

LONDON BOROUGH OF RICHMOND UPON THAMES

STATEMENT OF ACCOUNTS 2003/04

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INTRODUCTION TO THE STATEMENT OF ACCOUNTS

This foreword provides an introduction to the Statement of Accounts setting out the basis of its preparation, an explanation of the statements that are included and some commentary on the financial results for the year and forward plans. The Statement of Accounts is submitted for approval and published subject to audit, which is nearly completed. The audit certificate will be incorporated in the final published version of this Statement including minor changes to this paragraph to reflect completion of the audit. The independent auditor's report will specify which statements have been audited but it should be noted that this foreword will not be included in those statements that have been audited.

The Statement of Accounts is prepared in accordance with proper accounting practice and all relevant statutory requirements. Proper accounting practice represents compliance with:

- All relevant Financial Reporting Standards (FRS) issued by the Accounting Standards Board (ASB - a constituent Board of the Financial Reporting Council)
- The Code of Practice on Local Authority Accounting in the UK 2003 (the Statement of Recommended Practice or SORP issued by the CIPFA/LASAAC Joint Committee, a body recognised by the ASB for the purpose of issuing SORPs), and
- The Best Value Accounting Code of Practice 2003 (BVACOP issued by CIPFA) that establishes proper practice for consistent financial reporting below the Statement of Accounts level and has statutory recognition.

The 2003 SORP introduced new requirements for reporting on pension costs in accordance with FRS17. This has a material impact on the financial reporting of defined benefits schemes and as the Local Government Pension Scheme (LGPS) is a defined benefit scheme these new requirements have been incorporated in these accounts, including comparative re-statements for 2002/03. The main change is that under FRS17 the Council is required to recognise the cost of retirement benefits at the time that employees earn them, rather than when they are actually paid as pension benefits. However, the cost in each financial year is reversed out of the Consolidated Revenue Account as an appropriation (below Net Operating Expenditure), so there is no impact on the level of Council Tax. The Balance Sheet recognises the net underlying liabilities for retirement benefits earned at 31st March in each year, and also includes a corresponding Pensions Reserve to meet that liability.

As far as possible plain language is used in this publication except where the use of technical language is required for accuracy and definition of accounting and other terms. An explanation of technical terms is set out in the Glossary of Terms at the end of this document.

The accounting and other statements are set out in the following order:

The Consolidated Revenue Account

- The Consolidated Revenue Account reports on the net expenditure for the financial year in respect of all the functions for which the Council is responsible, except for the Pension Fund and certain Trust Funds that the Council administers but does not have ownership of the assets held in Trust. The Pension Fund accounts and balance sheet are set out in a separate statement and details of Trust Funds are set out in a separate disclosure note to the Balance Sheet.
- Expenditure on Council services is set out in accordance with the BVACOP that establishes a common analysis of expenditure adopted by all local authorities in England and Wales. This is intended to assist inter-authority comparisons, and is used to produce financial information for use in the Best Value process that is part of the government's modernisation and improvement agenda. The BVACOP analysis of expenditure will also assist in the consolidation of all local authority accounts in the 'Whole of Government Accounts'.
- In addition to the net cost of services, the Consolidated Revenue Account brings in items of income and expenditure that relate to the Council as a whole that are not attributed to individual services, appropriations (transfers to and from reserves) and, finally, shows the principal sources of income used to finance expenditure in the year, together with net surplus for the year that is transferred to the General Fund Reserve.

Home Loans Unit Accounts

The Council took over the administration of the Home Loans Unit in 1988. The Unit manages the portfolio of mortgages previously made by the former Greater London Council on behalf of all London Boroughs. The mortgage portfolio is closed and diminishing in size. Surpluses on the account are distributed to London Boroughs annually.

The Collection Fund

There is a statutory requirement for local authorities that issue Council Tax bills (billing authorities) to maintain a separate Collection Fund. This shows all the transactions in respect of:

- Income from the billing and collection of Council Tax and Non-domestic Rates; and

- The distribution of this income to the national pool for business rates, the Greater London Authority and to the Council itself.

The Consolidated Balance Sheet

The Consolidated Balance Sheet sets out the Council's financial position at the year-end. It shows the balances and reserves available to the Council, the fixed and net assets employed and its long-term indebtedness.

The Statement of Total Movement in Reserves

This statement summarises all the recognised gains and losses of the Council for the financial year. It distinguishes between revenue and capital reserves and identifies whether the gain or loss has been recognised in the Consolidated Revenue Account.

The Cash Flow Statement

This statement shows cash flows to and from third parties for both revenue and capital purposes.

The Pension Fund Accounts

The Pension Fund Accounts are a separate entity and are not consolidated within the Council's revenue account, balance sheet or other statements. The accounts show:

- The Fund Account
 - Contributions received and benefits paid out
 - Administrative costs
 - Returns on investments
 - The net increase or decrease in the fund for the financial year
 - The movement between the opening and closing net assets of the scheme
- Net Asset Statement - An analysis of investment assets and net current assets and liabilities.

Notes to the Accounting Statements

Each of the above statements includes disclosure notes that are required under the Code of Practice (SORP).

Statement of Accounting Policies

This statement sets out the basis on which all the accounting statements are prepared, except the Pension Fund, which has its own statement of accounting policies.

Statement of Responsibilities for the Statement of Accounts

This statement sets out the separate responsibilities that both the Council and the Chief Finance Officer (the Director of Finance and Corporate Services) separately have in respect of the proper administration of the Council's financial affairs.

Report of the Council's External Auditors

The report of the District Auditor will be included on pages 51 and 52 when the audit is completed.

Statement on the System of Internal Control

This statement sets out how the Council has exercised its responsibilities to ensure that an effective system of internal control is maintained throughout the Council.

Statement on Corporate Governance

This is a joint statement by the Chief Executive and the Director of Finance and Corporate Services on the proper arrangements that are in place for the governance of the Council's affairs and the stewardship of the resources at its disposal.

Glossary of Terms

This section provides a guide to some of the technical terms that are used in this publication. This part of the Statement of Accounts is for information and will not be covered by the independent auditor's report.

OVERVIEW OF THE FINANCIAL YEAR**Revenue Expenditure**

The Consolidated Revenue Account sets out revenue expenditure for the year in accordance with the BVACOP. This provides a common analysis of expenditure used by all local authorities and is useful for inter-authority comparisons. The BVACOP analysis does not reflect the management structure of the Council or the way in which its budget is set and spending monitored throughout the year. The following table sets out the revenue outturn for 2003/04 in the same format as the budget and reflects the structure with which Members and officers of the Council will be familiar.

Table 1 REVENUE EXPENDITURE OUTTURN 2003/04

| Service | Expenditure £000 | Income £000 | Net Expenditure £000 | Revised Budget £000 | Variance £000 |
|---|---------------------|------------------|----------------------------|---------------------------|------------------|
| Education, Arts and Leisure | 127,183 | (32,532) | 94,651 | 95,768 | (1,117) |
| Social Services and Housing | 127,043 | (76,529) | 50,514 | 53,184 | (2,670) |
| Environmental Services | 55,373 | (29,226) | 26,147 | 25,456 | 691 |
| Corporate Services | 38,408 | (26,563) | 11,845 | 13,022 | (1,177) |
| Total Cost of Services | 348,007 | (164,850) | 183,157 | 187,430 | (4,273) |
| Adjusted for Deferred Govt Grant that is not part of the Management Accounts but is required in the SORP | | | (160) | | |
| | | | 182,997 | | |

Table 2 RECONCILIATION BETWEEN REVENUE OUTTURN AND CONSOLIDATED REVENUE ACCOUNT

The following table shows the reconciliation between the service expenditure shown under the management structure of the Council (Table 1) and the analysis required under BVACOP. There are two steps to this reconciliation; firstly expenditure is re-classified under BVACOP service headings and, secondly, items of expenditure that are not included in the BVACOP definition of the net cost of services are added back.

