure for capital purposes and the revenue Reserves can be used to meet capital and revenue expenditure.

The actuarial gains identified on the Pensions Reserve in 2003-04 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March.

	£'000	%
Differences between the expected and actual return on assets	65,652	12.1
Differences between actuarial assumptions about liabilities and actual experience	0	0
Changes in the demographic and financial assumptions used to estimate liabilities	<u>0</u>	0
	<u>65,652</u>	

## Statement of Total Movement in Reserves

	CAPITAL RESERVES				General Fund	REVENUE RESERVES		Total
	Fixed Asset Restatement Reserve	Capital Financing Reserve	Usable Capital Receipts Reserve	Other Capital Reserves		Earmarked Reserves	Pension Reserve	
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance as at 01 April 2003</b>	504,206	140,148	4,022	5,841	17,137	22,542	(271,000)	422,896
Net surplus(deficit) for year		(13,090)		8,135	5,672	15,914		16,631
Unrealised gains (losses) on revaluation of fixed assets	30,045							30,045
Repayment of transferred debt		(2,007)						(2,007)
Discharge of liability on credit arrangement		(116)						(116)
Effects of disposal of fixed assets Cost or value of assets disposed of	(10,566)							(10,566)
Usable receipts			2,410					2,410
Deferred charges written down		(3,611)						(3,611)
Appropriations to or from ( ) the Pension reserve							(8,746)	(8,746)
Actuarial gains & losses ( ) relating to pensions							65,652	65,652
					<b>22,809</b>	<b>38,456</b>	<b>(214,094)</b>	(152,829)
Financing of fixed assets:								
Capital receipts		129	(129)					
Revenue contributions & grants		21,443						21,443
Earmarked Reserve		684		(684)				-
<b>Balance 31 March 2004</b>	<b>523,685</b>	<b>143,580</b>	<b>6,303</b>	<b>13,292</b>	<b>22,809</b>	<b>38,456</b>	<b>(214,094)</b>	<b>534,031</b>

## Notes to the Statement of Total Movement in Reserves

Set out below is an analysis of revenue reserves showing the balance at 31 March 2004 and movements in the year

<b>OTHER RESERVES</b>		<b>Balance</b>	<b>Movement</b>	<b>Balance</b>
		<b>31.3.03</b>		<b>31.3.04</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
Education	Schools Pool Premium	64	11	75
	Standards Fund Matched Funding	964	532	1,496
	DESCIT	349	0	349
	Read on Write Away	311	65	376
	Education PFI	37	3,294	3,331
Magistrates	U/spending carried fwd.	97	(74)	23
Environmental				
Services	New Roads and Street Works	92	(16)	76
	Laboratory renewals	76	16	92
	Waste Disposal Royalties	1,212	67	1,279
	Workshop Renewals	70	63	133
	PTU computer System	128	0	128
	Capital Salaries Contingency	205	0	205
	IT Reserve	157	49	206
	Commuted sums	236	33	269
	Chesterfield Terrapin	0	0	
	DLO Reserve	670	109	779
	Monies on Deposit	655	299	954
	Aftersite Care	439	0	439
	Miscellaneous reserves	38	0	38
Corporate	Lottery Treasure Chest	216	(139)	77
	Derbyshire Waste Dividends	119	(119)	
	Purchasing Equipment Repairs	399	0	399
	VAT recovered	94	0	94
	Computer Renewals	808	(173)	635
	VER/VR	719	0	719
	Corporate reserve	1,177	(2)	1,175
	Change Management	0	5,273	5,273
Libraries	Miscellaneous	8	1	9
Social Services	Computer Renewals	400	(255)	145
	Aston Hall Redevelopment	0	2,192	2,192
	Other	0	70	70
Capital		5,841	7,451	13,292
Insurance Fund reserve element		1,260	41	1,301
			0	
<b>TOTAL AS PER BALANCE SHEET 31 March</b>		<b>16,841</b>	<b>18,788</b>	<b>35,629</b>
LMS		11,003	3,995	14,998
DSO Appropriation Accounts		539	582	1,121
Capital		(5,841)	(7,451)	(13,292)
<b>TOTAL AS PER TOTAL MOVEMENT IN RESERVES STATEMENT</b>		<b>22,542</b>	<b>15,914</b>	<b>38,456</b>

## Cash Flow Statement

This consolidated statement summarises the in-flows and outflows of cash arising from transactions with third parties. It reflects the operations of the Authority as a whole as it includes both revenue and capital expenditure and how this has been financed. It excludes the Superannuation fund and internal transfers between accounts which do not involve transactions with third parties.

## Cash Flow Statement (continued ....)

2002-2003 £000	CASH FLOW STATEMENT 2003-04 SUMMARY		Note	£000	£000	2003-2004 £000
	<b>REVENUE</b>					
445,420	Outflows	Employees		491,765		
<u>342,867</u>		Other Operating payments		<u>386,758</u>	878,523	
(206,269)	Inflows	Precepts		(224,372)		
(196,947)		NNDR		(196,974)		
(181,377)		RSG		(230,978)		
(118,052)		Other govt.grants	5	(161,302)		
(122,128)		Cash for goods & services		<u>(125,465)</u>	(939,091)	
(36,486)	Net cash flow revenue activities		1			(60,568)
	<b>SERVICING OF FINANCE</b>					
21,092		Interest paid			19,787	
<u>(7,381)</u>		Interest received			(7,376)	12,411
13,711						
	<b>CAPITAL</b>					
59,636	Outflows	Purchase of Fixed Assets			57,464	
	Inflows					
(8,228)		Sales		(2,412)	(2,412)	
(10,462)		Grants		(24,011)	(24,011)	
<u>(11,564)</u>		Other			0	
29,382					(26,423)	31,041
6,607	<b>NET CASH (INFLOW) OUTFLOW</b>					(17,116)
	<b>MANAGEMENT OF LIQUID RESOURCES</b>		2			
11,564		Net inc/dec s-term deposits			51,483	
9,373		Net inc/dec other liquid resources			(5,007)	46,476
	<b>FINANCING</b>		3			
510	Outflows	Repaymts. amounts borrowed			570	
(17,399)	Inflows	New loans raised			(25,000)	(24,430)
<b>10,655</b>	<b>(INCREASE)/DECREASE IN CASH</b>		4			<b>4,930</b>



# Notes to the Cash Flow Statement

<b>1</b>	<b>RECONCILIATION OF REVENUE CASH FLOW</b>		<b>£'000</b>	<b>£'000</b>
	Surplus for the year from Consolidated Revenue Account			5,672
	Add non-cash transactions			
	Minimum revenue provision		11,306	
	Contributions to other reserves and provisions		21,298	
	Contributions to capital		4,765	37,369
	Items on an accrual basis(revenue only)			
	Increase in debtors		(7,338)	
	Increase in creditors		15,660	
	Increase in stocks		(3,004)	5,318
	Items classified elsewhere in the Cash Flow Statement			
	Net Interest			12,209
	Revenue Activities Net Cash Flow			60,568
<b>2</b>	<b>MOVEMENT IN LIQUID RESOURCES</b>	<b>31-03-04</b>	<b>31-03-03</b>	
		<b>£'000</b>	<b>£'000</b>	
	Short -term investments	168,297	116,814	51,483
	Temporary loans	<u>(16,350)</u>	<u>(11,343)</u>	<u>(5,007)</u>
		<u>151,947</u>	<u>105,471</u>	<u>46,476</u>
<b>3</b>	<b>FINANCING ITEMS</b>			
	Long term borrowing	(301,791)	(276,791)	(25,000)
	Other long term liabilities	<u>(7,100)</u>	<u>(7,670)</u>	<u>570</u>
		<u>(308,891)</u>	<u>(284,461)</u>	<u>(24,430)</u>
<b>4</b>	<b>CASH OVERDRAWN</b>	(24,594)	(19,665)	<u>(4,929)</u>

## Notes to the Cash Flow Statement (continued ...)

### 5. GOVERNMENT GRANTS

The Authority receives Revenue Support Grant in aid of services generally (£230,978,000 in 2003-2004). It also receives other grants which are in aid of specific projects or services and which can be analysed for the year as follows:-

	£'000
Education:-	
Learning and Skills Council	29,199
Standards Fund	20,408
School Standards	24,670
Teachers Pay Reform	8,356
Social Services:-	
Preserved Rights	5,662
Supporting People	18,028
Quality Protects - Children	4,744
Magistrates Courts	4,956
Other	<u>45,279</u>
	<u>161,302</u>

### 6. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	£'000
Decrease in cash	(4,930)
Cash inflow from increase in debt	(24,430)
Cash outflow from increase in liquid resources	<u>46,476</u>
Movement in net debt for period	<u>17,116</u>

# Pension Fund - Foreword to Financial Statements

## Investment Policy

Responsibility for policy matters lies with an Investment Committee of six County Councillors, two Derby City and two District Council member representatives. The Investment Committee receives advice from the County Treasurer and from two independent external advisers. Day-to-day management of the Fund is delegated to the County Treasurer and his in-house staff, operating within a policy framework laid down by the Investment Committee. Policy is determined by reference to investment regulations issued under the Superannuation Act, 1972, which require that advice is taken at regular intervals and that the investments are suitably diversified. In addition the regulations place limitations on investments in a single holding and in 'unlisted securities' (no more than 10% in each category).