| | Net Expenditure 2003/04 £000 |
|--|------------------------------------|
| Central Services - Local Tax Collection | 1,696 |
| Central Services - Other Central Services to the Public | 1,712 |
| | 3,408 |
| Culture, Environmental and Planning Services | 20,475 |
| Education Services | 87,171 |
| Highways, Roads and Transport Services | 8,143 |
| Housing Services | 6,347 |
| Social Services | 44,529 |
| Corporate and Democratic Core | 4,301 |
| Non-distributed Costs | 926 |
| Net Cost of Services (Table 7 Consolidated Revenue Account) | 175,300 |
| Items excluded from net cost of services under BVACOP: | |
| Precepts and levies | 7,414 |
| Trading Undertakings | 283 |
| Total net expenditure in table 1 | 182,997 |

Table 3 SUMMARY NET EXPENDITURE AND SOURCES OF FINANCE

After adjusting for actual capital financing costs (debt repayment and net interest) and transfers to or from reserves and provisions, the total amount of net expenditure that needed to be financed by government grants and local taxpayers was:

| | 2003/04 |
|--|----------------|
| | £000 |
| Revenue expenditure outturn (Table 1) | 182,997 |
| Less adjustments for Capital Financing Costs | (18,163) |
| Transfers to reserves and provisions | 8,580 |
| FRS 17 Adjustment | 3,321 |
| Appropriation to Deferred Charges etc. | (5,843) |
| Total Expenditure | 170,892 |
| Sources of Finance: | |
| Government Grants - | |
| Share of Non-Domestic Rates | 50,593 |
| Revenue Support Grant | 36,342 |
| Local Taxpayers (Council Tax) | 87,281 |
| Collection Fund Surplus | 1,100 |
| Total Income | 175,316 |
| Addition to General Reserves | (4,424) |
| General Reserve b/f 1st April 2003 | (6,929) |
| General Reserve c/f 31st March 2004 | (11,353) |

Capital Expenditure

Capital expenditure is incurred on the construction, acquisition or improvement of an asset that has a beneficial life of more than one year. In 2003/04 capital expenditure was:

Table 4 SUMMARY CAPITAL EXPENDITURE

| | 2003/04 | 2003/04 | 2002/03 |
|----------------------------------|---------------|---------------|---------------|
| | Actual | Budget | Actual |
| | £000 | £000 | £000 |
| Education, Arts & Leisure | 7,545 | 10,148 | 6,105 |
| Social Services and Housing | 2,359 | 3,457 | 4,556 |
| Environmental Services | 6,393 | 8,278 | 6,144 |
| Corporate Services | 2,906 | 6,089 | 2,421 |
| Total Capital Expenditure | 19,203 | 27,972 | 19,226 |

Capital expenditure can be financed by borrowing, grants and other contributions towards capital expenditure, capital receipts (from the sale of assets) or from revenue (or reserves set aside from revenue). Borrowing is currently restricted to 'credit approvals' allocated by the government. Grants are mainly received from the government or Transport for London (part of the Greater London Authority) and often have to be spent on specific services or schemes. Capital receipts provide the largest source of capital finance over which the Council has discretion, although they are, by their nature, a finite resource, and careful planning is undertaken to allow for the uncertainties of timing and actual sale value.

In 2003/04 total capital expenditure was financed by:

Table 5 FINANCING CAPITAL EXPENDITURE

| | 2003/04 Actual £000 | 2003/04 Budget £000 |
|--|---------------------------|---------------------------|
| Borrowing Approvals | 3,677 | 4,763 |
| Capital Grants: | | |
| Department for Education and Skills | 3,663 | 3,554 |
| Office of the Deputy Prime Minister | 529 | 529 |
| Local Public Service Agreement | 203 | 247 |
| Transport for London | 5,245 | 5,616 |
| Other Grants | 243 | 1,014 |
| Section 106 Planning Obligations | 707 | 801 |
| LSVT (transfer of housing stock) Receipt | 374 | 827 |
| Capital Receipts | 2,498 | 8,243 |
| Direct Revenue Financing | 827 | 1,954 |
| Contributions | 387 | 424 |
| Accruals | 850 | 0 |
| Total Capital Expenditure | 19,203 | 27,972 |

Pension Fund

The Pension Fund Accounts are set out in a separate section of the Statement of Accounts (on page 40). Future liabilities in respect of benefit entitlements for Council employees that are members of the pension fund are effectively borne by the Council and disclosed in notes to the Consolidated Revenue Account, Balance Sheet and Statement of Total Movements in Reserves.

FORWARD PLANS

Table 6 CAPITAL PROGRAMME

The Council has a capital programme for the next three years as follows:

| | 2004/05 £000 | 2005/06 £000 | 2006/07 £000 |
|---|-----------------|-----------------|-----------------|
| Education, Arts and Leisure | 9,773 | 1,446 | 1,746 |
| Social Services and Housing | 3,806 | 3,726 | 3,726 |
| Environmental Services | 3,141 | 1,722 | 1,434 |
| Corporate Services | 2,675 | 2,714 | 2,605 |
| Total Programme (<i>includes new schemes</i>) | 19,395 | 9,608 | 9,511 |
| Estimated Slippage from previous Year | 14,502 | 5,085 | 2,204 |
| Estimated Slippage into following Year | (5,085) | (2,204) | (1,757) |
| Total Estimated Capital Expenditure | 28,812 | 12,489 | 9,958 |

The Council regularly reviews its capital programme, particularly to ensure that adequate capital resources are available to finance the programme. The latest review, in March 2004, confirmed that sufficient resources were forecast to finance the approved programme, largely due to accumulated unused capital receipts.

From April 2004 a new capital finance system has been introduced for local authorities based on a 'Prudential Code' that gives greater freedom to borrow in order to finance capital spending, provided that certain prudential measures are adhered to including the 'affordability' of the capital investment. Although this new system will not provide additional financial resources to the Council, it will allow more flexibility in planning the capital programme, particularly where short term investment can be made to generate improvements in service, or longer term efficiencies or savings.

In addition to the capital programme, the Council has entered into two PFI contracts for the provision of residential care homes and primary school places. These two contracts commit the Council to future payments of £235 million spread over the next 22 to 28 years. The full year payments under these two contracts for 2004/05 is £9.6 million. Details of these contracts are given in notes to the Consolidated Revenue Account and Balance Sheet.

The Council has also entered into a long-term contract for the provision of IT support through an IT and e-government partner. This contract involves an annual payment of £2.4 million in 2004/05 and anticipated investment of around £7 million by the IT and e-government partner.

The Council was unsuccessful in its bid to Government for much needed investment in its secondary and special schools and hence has now embarked on developing a 10 year strategy funded from a range of sources. This has to some extent been anticipated in planning future years capital programmes but will be developed further when the long term strategy is again reviewed.

Revenue Expenditure

The Council regularly reviews its medium term financial strategy and carries out annual consultation on budgetary issues with the public. The strategy for 2003/04 continued the underlying theme set out by the new administration in 2002/03. This primarily meant that the Council planned to build further on the financial stability achieved in 2002/03, continue to address the deficit in investment in parks, playgrounds, roads etc, whilst maintaining its investment in key services. The success of this strategy to date was underlined by the Comprehensive Performance Assessment of the Council which rated the whole Council as "good" with its "use of resources" receiving the maximum grade.

The revenue outturn position for 2003/04 has again enabled the Council to underpin this position by increasing the general reserves (which provide a cushion against unexpected service demands, and could enable future changes in financial requirements to be smoothed over a number of years) and contributing to other provisions that will enable continued investment in infrastructure and services. Proactive action in reducing the Council's debt, managing homelessness placements, maintaining income streams and continued improvements in outcomes from monitoring the Council's budgets all contribute to this position.