The return for 2003-04 for the Fund was 22.7% (2002-03, -18.9%) which compares with the average return on local authority funds of 23.4%. Over the last ten years the Fund's return was 6.9% per annum which is 0.2% per annum ahead of the average. For comparison the ten year figures for average earnings and retail price increases are 4.3% and 2.6% respectively. On a year by year basis returns tend to fluctuate significantly according to economic and market conditions and long-term returns are a more appropriate guide to the performance of the Fund.

Members Statistics	2002	2003	2004
Contributors	28,790	29,633	31,307
Pensioners	16,628	16,962	17,292
Deferred Pensions	7,771	8,504	9,290

## Actuarial Position of the Fund

1. An actuarial valuation of the Fund was undertaken as at 31 March 2001 in accordance with the provisions of the Local Government Pension Scheme Regulations 1997. The purpose of the valuation was to determine the financial position of the Fund and to set the level of contributions payable by each participating employer for the three years commencing 1 April 2002.
2. The valuation was undertaken using a market value approach. The assets were valued at their market value with market related discount rates used to give the present value of the liabilities. The rates of return adopted were based on assets that closely matched the characteristics of the liabilities and were independent of the actual asset mix of the Fund.
3. The contributions required in respect of future service have been determined using the "projected unit" method. The full rate of employer's contribution provides for the cost of year-by-year accrual of benefits in respect of current Scheme members and the amount required to meet a past service deficiency.
4. The economic assumptions used were as follows:-

	% (nominal)
Rate of price inflation	2.50
Increase in pensionable pay	4.25
Allowance for future pensions increases (applied to all pensions in excess of Guaranteed Minimum pensions)	2.5
Dividend growth	4
Discount rate for liabilities:	
after retirement	5.9
before retirement	6.75

## Pension Fund - Foreword to Financial Statements (continued ...)

5. The actuarial value placed on the assets represented 88% of the value of the past service liabilities compared with 91% at the 1998 valuation.
6. The main reasons for the 3% decrease in funding were:-
  - (i) unfavourable investment performance relative to actuary's assumptions despite Derbyshire's Fund performing better than the average local authority fund for the 3 years (-)
  - (ii) payment of contributions in excess of those needed to fund accruing benefits (+)
  - (iii) changes in actuarial basis underlying the valuation (mainly due to improvements in mortality) (-)
7. The revised employers' contributions arising from the 2001 valuation became payable from 2002/2003.

Employers were given the option of paying either a full rate of contributions for the whole of the period covered by the actuary's valuation certificate or to achieve this by a stepped approach over a period of time.

**Contributions payable by the County, Unitary and District Councils** expressed as a percentage of employees' contributions

<b>Council</b>	<b>2003-04 %</b>	<b>2004-05 %</b>	<b>Stepped or full rate</b>
Derbyshire County	244	261	stepped
Amber Valley Borough	315	315	full
District of Bolsover	323	323	full
Chesterfield Borough	271	271	full
Derby City	237	258	stepped
Derbyshire Dales	255	255	full
Erewash Borough	274	274	full
High Peak Borough	341	341	full
North East Derbyshire	329	329	full
South Derbyshire	292	292	full

8. All employing bodies are paying a rate which is sufficient to meet the cost of the year by year accrual of benefits and reduce their past service deficiency.
9. Employees pay 6% of their pay excluding non-contractual overtime; certain employees (ie previously classed as manual workers) are protected to pay 5% of their pay.
10. The valuation of the Pension Fund as at 31 March 2004 is in progress and revised employers' contributions will be payable from 1 April 2005.
11. The long term obligations to pay benefits are dealt with in the actuary's statement and not in the accounts.
12. The Derbyshire Pension Fund Statement of Investment Principles is available on the Derbyshire County Council's website at [www.derbyshire.gov.uk/azserv/pensions.htm](http://www.derbyshire.gov.uk/azserv/pensions.htm).