A number of the issues identified during 2003/04 will have a continuing impact on 2004/05 and, where these are not already reflected in the budgets for 2004/05, these will be built into the next strategic financial review. Looking forward, changes in the Local Government Grant Settlement are still predicted to have a negative effect on the Council's finances. Although the Council again set a Council Tax increase below the average for London in 2004/05, it remains a key aim to reduce its relative levels further. A large part of this will be dependent on the outcome of Government funding and the Council will maintain its proactive input into arguing the case for London in general and Richmond in particular. When taken with the proposed revaluation of properties for Council Tax purposes in 2005/06 and the review of the method of local taxation generally, these factors continue to underline the need for the Council to control its finances tightly, build and maintain healthy levels of balances/provisions, and ensure investment is targeted in key services identified in the Community Plan.

FURTHER INFORMATION

If you require further information in respect of the Council's statement of accounts, please contact Dick Johnson, Chief Accountant:

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CONSOLIDATED REVENUE ACCOUNT

Table 7 CONSOLIDATED REVENUE ACCOUNT

| | Table/note | 2003/04 | | | 2002/03 |
|--|------------|----------------|------------------|------------------|------------------|
| | | Gross | Gross Income | Net Expenditure | Net |
| | | Expenditure | | | Expenditure |
| | | £000 | £000 | £000 | £000 |
| Central Services - Local Taxation | | 10,966 | (9,270) | 1,696 | 1,845 |
| Other Central Services to the Public | | 3,502 | (1,790) | 1,712 | 2,056 |
| | | 14,468 | (11,060) | 3,408 | 3,901 |
| Culture, Environmental and Planning Services | | 45,213 | (24,738) | 20,475 | 19,048 |
| Education Services | | 116,013 | (28,842) | 87,171 | 81,954 |
| Highways, Roads and Transport Services | | 19,226 | (11,083) | 8,143 | 7,813 |
| Housing Services (General Fund) | | 53,001 | (46,654) | 6,347 | 7,913 |
| Social Services | | 74,464 | (29,935) | 44,529 | 42,623 |
| Corporate and Democratic Core | | 4,301 | 0 | 4,301 | 4,408 |
| Non-Distributed Costs | | 929 | (3) | 926 | 872 |
| Net Cost of Services | | 327,615 | (152,315) | 175,300 | 168,532 |
| Precepts and Levies | | | | 7,414 | 6,969 |
| Trading Undertakings deficit / (surplus) | 13 | | | 283 | (2) |
| Premium Paid on Early Repayment of Debt | 19 | | | 1,072 | 8,454 |
| Interest and Investment Income | | | | (3,079) | (3,285) |
| Pension Interest Cost and Expected Return on Pension Assets | 9 | | | 5,200 | 1,900 |
| Asset Management Revenue Account | 10 | | | (11,872) | (14,175) |
| Net Operating Expenditure | | | | 174,318 | 168,393 |
| Appropriations: | | | | | |
| Contribution to (from) Schools' Balances | 48 | | | 450 | (482) |
| Capital Expenditure financed from Revenue | | | | 629 | 0 |
| Contribution to Pensions Reserve | 50 | | | (1,879) | 539 |
| Contribution to Other Earmarked Reserves | | | | 8,130 | 5,775 |
| Minimum Revenue Provision | 18 | | | (4,329) | (3,893) |
| Appropriation to Capital Financing Reserve | | | | (584) | (8,454) |
| Appropriation to Deferred Charges etc. | 32 | | | (5,843) | (5,377) |
| Amount to be met by Government Grants and Local Taxpayers | | | | 170,892 | 156,501 |
| Sources of Finance: | | | | | |
| General Government Grants (Revenue Support Grant) | | | | (36,342) | (22,602) |
| Non Domestic Rates Distribution | | | | (50,593) | (57,802) |
| Demand on the Collection Fund | 29 | | | (87,281) | (76,766) |
| Transfer from Collection Fund in respect of surplus | | | | (1,100) | (400) |
| Income from General Grants and Council Tax | | | | (175,316) | (157,570) |
| (Surplus) / Deficit - Transferred to General Fund Reserve | | | | (4,424) | (1,069) |
| General Fund Reserve b/f at 1 st April 2003 | | | | (6,929) | (5,860) |
| *General Fund Reserve at 31st March 2004 | | | | (11,353) | (6,929) |

* Note: Schools' balances are treated as a separate earmarked reserve and movements in the year are shown as appropriations below Net Operating Expenditure

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT**Table 8 PENSION FUNDS**

The Council makes contributions into two pension funds on behalf of its employees. These are the Local Government Pension Scheme (LGPS) that is administered by the Council through its Pension Fund, and the Teachers Pension Scheme that is administered by the Teachers' Pension Agency.

Teachers Pension Scheme

Teachers employed by the authority are entitled to be members of the Teachers' Pension Scheme, administered by the Teachers' Pensions Agency. It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. In 2003/04, the council's employers contribution to the Teachers Pensions Agency was £4.483m representing 13.5% of pensionable pay. The figures for 2002/03 were £2.646m and 8.35%. No discretionary benefits were approved by the Council in 2003/04 in respect of members of the Teachers' Pension Scheme. There were no pre-paid or accrued pensions contributions in respect of the Teachers' Pension Fund at 31st March 2004.

The Teachers' Pension Scheme is administered nationally with common contribution rates for both employers and employees. It is therefore not possible to identify the Council's share of the underlying assets and liabilities of the scheme on a consistent and rational basis and therefore, for the purposes of the Council's accounts this scheme is treated as a defined contributions scheme. The only affect of this treatment is in the nature of the disclosure notes provided.

Local Government Pension Scheme (LGPS)

The Accounts for the Pension Fund are shown separately in this Statement of Accounts. The Pension Fund is responsible for receiving payments into the fund (including employees' and employers' contributions), investing the fund balance and making payments out of the fund, including pensions and other benefits. The Council is responsible for its employers' contributions that are set periodically at a level sufficient to enable the Pension Fund to meet all its liabilities. The Council, therefore, effectively makes up any deficit in the fund's future liabilities.

Disclosure notes in respect of pensions costs relating to the LGPS are required to be made in the Consolidated Revenue Account, the Balance Sheet and the Statement of Total Movements in Reserves. These are in addition to the Pension Fund accounts and, in order to see the overall impact of the LGPS on the Council's financial position, all these statements need to be read in conjunction.

The nature of the LGPS, as a defined benefits scheme, is that the pension benefits are not payable until employees retire but the Council, as the administering authority, has a commitment to pay these future benefits that needs to be recognised and disclosed at the time that employees earn their retirement benefits. We recognise the cost of the 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 Consolidated Revenue Account during the year:

Table 9 RECOGNITION OF FRS17 COSTS IN THE CONSOLIDATED REVENUE ACCOUNT

| | 2003/04 | 2002/03 |
|---|----------|----------|
| | £000 | £000 |
| Net Cost of Services: | | |
| Current Service Cost | (5,831) | (5,767) |
| Past Service Cost | (143) | 0 |
| Net Operating Expenditure: | | |
| Interest Cost | (16,100) | (15,100) |
| Expected Return on Assets in the Scheme | 10,900 | 13,200 |
| Amounts to be met from Government Grants and Local Taxation: | | |
| Movement on Pensions Reserve | 1,879 | (539) |
| Actual amount in respect of pension costs charged against Council Tax in the year: | | |
| Employers' Contributions payable to the Scheme and Unfunded Discretionary Payments | (9,295) | (8,206) |

Table 47 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Table 51 to the Statement of Total Movements in Reserves details the costs that have arisen through the year. Estimates made in preparing figures for previous years have had to be revised (e.g. the expected return on investments).