## Pension Fund - Fund Account

2002-2003  
£'000

2003-04  
£'000

	Note	Contributions and Benefits	
80,279	4	Contributions receivable	86,266
14,003	5	Transfer values in	<u>15,173</u>
<u>94,282</u>			<u>101,439</u>
57,894	6	Benefits payable	60,149
9,668	7	Leavers – transfer values out	8,300
874	8	Administrative expenses	<u>832</u>
<u>68,436</u>			<u>69,281</u>
<b><u>25,846</u></b>		<b>Net additions from dealings with members</b>	<b><u>32,158</u></b>
		<b>Returns on investments</b>	
36,461	9	Investment income	38,138
(272,959)	10	Change in market value of investments	197,391
(1,038)	11	Investment management expenses	<u>(988)</u>
<b><u>(237,536)</u></b>		<b>Net returns on investments</b>	<b><u>234,541</u></b>
(211,690)		Net increase (decrease) in the Fund during the year	266,699
		Net assets of the scheme	
<u>1,253,892</u>		at 1 April 2003	<u>1,042,202</u>
<b><u>1,042,202</u></b>		<b>at 31 March 2004</b>	<b><u>1,308,901</u></b>

# Pension Fund Net Assets Statement as at 31 March 2004

31 March 2003			31 March 2004
£'000			£'000
	Note		
		<b>Investments</b>	
136,593	10, 13	Fixed interest securities	151,903
596,985		Equities	781,197
70,797		Index-linked securities	54,444
94,354		Pooled investment vehicles	143,295
51,110		Properties	58,340
84,523		Cash deposits and short term loans	109,031
<u>69</u>		Other	<u>43</u>
1,034,431		Total investments	<u>1,298,253</u>
<u>7,771</u>	12	Current assets and liabilities	<u>10,648</u>
<b><u>1,042,202</u></b>		<b>Net assets of the scheme at 31 March 2004</b>	<b><u>1,308,901</u></b>

# Notes to the Pension Fund Financial Statements

## 1. Basis of preparation

The accounts have been prepared in accordance with the Statement of Recommended Practice: Financial Reports of Pension Schemes (Revised November 2002) except for Additional Voluntary Contributions, which are not material in relation to the size of the Pension Fund.

The financial statements summarise the transactions of the scheme and deal with the net assets available for investment in accordance with policies approved by the Investment Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the foreword of this annual report and these financial statements should be read in conjunction with this.

## 2. Accounting Policies

### Contributions

Employee contributions, including AVCs, are accounted for when deducted from members' pay.

Employer normal contributions are accounted for in the period to which the corresponding wages and salaries relate.

Employer special contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

### Benefits

Benefits and payments to leavers are accounted for in the period they fall due for payment.

Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the trustee of their decisions as to what form of benefit they will take.

Where a member has no choice about the form of benefit, the benefit is accounted for in the period of leaving / retirement / death, being the period in which the liability to pay the benefit arises.

### Transfers

Where past service liabilities do not transfer between schemes until assets / liabilities have been transferred, transfers are accounted for on a cash basis.

Where trustees have agreed to accept past service liabilities in advance of the transfer of funds, the transfer is accounted for in accordance with the terms of the agreement.

### Expenses

Expenses are accounted for on an accruals basis.

### Investment income

Dividends from quoted securities are accounted for when the securities are quoted ex-dividend.

Rent is accounted for in accordance with the terms of the lease.

Interest on cash and bonds is accrued on a daily basis. In respect of fixed interest bonds, accrued income purchased and sold is accounted for in investment purchases and sales.

Income arising on the underlying investments of accumulation funds is accounted for within change in market value of investments.

## Notes to the Pension Fund Financial Statements (continued ...)

### Foreign currency translation

Overseas assets are translated into sterling from local currency at the exchange rate ruling at the balance sheet date.

Exchange gains and losses are treated as follows:

those relating to the translation of investments are accounted for as part of change in market value included in the Fund Account

those relating to current assets and liabilities are accounted for within the Fund Account under an appropriate heading.

### 3. Basis of Valuation

Investments are valued at their market value at the date of the net assets statement.

Quoted securities are included at closing prices: these may be the last traded prices or mid-market price depending on the convention of the exchange or other market on which they are quoted.

Fixed interest stocks are valued including accrued income.

Unquoted investments are included at cost unless clear evidence is available of an increase or fall in value.

Pooled investment vehicles are included at the average of the closing bid and offer prices, or if single priced, at the closing price.

Property is included at open market value determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The property portfolio was independently valued by Edmund Kirby, Chartered Surveyors and Architects.

4. Contributions receivable	2002-2003	2003-04
	£'000	£'000
Employers normal contributions	54,184	59,878
Employers special contributions	4,539	2,667
Members normal contributions	<u>21,556</u>	<u>23,721</u>
	<b><u>80,279</u></b>	<b><u>86,266</u></b>

Employers' special contributions are made by participating employers in excess of amounts certified by the actuary to meet past service deficits or specific future liabilities.

5. Transfers in	2002-2003	2003-04
	£'000	£'000
Individual transfers in from other schemes	12,531	13,983
Restitution payments for mis-sold personal pensions	<u>1,472</u>	<u>1,190</u>
	<b><u>14,003</u></b>	<b><u>15,173</u></b>

6. Benefits payable	2002-2003	2003-04
	£'000	£'000
Pensions	49,935	51,648
Lump sum retirement benefits	6,945	7,602
Lump sum death benefits	<u>1,014</u>	<u>899</u>
	<b><u>57,894</u></b>	<b><u>60,149</u></b>



## Notes to the Pension Fund Financial Statements (continued ...)

<b>7.</b>	<b>Payments to and on account of leavers</b>	<b>2002-03</b>	<b>2003-04</b>
		<b>£'000</b>	<b>£'000</b>
	Refunds to members leaving service	364	405
	Individual transfers to other schemes	<u>9,304</u>	<u>7,895</u>
		<b><u>9,668</u></b>	<b><u>8,300</u></b>

<b>8.</b>	<b>Administrative expenses</b>	<b>2002-03</b>	<b>2003-04</b>
		<b>£'000</b>	<b>£'000</b>
	Administration and processing	796	824
	Actuarial fees	65	-
	Audit fee	<u>13</u>	<u>8</u>
		<b><u>874</u></b>	<b><u>832</u></b>

<b>9.</b>	<b>Investment Income</b>	<b>2002-03</b>	<b>2003-04</b>
		<b>£'000</b>	<b>£'000</b>
	Income from fixed interest securities	8,468	7,976
	Dividends from Equities	21,729	23,234
	Income from Index linked securities	1,160	1,568
	Income from pooled investment vehicles	156	249
	Net rent from properties	3,830	3,700
	Interest on cash deposits	<u>3,366</u>	<u>3,665</u>
		38,709	40,392
	Irrecoverable taxation	<u>(2,248)</u>	<u>(2,254)</u>
		<b><u>36,461</u></b>	<b><u>38,138</u></b>

<b>10.</b>	<b>Investments</b>	<b>Value at</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in</b>	<b>Value at</b>
		<b>31.3.2003</b>	<b>at cost</b>	<b>Proceeds</b>	<b>market value</b>	<b>31.3.2004</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Fixed interest securities	136,593	188,642	(166,040)	(7,292)	151,903
	Equities	596,985	133,797	(115,071)	165,486	781,197
	Index-linked securities	70,797	56,886	(75,777)	2,538	54,444
	Pooled investment vehicles	94,354	21,365	(4,975)	32,551	143,295
	Properties	51,110	8,430	(5,308)	4,108	58,340
	Cash deposits & short term loans	84,523	494,803	(470,295)	-	109,031
	Other	<u>69</u>	<u>-</u>	<u>(26)</u>	<u>-</u>	<u>43</u>
		<b><u>1,034,431</u></b>	<b><u>903,923</u></b>	<b><u>837,492</u></b>	<b><u>197,391</u></b>	<b><u>1,298,253</u></b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

## Notes to the Pension Fund Financial Statements (continued ...)

	31 March 2003 £'000	31 March 2004 £'000
<b>Fixed interest securities</b>		
UK public sector quoted	81,247	99,324
UK quoted	50	-
Overseas public sector - quoted	<u>55,296</u>	<u>52,579</u>
	<b><u>136,593</u></b>	<b><u>151,903</u></b>
<b>Equities</b>		
UK quoted	436,411	539,003
UK unquoted	179	1,084
Overseas quoted	<u>160,395</u>	<u>241,110</u>
	<b><u>596,985</u></b>	<b><u>781,197</u></b>
<b>Index linked securities</b>		
UK quoted	68,872	54,444
Overseas quoted	<u>1,925</u>	<u>-</u>
	<b><u>70,797</u></b>	<b><u>54,444</u></b>
<b>Pooled Investment Vehicles</b>		
Managed funds - property	-	4,842
- other quoted	2,931	4,239
- other unquoted	-	-
Unit Trusts - property	-	-
- other quoted	61,744	104,190
- other unquoted	<u>29,679</u>	<u>30,024</u>
	<b><u>94,354</u></b>	<b><u>143,295</u></b>
<b>Properties</b>		
UK Freehold	47,670	50,050
UK Leasehold	<u>3,440</u>	<u>8,290</u>
	<b><u>51,110</u></b>	<b><u>58,340</u></b>
<b>Cash deposits and short term loans</b>		
Sterling cash deposits	17,302	23,807
Money Market Funds	-	11,000
Loan to Derbyshire County Council	5,000	5,000
Other Sterling short term loans	61,183	68,000
Foreign Currency	<u>1,038</u>	<u>1,224</u>
	<b><u>84,523</u></b>	<b><u>109,031</u></b>
<b>Other</b>		
Insurance policies and fixed assets	<u>69</u>	<u>43</u>

## Notes to the Pension Fund Financial Statements (continued ...)

The proportion of the market value of investment assets managed in-house and by each external manager at the year end is set out below. Collective investment vehicles held as stock selection decisions are included under in-house.