The Council incurred £143,000 losses on settlements in 2003/04 (nil in 2002/03)

Table 10 ASSET MANAGEMENT REVENUE ACCOUNT

Local authorities are required to make capital charges to services for the assets used in the course of the year. These capital charges include a notional interest charge based on the current market value of the assets.

The Asset Management Revenue Account (AMRA) reverses out these notional capital charges and replaces them with depreciation charges and actual external interest charges paid. The surplus on the AMRA is credited to the Consolidated Revenue Account to show the actual cost of capital financed in the year.

| | 2003/04 | 2002/03 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Income | | |
| Capital charges to revenue accounts | (21,354) | (24,363) |
| Expenditure | | |
| Depreciation | 4,706 | 4,094 |
| External interest | 4,776 | 6,094 |
| Total Surplus (Credit to Revenue Account) | (11,872) | (14,175) |

Table 11 OPERATING LEASES

The following payments were made, and obligations remained outstanding, in respect of operating leases that the Council has entered into.

| | 2003/04 | 2002/03 |
|--|--------------|--------------|
| | £000 | £000 |
| Total rentals paid under operating leases | 549 | 517 |
| Estimated outstanding undischarged obligations at 31 st March | 1,346 | 1,857 |
| The outstanding obligations (i.e. annual lease rentals) will expire over the following periods: | | |
| Less than one year | 32 | 5 |
| Between 1 and 2 years | 77 | 121 |
| Between 2 and 5 years | 804 | 1,148 |
| Between 5 and 10 years | 433 | 583 |
| | 1,346 | 1,857 |

Table 12 PFI TRANSACTIONS

The Council has entered into two Private Finance Initiative (PFI) contracts for the provision of residential care homes and primary schools. Under these contracts a private sector company provides and maintains the assets over the contract period for which the Council pays annual charges.

Both PFI contracts include construction and facilities management. In addition, the social services scheme provides operational services such as the provision of care.

Undischarged Obligations.

The outstanding liabilities have been calculated based on real costs to be incurred, i.e. reflecting estimated inflation over the life of the contract as recommended in the appointed consultants indicative financial models.

The following table shows the total outstanding undischarged obligations arising out of these long-term contracts:

| | 2003/04 | 2002/03 |
|--|---------|---------|
| | £000 | £000 |
| Social Services - Residential Care Homes (Contract for 25 years, commencing May 2001) This obligation will be fulfilled by charges to revenue over the remaining 22 years of the contract. | 141,160 | 145,805 |
| Education - Primary Schools (Contract for 30 years, commencing September 2002) This obligation will be fulfilled by charges to revenue over the remaining 28 years of the contract. | 93,643 | 95,218 |

Financing and Accounting Treatment.

The charges paid to the contractors covers all contract costs, including financing costs. The costs of the contracts are offset by government grant towards PFI schemes. The purpose of this grant is to offset the notional capital element within the costs of each PFI scheme. The amount of grant received each year does not, however, directly match the related annual expenditure under the unitary charge, the grant being more than required in the early years of the contract and less in later years.

The effect of this incidence of PFI grant payments is that material revenue surpluses arise on the relevant service accounts in the early years of each contract with deficits in later years. The surplus on these contracts is transferred to an earmarked reserve as an appropriation, below Net Operating Expenditure, and in later years this reserve will be used to fund the cost of future deficits.

Table 13 TRADING ACCOUNTS

The Council maintains the following Trading Accounts for which charges made to other Council services based on a pre-determined charging basis and not actual cost. The effect of using notional charges is not material in reporting individual service costs in the Consolidated Revenue Account. The following table shows the turnover and trading result for each trading operation.

The first part of the table shows trading accounts that provide services to a number of other Council services and the net surplus or deficit is not attributable to individual services but shown as part of Net Operating Expenditure in the Consolidated Revenue Account. The second part of the table shows trading accounts that are an integral part of a Council service and the net surplus or deficit on these accounts are consolidated within the Net Cost of Services.

| | 2003/04 | | 2002/03 | |
|---|--------------|------------------------|--------------|------------------------|
| | Turnover | (Surplus) / Deficit | Turnover | (Surplus) / Deficit |
| | £000 | £000 | £000 | £000 |
| Trading with other Council Services: | | | | |
| Print Unit | 365 | (1) | 377 | 2 |
| Building Maintenance | 1,291 | 138 | 1,635 | 26 |
| Transport Services | 2,706 | 124 | 2,815 | (18) |
| Transport Workshops | 702 | 53 | 691 | 27 |
| Sub Total | 5,064 | 314 | 5,518 | 37 |
| Trading with Third Parties: | | | | |
| Transport-Ealing Contract | 392 | (29) | 374 | (22) |
| Skip Service | 129 | (2) | 149 | (17) |
| Sub Total | 521 | (31) | 523 | (39) |
| Total Trading Operations | 5,585 | 283 | 6,041 | (2) |
| Trading as an Integral Part of a Council Service | | | | |
| Highways | 1,012 | (24) | 935 | (57) |
| Refuse Collection | 3,512 | (26) | 3,323 | 40 |
| | 4,524 | (50) | 4,258 | (17) |

In the Consolidated Revenue Account these Trading Accounts are consolidated as follows:

Highways: Highways, Roads and Transport services

Refuse: Culture, Environment and Planning Services

The following notes describe the nature of Trading Accounts:

Print Unit:

The print unit is responsible for the provision of general printing services and specialised printing for all Council departments. Council departments have discretion whether to use the Print Unit or buy in services from external suppliers.

Building Maintenance:

The Building Maintenance service carries out reactive maintenance and repairs to all Council buildings including schools and colleges.

Transport Services:

The Transport Section provides a complete range of transport services to all Council departments. Services include the management of all the Council's vehicles, the provision of vehicles, plant and drivers on a fixed hire, contractual and ad hoc basis to suit users needs. The service also covers the management of vehicles under a contract with the London Borough of Ealing.

Vehicle Maintenance:

The Transport Workshops carry out maintenance and repairs to the council's vehicle fleet of around 280 vehicles. The service also provides maintenance and repairs (on behalf of Transport Services) for around 58 vehicles as part of the vehicle management contract for Ealing Borough Council.

Skip Service:

The skip service provides skip container hire for Council departments, resident and commercial businesses in competition with private sector companies. The service also collects and empties some of the council's recycling banks and containers.

Highways and Refuse:

These Trading Accounts are an integral part of the highways maintenance and refuse collection services.

Table 14 BUILDING CONTROL ACCOUNT

The following table provides the disclosure of information required under the Local Authority Building Control Regulations. The non-chargeable activities include providing general advice and liaising with other statutory authorities.

| | 2003/04 | | 2002/03 | |
|-----------------------------|--------------------|----------------------------|---------------|---------------|
| | Chargeable £000 | Non- Chargeable £000 | Total £000 | Total £000 |
| Expenditure | | | | |
| Employee Costs | 463 | 119 | 582 | 428 |
| Transport | 14 | 4 | 18 | 18 |
| Supplies and Services | 138 | 12 | 150 | 147 |
| Third Party Payments | 5 | 1 | 6 | 1 |
| Support Costs | 167 | 43 | 210 | 279 |
| Total Expenditure | 787 | 179 | 966 | 873 |
| Income | | | | |
| Building Regulation Charges | (849) | 0 | (849) | (831) |
| Other Income | 0 | (8) | (8) | 0 |
| Total Income | (849) | (8) | (857) | (831) |
| (Surplus) / Deficit | (62) | 171 | 109 | 42 |

Table 15 PUBLICITY

The following table provides the disclosure of information required under section 5 of the Local Government Act, 1986:

| | 2003/04 | 2002/03 |
|-------------------|------------|------------|
| | £000 | £000 |
| Staff Advertising | 600 | 710 |
| Public Notices | 33 | 31 |
| Other | 142 | 164 |
| Total | 775 | 905 |

Table 16 SERVICES PROVIDED TO OTHER LOCAL AND PUBLIC BODIES

The Council provided the following services to other bodies in 2003/04 under the Local Authority (Goods and Services) Act 1970:

The Transport Services Section provides a service to the London Borough of Ealing in respect of the fleet management and maintenance of their vehicles. In 2003/04 the Council received income of £391,997 for this service on expenditure of £362,810.

The South West Middlesex Crematorium Board is a joint Board established by Act of Parliament and made up of elected members from five constituent authorities. The London Borough of Richmond upon Thames provides various administrative services to the Board including accountancy, creditors, payroll, legal and internal audit. The Board paid the Council an annual fee of £28,500 in 2003/04 which covered the costs of the services provided.

Table 17 AUDIT FEES

The Council incurred the following fees relating to external audit and inspection:

| | 2003/04 £000 | 2002/03 £000 |
|---|-----------------|-----------------|
| Fees payable to the Audit Commission in respect of external audit services carried out by the appointed auditor | 287 | 170 |
| Fees payable to the Audit Commission in respect of statutory inspection | 43 | 119 |
| Fees payable to the Audit Commission for the certification of grant claims and returns | 76 | 73 |
| Fees payable in respect of other services provided by the appointed auditor | 0 | 14 |

Other services provided by the appointed auditor in 2002/03 related to a long-term contract for the provision of IT support that the Council entered into in 2002/03. Fees in respect of external audit services include an accrual of £50k in 2003/04 in respect of costs associated with an objection.

Table 18 MINIMUM REVENUE PROVISION

The Local Government and Housing Act 1989 requires the Council to set aside a minimum provision from the Consolidated Revenue Account for the repayment of external debt, as follows:

| | 2003/04 £000 | 2002/03 £000 |
|--|-----------------|-----------------|
| Notional Calculation | | |
| MRP calculated as 4% of the Council's non-housing Credit Ceiling | 1,399 | 1,303 |
| Less adjustment for commuted loans | (1,022) | (1,102) |
| Minimum Revenue Provision to be made | 377 | 201 |
| Accounting Treatment | | |
| Actual MRP | 377 | 201 |
| Less depreciation | (4,706) | (4,094) |
| Charge to Revenue Account | (4,329) | (3,893) |

Table 19 PREMIUM PAID ON EARLY REPAYMENT OF DEBT

The Council's long-term debt is regularly reviewed and when there is economic advantage loans are repaid prematurely. Loans of £3.8million were repaid prematurely in 2003/04 attracting a premium of £1.072million. This cost is required to be shown in the Consolidated Revenue Account and is written off to the Provision for Credit Liabilities (PCL) as an appropriation from the Capital Financing Reserve.

Table 20 MEMBERS' ALLOWANCES

In accordance with the Local Government Act 2000, the Council has established a Members' Allowances Scheme. The scheme is a public document and sets out details of all allowances that are paid to Council Members. Changes to the scheme are made by full Council at its annual meeting. Further details of the scheme are available on request (see page 8). Payments made are as follows:

| | 2003/04 | 2002/03 |
|--|---------|---------|
| | £000 | £000 |
| The following amounts were paid as Members' Allowances | 675 | 656 |

Table 21 OFFICERS' EMOLUMENTS

Emoluments in excess of £50,000 were paid to the following number of officers:

| Salary Range | | Number of Officers | | | Number of Officers | | |
|--------------|------------|--------------------|----------|-------|--------------------|----------|-------|
| | | 2003/04 | | | 2002/03 | | |
| From £000 | To £000 | Non- Teaching | Teaching | Total | Non- Teaching | Teaching | Total |
| 50 | 60 | 19 | 22 | 41 | 14 | 10 | 24 |
| 60 | 70 | 6 | 6 | 12 | 9 | 7 | 16 |
| 70 | 80 | 6 | 2 | 8 | 4 | 1 | 5 |
| 80 | 90 | 5 | 0 | 5 | 2 | 0 | 2 |
| 90 | 100 | 2 | 0 | 2 | 1 | 0 | 1 |
| 100 | 110 | 2 | 0 | 2 | 0 | 0 | 0 |
| 110 | 120 | 0 | 0 | 0 | 1 | 0 | 1 |
| 120 | 130 | 0 | 0 | 0 | 0 | 0 | 0 |
| 130 | 140 | 1 | 0 | 1 | 0 | 0 | 0 |

Table 22 MATERIAL TRANSACTIONS WITH RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosures of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and re-distribution of non-domestic rates, and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with the government are as follows:

| Transactions with government | 2003/04 £000 | 2002/03 £000 |
|---|-----------------|-----------------|
| Receipts: | | |
| Revenue support grant | 36,342 | 22,602 |
| Share of non-domestic rates pool | 50,593 | 57,802 |
| Housing benefit subsidy | 34,848 | 33,487 |
| Council tax benefit subsidy | 8,346 | 6,935 |
| Service -related grants: | | |
| Education | 17,173 | 12,246 |
| Corporate services | 1,470 | 769 |
| Environmental services | 655 | 257 |
| Social services | 7,803 | 7,534 |
| Housing services | 9,235 | 7,477 |
| VAT recovery | 12,808 | 10,826 |
| Total receipts | 179,273 | 159,935 |
| Payments: | | |
| Contribution to non-domestic rates pool | 51,436 | 50,332 |
| VAT | 1,465 | 1,463 |
| Income tax | 15,773 | 14,257 |
| National Insurance | 12,756 | 10,330 |
| Total Payments | 81,430 | 76,382 |

Members of the Council have direct control over the Council's financial and operating policies. During the year Members of the Council were members of the following organisations with which the council had material transactions:

| Organisation | Nature of material transaction | Value 2003/04 | Value 2002/03 |
|----------------------------------|--|------------------|------------------|
| | | £000 | £000 |
| Association of London Government | Subscription paid | 122 | 109 |
| Audit Commission | Fees paid | 341 | 616 |
| Greater London Authority | Precept paid | 18,764 | 14,459 |
| Kingston NHS Hospital Trust | Payments | 46 | n/a |
| Local Government Association | Subscription paid | 46 | 43 |
| London Pension Fund Authority | Levy paid | 288 | 270 |
| Richmond Housing Churches Trust | Supported and other housing | 1,446 | 864 |
| Richmond Housing Partnership | Supported and other housing | 453 | 449 |
| West London Waste Authority | Levy paid | 4,944 | 4,575 |
| Richmond Theatre | Contingent Liability - see Table 45 for details. | | |

Voluntary organisations: It is the nature of local government that the majority of Council Members are heavily involved in the local community through various organisations such as voluntary bodies, societies, groups etc., often as an appointed Council representative. Members' interests are formally disclosed in a register of interests, and the relevant Cabinet Member approves the amount of grant aid awarded to voluntary organisations annually. Both the register of Members' Interests and schedule of grant aid are public documents and further details are available on request. These transactions are not regarded as material and are not separately disclosed in this note.

Senior officers of the Council in a position to influence significantly the policies of the Council held no positions of influence with any potential related parties.

The Pension Fund is a separate entity from the Council with its own statement of accounts and balance sheet. The following material transactions took place between the Council and the Pension Fund in 2003/04:

| | <u>£000</u> | <u>£000</u> |
|---|-------------|-------------|
| Payments: | | |
| Pension contributions from the Council - employers' contributions | 6,968 | |
| Pension contributions from employees - deductions paid over | 2,562 | |
| Interest | <u>78</u> | |
| | | 9,608 |
| Receipts | | |
| Indirect support costs recovered from the pension fund | | (353) |

Based upon the Register of Members' Interests, agendas and minutes of Council meetings and individual declarations by members and senior officers in respect of related party interests, no other related party transactions took place in 2003/04

HOME LOANS UNIT ACCOUNTS

In 1988 the Council took over the responsibility for the ex-GLC mortgage portfolio. The details of the transfer of this function and the terms on which the Council undertakes the function are set out in the London Government Reorganisation (Mortgages) Order 1988, SI 1988 (1747). The Council administers these loans on behalf of all London Boroughs and distributes any surpluses from the operation of the loan portfolio to the boroughs annually. As no new advances are made, the redemption of existing mortgages will eventually extinguish this account.