	<b>31 March 2003</b>	<b>%</b>	<b>31 March 2004</b>	<b>%</b>
	<b>£'000</b>		<b>£'000</b>	
In-house	902,307	87.2	1,109,404	85.4
Wellington Management International Ltd	48,926	4.7	76,256	5.9
UBS Global Asset Management (UK) Ltd	83,198	8.1	112,593	8.7
	<u>1,034,431</u>	<u>100</u>	<u>1,298,253</u>	<u>100</u>
<b>11. Investment Management Expenses</b>	<b>2002-03</b>		<b>2003-04</b>	
	<b>£'000</b>		<b>£'000</b>	
Administration, management and custody	987		937	
Performance measurement services	7		7	
Other advisory fees	44		44	
	<u>1,038</u>		<u>988</u>	
<b>12. Current Assets and Liabilities</b>	<b>31 March 2003</b>		<b>31 March 2004</b>	
	<b>£'000</b>		<b>£'000</b>	
Employers contributions due	2,683		2,718	
Employees contributions due	985		1,093	
Transfers due	-		920	
Unpaid benefits	(957)		(112)	
Sundry debtors	7,419		6,470	
Sundry creditors	(2,453)		(640)	
Tax recoverable	94		199	
	<u>7,771</u>		<u>10,648</u>	
Employers and employees contributions due at 31 March 2004 have been received since the year-end.				
<b>13. Fund investments by geographical sector (at market value)</b>	<b>31 March 2003</b>		<b>31 March 2004</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
UK	760,940	73.6	913,461	70.4
N.America	74,390	7.2	99,226	7.6
Europe	114,954	11.1	143,425	11.0
Asia and other	84,147	8.1	142,141	11.0
	<u>1,034,431</u>		<u>1,298,253</u>	

## Notes to the Pension Fund Financial Statements (continued ...)

### 14. Related Party Transactions

Derbyshire County Council is the administering authority for the purposes of the Fund under the Local Government Pension Scheme Regulations 1995. Included in Administrative expenses and Investment Management expenses in 2003-04 are charges from the County Treasurer's Division and other Council Departments of £1,135,501 (2002-03 £1,078,168) for providing these services.

The Fund has also made a loan to Derbyshire County Council, which at 31 March 2004 was £5 million (2003 £5 million). This loan is repayable on demand and earns a market rate of interest (as prescribed by the Local Government Pension Scheme Regulations 1998).

### 15. Investment Commitments

Investment commitments at the end of the financial year in respect of future payments were:

	<b>31 March 2003</b>	<b>31 March 2004</b>
	<b>£'000</b>	<b>£'000</b>
Unquoted investments	3,544	3,164
Equities	-	115
	<u>3,544</u>	<u>3,279</u>

### 16. Participating Employers

The participating employers in the Fund are Derbyshire County Council (which is also the Administering Authority), the Unitary and District Local Authorities (which are Scheduled Bodies) and a further 67 Scheduled and 14 Admitted Bodies. The Unitary and District Local Authorities are listed in the foreword of this Annual Report.

The Contributions Receivable and the Benefits payable by the fund during the year in respect of each type of participating employer were as follows:-

	<b>2002-2003</b>		<b>2003-04</b>	
	<b>Benefits Payable</b>	<b>Contributions Receivable</b>	<b>Benefits Payable</b>	<b>Contributions Receivable</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Derbyshire County Council	29,388	31,315	29,516	36,343
Scheduled Bodies	27,669	47,088	29,447	46,861
Admitted Bodies	837	1,876	1,186	3,062
	<u>57,894</u>	<u>80,279</u>	<u>60,149</u>	<u>86,266</u>

# Capital Expenditure

The figures opposite show the analysis of the year's capital expenditure between the major divisions of each Service.

When the Council constructs a building or purchases a piece of land, it treats such expenditure as capital. Expenditure of this nature is of value to the community for many years to come and in most cases the cost of the asset is spread over a number of years by borrowing and repaying with interest over a period of time. Details of how the year's capital expenditure has been financed are shown at the foot of the table. In addition, vehicles have been leased during the year, the capital value of which is not included in the table but details are given in a note to the balance sheet.