Table 23 REVENUE ACCOUNT

| | 2003/04 | 2002/03 |
|--|---------------------|---------------------|
| | <u>£000</u> | <u>£000</u> |
| Income | | |
| Interest Due | | |
| On advances to mortgagors | (131) | (230) |
| On temporary investments | (85) | (232) |
| Other Income | | |
| Insurance commission - buildings | (46) | (66) |
| Insurance commission - other | (132) | (187) |
| Rents | (74) | (80) |
| Miscellaneous (fees, charges, recharges) | (57) | (61) |
| | <u>(525)</u> | <u>(856)</u> |
| Expenditure | | |
| Employees | 114 | 139 |
| Premises | 27 | 26 |
| Supplies and services | 42 | 46 |
| Central support costs | 34 | 33 |
| Agency and contracted services | 2 | 5 |
| Capital financing costs | 171 | 475 |
| | <u>390</u> | <u>724</u> |
| Write-Back of Suspense Balance | | (11) |
| Surplus | <u>(135)</u> | <u>(143)</u> |
| Appropriation of Surplus | | |
| Balance brought forward | (146) | (303) |
| Surplus for the year | (135) | (143) |
| Distribution to London Boroughs | 145 | 300 |
| Balance carried forward | <u>(136)</u> | <u>(146)</u> |

Table 24 BALANCE SHEET

| | 2003/04 | | 2002/03 | |
|--------------------------------------|-------------|-----------------------|-------------|-----------------------|
| | £000 | £000 | £000 | £000 |
| Long Term Assets | | | | |
| Deferred Debtors | | 1,006 | | 2,118 |
| Current Assets | | | | |
| Temporary Investments | | 20 | | 5,024 |
| Sundry Debtors | | 831 | | 918 |
| Cash and Bank | | 309 | | 333 |
| | | <u>2,166</u> | | <u>6,275</u> |
| Long Term Liabilities | | | | |
| Loans Outstanding | | 0 | | (5,000) |
| Current Liabilities | | | | |
| Sundry Creditors | (309) | | (398) | |
| Bank Overdrawn | <u>(89)</u> | <u>(398)</u> | <u>(55)</u> | <u>(453)</u> |
| Provisions | | <u>(220)</u> | | <u>(220)</u> |
| Total Assets less Liabilities | | <u>1,548</u> | | <u>2,720</u> |
| Other Balances | | | | |
| Deferred Capital Receipts | | (1,299) | | (2,304) |
| Revenue Account | | (136) | | (146) |
| Appropriation Account | | <u>(113)</u> | | <u>(270)</u> |
| | | <u>(1,548)</u> | | <u>(2,720)</u> |

NOTES TO THE HOME LOANS UNIT ACCOUNTS

Capital Receipts

Amounts are transferred from the deferred capital receipts account to capital receipts unapplied on the basis of amounts due. The amount received is transferred to the Appropriation Account for distribution.

Loan Repayments

The loans outstanding at 31st March 2003 in the Balance Sheet are outstanding PWLB loans for which the Home Loans Unit is responsible. Interest on these loans was charged to the Revenue Account. These loans were repaid in 2003/04

Table 25 CAPITAL DISTRIBUTION

| | 2003/04 | 2002/03 |
|--|---------------------|---------------------|
| | £000 | £000 |
| Balance brought forward | (270) | (210) |
| Surplus for the year | <u>(1,108)</u> | <u>(1,860)</u> |
| | (1,378) | (2,070) |
| Amounts distributed to London Boroughs | <u>1,265</u> | <u>1,800</u> |
| Balance carried forward | <u>(113)</u> | <u>(270)</u> |

COLLECTION FUND

Table 26 COLLECTION FUND – INCOME AND EXPENDITURE ACCOUNT

| | 2003/04 | 2002/03 |
|---|------------------|------------------|
| | £000 | £000 |
| Income | | |
| Income from Council Tax | (97,780) | (84,800) |
| Transfers from the General Fund: | | |
| Council Tax Benefits | (8,798) | (7,405) |
| Income collectable from business ratepayers | (52,680) | (51,247) |
| | (159,258) | (143,452) |
| Expenditure | | |
| Precepts: | | |
| Payment to LB Richmond Upon Thames | 87,281 | 76,766 |
| Payment to Greater London Authority | 18,763 | 14,459 |
| Business rate: | | |
| Payment to National Pool | 51,436 | 50,332 |
| Costs of Collection | 294 | 290 |
| Bad and doubtful debts and appeals: | | |
| Write offs CTAX | 368 | 187 |
| NNDR | 761 | 722 |
| Provisions CTAX | 109 | 282 |
| NNDR | 189 | (97) |
| Contributions - distribution of previous year's surplus | 1,307 | 471 |
| | 160,509 | 143,412 |
| Movement on Fund Balance | | |
| Net (Surplus)/Deficit for year | 1,251 | (40) |
| Balance Brought Forward at 1st April 2003 | (2,043) | (2,003) |
| Balance Carried Forward at 31st March 2004 | (792) | (2,043) |

NOTES TO THE COLLECTION FUND

There is a statutory requirement for billing authorities to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax, national non-domestic rates and any residual community charge.

Table 27 INCOME FROM NON-DOMESTIC RATES

| | 2003/04 | 2002/03 |
|---------------------------------------|---------------|---------------|
| | £000 | £000 |
| Total non-domestic rateable value | 137,423 | 136,077 |
| Non-domestic rate multiplier | 44.4 pence | 43.7 pence |
| Gross NNDR yield | 61,016 | 59,466 |
| Less allowances, reliefs etc. | (8,336) | (8,219) |
| Net Income collected from NNDR | 52,680 | 51,247 |

Table 28 COUNCIL TAX BASE

| Valuation Band | 2003/04 | | 2002/03 | |
|-------------------------------------|---|-------|---------------------------------|---------------------------------|
| | Number of Properties (after discounts and exemptions) | Ratio | Equivalent Band D Properties | Equivalent Band D Properties |
| A* | 1 | 5/9 | 1 | 1 |
| A | 475 | 6/9 | 317 | 291 |
| B | 1,577 | 7/9 | 1,227 | 1,194 |
| C | 9,483 | 8/9 | 8,429 | 8,199 |
| D | 16,792 | 9/9 | 16,792 | 16,339 |
| E | 17,420 | 11/9 | 21,291 | 20,885 |
| F | 10,526 | 13/9 | 14,809 | 14,445 |
| G | 11,021 | 15/9 | 18,368 | 18,173 |
| H | 2,616 | 18/9 | 5,232 | 5,037 |
| | | | 86,466 | 84,564 |
| Less Adjustment for Collection Rate | | | (1,513) | (1,480) |
| Plus Ministry of Defence Properties | | | 47 | 72 |
| Council Tax Base | | | 85,000 | 83,156 |

Note Band A* attracts disabled relief

Table 29 PRECEPTS ON THE COLLECTION FUND

| | 2003/04 | 2002/03 |
|---|----------------|---------------|
| | £000 | £000 |
| The following authorities made precepts on the Collection Fund: | | |
| London Borough of Richmond upon Thames | 87,281 | 76,766 |
| Greater London Authority | 18,763 | 14,459 |
| Total | 106,044 | 91,225 |