The statement below shows the position on capital receipts, ie. the proceeds from the sale of land or buildings. Under current legislation capital receipts from the sale of the Authority's assets may be used in full to finance new capital expenditure. The provision for credit liabilities may be used to redeem debt, meet liabilities under credit arrangements, or as a means of financing expenditure authorised by credit approvals without borrowing. The statement shows new receipts in the year, together with the amounts applied either to finance capital expenditure in the year or to repay outstanding debt. Receipts unapplied at the year end are carried forward and shown in the consolidated balance sheet. Of the balances unapplied at the year end £6,303,599 is available to fund new capital expenditure. The remainder (£5,812,283) represents the provision for credit liabilities.

## CAPITAL RECEIPTS STATEMENT

2002-2003 £'000		2003-2004 £'000      £'000	
7,068	Balance unapplied at start of year		9,950
	<i>Add</i>		
<u>8,228</u>	Land and Buildings sale proceeds in year		<u>2,412</u>
15,296			12,362
	<i>Less</i>		
-	Used for redemption of debt	0	
<u>(5,346)</u>	Used for financing new capital expenditure	(246)	<u>(246)</u>
<b><u>£9,950</u></b>	<b>Balance unapplied at year end</b>		<b><u>12,116</u></b>

## Capital Expenditure (continued ...)

Capital Expenditure 2002-2003 £'000	Services	Capital Expenditure 2003-2004 £'000
112	<b>Central and Corporate Services</b>	
432	Magistrates Courts	311
(25)	Housing and Other loans	1,594
852	Economic Development	132
	County Buildings	1,765
	<b>Education</b>	
31,513	Schools	40,995
1,229	Youth and Community	949
	<b>Environmental Services</b>	
25,505	Highways	19,330
60	Transport	14
407	Countryside	880
1,994	Reclamation of derelict land	2,913
-	Refuse Disposal	11
584	<b>Cultural and Community Services</b>	283
	<b>Social Services</b>	
636	Residential Services	1,283
1,046	Day & Community Support Services	1,836
<u>£64,345</u>		<u>£72,296</u>
	<b>Financed from:</b>	
32,009	Loans	42,455
11,453	Capital Receipts and other internal funds	5,829
20,883	Capital grants and contributions	24,012
<u>£64,345</u>		<u>£72,296</u>

# Consolidated Loans Pool

The County Council administers a Consolidated Loans Pool which enables it to meet the accounting requirements of the Local Government and Housing Act 1989 to account for the acquisition and financing of fixed assets. The purpose of the Pool is to draw together and average out the cost of borrowing for capital expenditure. The accounts of the Pool are shown in three parts on these pages.

The capital transactions show the sum raised by loans. These may be by way of stock issues, bonds, mortgages, funds of the council, or temporary loans. The Pool will also make repayments of loans raised as these fall due.

These funds are used to make advances to finance capital expenditure on schools, roads and other lasting assets.

The 1989 Act provides that a minimum amount be set aside from an authority's revenue account each year as a provision for credit liabilities. This is known as the minimum revenue provision, which for 2003-04 is 4% of outstanding debt, ie. approximately £11.3 million.

Interest is payable on all loans raised by the Pool, and receivable on all loans made by the fund. These are shown in the section headed revenue transactions. The interest earned by the Pool reduces the amounts which must be charged to the revenue account. In addition the costs of operating the Pool are charged to borrowing committees at the rate of 0.01% of the balance outstanding. The rate of interest charged to revenue during the year was 6.25%.

Finally, the balance sheet below shows the assets and liabilities of the Pool.

## BALANCE SHEET

**31 March 2003**  
**£'000**

284,418  
547  
116,814  
£401,779

276,791  
11,343

9,950  
2,978  
100,717  
£401,779

### Assets

Advances to borrowers  
Debtors  
Investments

### Liabilities

Loans outstanding  
Temporary loans

Internal funds  
Creditors  
Cash overdrawn

**31 March 2004**  
**£'000**

315,567  
1,307  
168,297  
£485,171

301,791  
16,350

12,116  
3,536  
151,378  
£485,171

## Consolidated Loans Pool (continued ...)

**2002-2003**  
**£'000**

21,271  
34  
£21,305

16,878  
4,393  
34  
£21,305

20,600  
79,917  
-  
859,445  
32,009  
£991,971

38,000  
70,545  
22,286  
847,882  
2,881  
10,377  
£991,971

### REVENUE TRANSACTIONS

#### Expenditure

Interest paid  
Other financial transactions

#### Income

Interest charged to borrowers  
Interest on investments  
Other charges to borrowers

### CAPITAL TRANSACTIONS

#### Expenditure

Loans repaid  
Mortgages  
Short term loans  
Internal Funds  
Temporary investments  
Advances to borrowers

#### Income

Loans repaid  
Mortgages  
Short term loans  
Internal Funds  
Temporary Investments  
Sales of Assets  
Repaid by borrowers

**2003-2004**  
**£'000**

23,230  
35  
£23,265

17,776  
5,454  
35  
£23,265

13,000  
109,319  
-  
884,067  
42,455  
£1,048,841

38,000  
114,326  
50,460  
832,583  
2,166  
11,306  
£1,048,841



# Glossary of Financial Terms

## **Best Value**

A duty placed on local and other authorities by central government to secure continuous improvement in the provision of services. The regime is supported by an accounting framework issued by CIPFA - the Best Value Accounting Code of Practice - in order that data consistency and comparability are achieved.

## **Capital Expenditure**

The acquisition of fixed assets which will have a long-term value to the authority, eg land, purchasing existing buildings or erecting new ones, furniture and equipment, vehicles.

## **Capital Charge**

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

## **Capital Receipts**

Money received from the sale of land or buildings which is available, subject to certain limitations, to finance other items of capital (but not revenue) expenditure, or to repay outstanding debt on assets originally financed from loan.

## **Consolidated Loans Pool**

The borrowing needs of all services to finance capital expenditure are met by advances from a separate account known as a Loans Pool, which itself is financed by the raising of loans externally. This procedure allows for the best overall borrowing policy to be pursued, and takes maximum advantage of an authority's total cash flow. Advances from the fund are repaid by annual instalments. The total interest paid by the Fund on external borrowings is recharged to all service accounts at an average Loans Pool rate.

## **Council Tax**

Council Tax was introduced as the local tax with effect from 1 April 1993 replacing the Community Charge. It is based on the assessed capital values of domestic properties which are allocated to one of eight valuation bands.

## **County Fund**

The main revenue fund of a County Council, to which costs of services are charged. The main sources of income are precepts, Government grants and fees and charges.

## **Deferred Charges**

Deferred Charges represent expenditure which may properly be capitalised but does not result in, or remain matched with, tangible fixed assets.

## **Depreciation**

The theoretical loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

## **Financial Reporting Standard 17 (FRS 17)**

An accounting standard issued by the Accounting Standards Board relating to retirement benefits and based on the principle that an organisation should account for retirement when it is committed to give them even if the actual giving will be many years into the future.

## **Fixed Assets**

Tangible assets that yield benefits to the local authority for a period of more than one year.

## **Glossary of Financial Terms** (continued ...)

### **Fixed Asset Restatement Reserve**

A reserve created as a result of the new system of capital accounting. It represents the difference between the new valuation of assets in the balance sheet based on current value and the old valuation based on historical cost.

### **Formula Spending Share (FSS)**

This is the Government's assessment for spending that is used as a method of allocating grant and replaces the Standard Spending Assessment (SSA).

### **Government Grants**

Payment by Government towards the cost of local authority services. These are either for particular purposes or services (specific grants) or in aid of local services generally (revenue support grant).

### **Minimum Revenue Provision (MRP)**

The minimum amount which must be charged each year to an authority's revenue account to repay the principal element when borrowing for capital purposes.

### **Public Works Loan Board**

A Government agency which provides longer term loans to local authorities at favourable interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow a prescribed maximum proportion of their requirements from this source to finance their capital expenditure.

### **Rateable Value**

A value placed on all non-domestic properties subject to rating to which a nationally fixed rate poundages applied to arrive at rates payable. The value is based on a notional rent that a property could be expected to yield after deducting the cost of repairs and management. Rateable values are fixed by Valuers of the Inland Revenue.

### **National Non-Domestic Rate or Business Rate**

All occupiers of non-domestic property eg business premises, factories and public buildings continue to pay rates. The poundage is fixed nationally and local authorities benefit not by the amount of rates collected in their area but by a national standard amount per head of population.

### **Provisions**

Amounts set aside in the accounts for liabilities of uncertain timing or amount to be settled by the transfer of economic benefits.

### **Revenue Support Grant**

A Government grant in aid of local services generally, the objective of which is to supplement authorities' own finances, so that they can each provide the services for which they are responsible to similar standards, whilst making a similar charge to the local tax payer.

### **Revenue Expenditure**

This is the annual expenditure on recurrent council services consisting principally of salaries and wages, debt charges and general running expenses.

### **Specific Grants**

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

## **Glossary of Financial Terms** (continued ...)

### **Statements of Standard Accounting Practice (SSAPs)**

These are methods of accounting approved by the Accounting Standards Board (ASB) and are applicable to all accounts which are intended to give a true and fair view. Compliance with these statements is mandatory and any departure from them must be disclosed and explained, but as they originated in the commercial sector some are not relevant to local authority accounts. Accounting standards issued by the ASB are now known as Financial Reporting Standards (FRSs).

### **UK GAAP**

United Kingdom Generally Accepted Accountancy Practice