CONSOLIDATED BALANCE SHEET

Table 30 CONSOLIDATED BALANCE SHEET

| | NOTES | 2003/04 | | 2002/03 |
|---|------------|----------|------------------|------------------|
| | | £000 | £000 | £000 |
| Fixed Assets | | | | |
| Operational Assets | 36 | | | |
| Land and Buildings | | 414,808 | | 290,928 |
| Vehicles, plant, furniture and equipment | | 215 | | 188 |
| Infrastructure Assets | | 32,802 | | 27,717 |
| Community Assets | | 3,961 | 451,786 | 2,654 |
| Non-operational Assets | | | 22,872 | 19,486 |
| Total Fixed Assets | | | 474,658 | 340,973 |
| Deferred Charges | 32 | | 363 | 384 |
| Long Term Investments | 41 | | 3,888 | 3,888 |
| Long Term Debtors | 40 | | 8,644 | 11,271 |
| Total Long Term Assets | | | 487,553 | 356,516 |
| Current Assets | | | | |
| Stocks and Work in Progress | | | 235 | 269 |
| Debtors (net of provisions) | 39 & 44 | | 15,733 | 16,403 |
| Investments | 41 | | 75,672 | 64,267 |
| Total Assets | | | 579,193 | 437,455 |
| Current Liabilities | | | | |
| Temporary Borrowing | | (730) | | (7,442) |
| Creditors | 39 | (23,156) | | (24,955) |
| Cash and Bank (overdrawn) | | (12,209) | (36,189) | (6,028) |
| Total Assets less Current Liabilities | | | 543,098 | 399,030 |
| Long Term Liabilities | | | | |
| Long Term Borrowing | 42 | (38,963) | | (41,598) |
| Liability related to Defined Benefit Pension Scheme | 47 | (93,300) | | (112,000) |
| Deferred Liabilities | | (33) | | (41) |
| Provisions | 44 | (8,615) | (140,911) | (9,005) |
| Total Assets less Liabilities | | | 402,187 | 236,386 |
| Represented By: | | | | |
| Fixed Asset Restatement Reserve | 50 | | (302,048) | (177,339) |
| Capital Financing Reserve | 50 | | (130,219) | (119,926) |
| Government Grant Deferred | 50 | | (3,733) | (4,817) |
| Deferred Capital Receipts | 50 | | (2,156) | (3,299) |
| Usable Capital Receipts Reserve | 50 | | (14,034) | (11,096) |
| Pensions Reserve | 47,50 & 51 | | 93,300 | 112,000 |
| Earmarked Reserves | 50 | | | |
| Schools | 48 & 50 | (2,828) | | (2,378) |
| Home Loans Unit | 23 & 50 | (249) | | (416) |
| Collection Fund | 26 & 50 | (792) | | (2,043) |
| Other Earmarked Reserves | 50 | (28,075) | (31,944) | (20,143) |
| General Fund Reserve | 7 & 50 | | (11,353) | (6,929) |
| Total Net Worth | | | (402,187) | (236,386) |

NOTES TO THE CONSOLIDATED BALANCE SHEET

Table 31 SUMMARY OF CAPITAL EXPENDITURE AND FINANCING

| | 2003/04 | 2002/03 |
|--|---------------|---------------|
| | £000 | £000 |
| Capital Expenditure | | |
| Other Land and Buildings | 6,669 | 6,647 |
| Vehicles, Plant, Furniture and Equipment | 55 | 112 |
| Infrastructure Assets | 6,065 | 6,145 |
| Community Assets | 761 | 403 |
| Non-operational Assets | 374 | 0 |
| Deferred Charges | 5,279 | 5,919 |
| Total Expenditure | 19,203 | 19,226 |
| Financing | | |
| Borrowing Approvals | 3,677 | 1,017 |
| Capital Grants | 9,883 | 7,913 |
| Section 106 Planning Obligations | 707 | 42 |
| LSVT (transfer of housing stock) Receipt | 374 | 3,085 |
| Capital Receipts | 2,498 | 6,749 |
| Direct Revenue Funding | 827 | 106 |
| Contributions | 387 | 584 |
| Accruals | 850 | (270) |
| Total Financing | 19,203 | 19,226 |

Table 32 MOVEMENT IN DEFERRED CHARGES

Deferred charges arise from capital expenditure that does not give rise to the creation of an asset. Improvement Grants and Housing Association Grants create or enhance assets that are not owned by the Council.

All deferred charges are written off in the year that they arise except premiums on the premature redemption of PWLB loans before 1st April 2001 for which premiums are written off over the period of the loans taken out to replace the redemption.

| | Balance at 1st April 2003 | Net Expenditure 2003/04 | Written Off 2003/04 | Balance at 31st March 2004 |
|--------------------------------------|------------------------------|-------------------------------|------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 |
| Improvement Grants | 0 | 1,429 | (1,429) | 0 |
| Grants to Housing Associations | 0 | 382 | (382) | 0 |
| Total Grants to third parties | 0 | 1,811 | (1,811) | 0 |
| PWLB Premium on Redemption | 384 | 21 | 0 | 363 |
| Other Expenditure: | | | | |
| Rent Allowances | 0 | 247 | (247) | 0 |
| Advances re: Richmond Theatre | 0 | 440 | (440) | 0 |
| Education - VA Schools | 0 | 2,061 | (2,061) | 0 |
| Education - PFI Schools | 0 | 18 | (18) | 0 |
| IT Software and Development | 0 | 361 | (361) | 0 |
| PSA Schemes | 0 | 233 | (233) | 0 |
| Mobile Air Quality Scheme | 0 | 244 | (244) | 0 |
| Implementing E-Govt | 0 | 299 | (299) | 0 |
| Non Allocable | 0 | 108 | (108) | 0 |
| | 384 | 5,843 | (5,822) | 363 |

Table 33 COMMITMENTS UNDER CAPITAL CONTRACTS

The following capital schemes had future spending commitments in excess of £0.5 million at 31st March 2004:

| Scheme | Outstanding Commitment | Total Value of Scheme | Estimated Completion |
|--------------------------|---------------------------|--------------------------|----------------------|
| | £000 | £000 | |
| Classrooms of the Future | 962 | 970 | March 2005 |
| Christ's School | 2,199 | 3,009 | September 2004 |

Table 34 INFORMATION ON ASSETS HELD AT 31ST MARCH

| Type of Asset: | 31 st March 2004 | 31 st March 2003 |
|---|-----------------------------|-----------------------------|
| Land and Property | | |
| Nursery schools | 1 | 1 |
| Primary schools | 22 | 22 |
| Secondary schools | 7 | 7 |
| Special schools | 2 | 2 |
| Child guidance centre | 1 | 1 |
| Youth and community centres | 5 | 5 |
| Libraries | 12 | 12 |
| Art galleries | 1 | 1 |
| Cemeteries | 6 | 6 |
| Golf course | 0 | 0 |
| Sports centres | 4 | 4 |
| Allotment land (including leased plots) | 27.54 hectares | 27.54 hectares |
| Swimming pools | 2 | 2 |
| Public halls | 4 | 4 |
| Offices | 12,420 m2 | 12,420 m2 |
| Public conveniences: | | |
| Conventional | 9 | 9 |
| Automatic | 5 | 5 |
| Depots | 1 | 1 |
| Day centres for older people | 10 | 10 |
| Under 5s' centres | 3 | 3 |
| Day centres for people with mental health needs | 3 | 3 |
| Residential units for people with learning difficulties | 2 | 2 |
| Children's home | 1 | 1 |
| Home for people with mental health needs | 1 | 1 |
| Garages | 130 | 130 |
| Hostels | 2 | 2 |
| Vehicles | 37 | 37 |
| Infrastructure | | |
| Roads | 397.7kms | 397.5kms |
| Bridges and other structures | 53 | 53 |
| Car parks | 27 | 27 |
| Community assets | | |
| Ornamental parks | 3 | 3 |
| Parks / recreation grounds | 17 | 17 |
| Sports grounds | 36 | 36 |
| Open spaces | 61 | 61 |
| Conservation Areas | 70 | 70 |

In addition to the above assets owned by the Council, there are 19 primary schools (13 Voluntary Aided and 4 PFI) and one secondary school (Voluntary Aided) that are used but not owned by the Council and are not included in the Council's assets.

Community assets have been reclassified in accordance with revised government planning guidance in PPG17.

Table 35 ASSETS HELD UNDER PFI CONTRACTS

The Council has entered into two PFI contracts for the provision of residential homes and primary schools. Under the terms of these contracts the assets do not vest to the Council until the end of the contracts. A long-term debtor is built up in the accounts, based on the annual proportion of the estimated asset value on vesting to the Council, net of depreciation. These are shown in the following table:

| | Primary Schools £000 | Residential Homes £000 | Total £000 | 2002/03 Total £000 |
|--|----------------------------|------------------------------|---------------|--------------------------|
| Estimated net Value of assets at the end of each contract | 7,684 | 10,991 | 18,675 | 12,418 |
| Amount, net of depreciation, recognised in 2003/04 as a long-term debtor | 375 | 314 | 689 | 361 |
| Cumulative amount, as at 31st March 2004, recognised in the accounts as a long term debtor | 780 | 503 | 1,283 | 595 |

ASSET VALUATION

The basis on which assets are valued in the balance sheet before depreciation is as follows:

Operational assets:

- Land and buildings are valued at open market value on existing use basis with the exception of certain specialised operational assets (mainly leisure centres & schools) where the evidence of market value for existing use may not be available and alternative use value has been used.
- Vehicles, plant and equipment are valued at historic cost.
- Infrastructure assets are valued at historic cost.
- Community assets are valued at historic cost.
- Non-operational assets are valued at open market value.

Assets valued on a market value basis are subject to a rolling five-year programme of valuations. These valuations are carried out by the Council's internal valuer, Peter Southcombe MRICS. A full simultaneous valuation of all assets has not been carried out since the capital financing regulations first required current valuations in April 1994.

Table 36 MOVEMENT IN FIXED ASSETS

| | Land & Buildings £000 | Vehicles, Plant & Equipment £000 | Non- Operational Assets £000 | Infra-structure Assets £000 | Community Assets £000 | Total £000 |
|--|-----------------------------|---|---------------------------------------|-----------------------------------|-----------------------------|----------------|
| Book Value at 1st April 2003 | 290,928 | 189 | 19,486 | 27,716 | 2,654 | 340,973 |
| Reclassifications | (3,587) | 10 | 3,030 | 0 | 547 | 0 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 |
| Enhancements | 6,669 | 55 | 375 | 5,821 | 760 | 13,680 |
| Disposals | 0 | 0 | (658) | 0 | 0 | (658) |
| Revaluations | 124,587 | (10) | 791 | 0 | 0 | 125,368 |
| Depreciation in 2003/04 | (3,789) | (29) | (152) | (735) | 0 | (4,705) |
| Book Value at 31st March 2004 | 414,808 | 215 | 22,872 | 32,802 | 3,961 | 474,658 |
| Depreciation at 1st April 2003 | 10,555 | 851 | 263 | 1,387 | 0 | 13,053 |
| Depreciation in 2003/04 | 3,789 | 29 | 152 | 735 | 0 | 4,705 |
| Depreciation at 31st March 2004 | 14,344 | 880 | 415 | 2,122 | 0 | 17,761 |

DEPRECIATION OF ASSETS

Assets other than land and community assets are written down for depreciation on a straight-line basis over their estimated life. These lives are assessed on an individual basis for vehicles, plant and equipment, and on a standard basis for other classes of assets, as follows:

Operational assets

- Buildings are depreciated over the period of their useful life.
- Infrastructure assets are depreciated over 40 years.
- Community assets are not depreciated

Non-operational assets are depreciated over the period of their useful life.

No formal impairment review is undertaken but annual checks are carried out for any known material changes in the value or usefulness of assets. There were no material changes reported for 2003/04.

Table 37 PROVISION FOR CREDIT LIABILITIES

Under the Local Government and Housing Act 1989, the Council is required to set aside a provision for credit liabilities and to disclose them in the following memorandum account. The following table shows the movement in credit liabilities in the financial year.

| | 2003/04 | 2002/03 |
|---|---------------|---------------|
| | £000 | £000 |
| Balance at 1st April 2003 | 72,770 | 89,274 |
| Movements in Year: | | |
| Reserved Capital Receipts | 6,371 | 6,860 |
| Minimum Revenue Provision for Debt Redemption | 377 | 201 |
| Debt Premium | (1,072) | (8,454) |
| Debt Redeemed | (5,750) | (15,111) |
| Balance at 31st March 2004 | 72,696 | 72,770 |

Table 38 ANALYSIS OF FIXED ASSETS

| | 2003/04 | 2002/03 |
|------------------|----------------|----------------|
| | £000 | £000 |
| General Fund | 474,433 | 340,785 |
| Trading Accounts | 225 | 188 |
| | 474,658 | 340,973 |

Table 39 ANALYSIS OF DEBTORS AND CREDITORS

Total Debtors and Creditors outstanding at 31st March 2004. In the Balance Sheet debtors are shown net of provisions for bad debts.

| | 31 st March 2004 | |
|---|-----------------------------|-----------------|
| | Debtors £000 | Creditors £000 |
| Collection Fund | 4,472 | (2,941) |
| General Fund | 20,685 | (20,215) |
| Total | 25,157 | (23,156) |
| Of which the following amounts were due to or from: | | |
| Central Government | 4,096 | (2,073) |
| Other | 21,061 | (21,083) |
| Total | 25,157 | (23,156) |

TABLE 40 ANALYSIS OF LONG TERM DEBTORS

| Type of Debt | 2003/04 | 2002/03 |
|--|--------------|---------------|
| | £000 | £000 |
| Mortgages | 1,925 | 5,016 |
| PFI Schemes - Deferred Consideration | 5,102 | 5,303 |
| PFI Schemes - Long Term Debtors | 1,283 | 595 |
| Car Loans | 271 | 290 |
| Loan to South West Middlesex Crematorium Board | 63 | 67 |
| | 8,644 | 11,271 |

Table 41 INVESTMENTS

Surplus funds are invested by the Council to maximise returns on cash. These investments are made directly by the Council and partly by Fund Managers. The two Fund Managers are INVESTEC Fund Managers and Morley Fund Managers who manage investments of similar size.

Investments made directly by the Council are all loans. The long term investment is an historic fixed term loan to another local authority that matures in 2012.

Fund Managers have discretion, under the terms of their mandates, to invest in a variety of instruments including Certificates of Deposit (CDs) and Gilts.

| | 2003/04 | 2002/03 |
|---|---------------|---------------|
| | £000 | £000 |
| Long Term Investment | | |
| Fixed Term Loan to a Local Authority | 2,250 | 2,250 |
| Gilt Investment (Fund Manager) - redemption over 364 days | 1,638 | 1,638 |
| | 3,888 | 3,888 |
| Short Term Investment | | |
| Investments made directly by the Council (loans) | 43,769 | 33,306 |
| Investments made by Fund Managers | 31,903 | 30,961 |
| | 75,672 | 64,267 |

Table 42 ANALYSIS OF LONG TERM BORROWING

| | 2003/04 | 2002/03 |
|----------------------------|---------------|---------------|
| | £000 | £000 |
| Category of lender: | | |
| PWLB – Fixed Rate | 19,348 | 19,348 |
| PWLB – Variable Rate | 14,500 | 14,500 |
| Market Loans | 3,500 | 7,250 |
| Other | 1,615 | 500 |
| | 38,963 | 41,598 |
| Maturity: | | |
| Between 1 and 2 years | 1,615 | 0 |
| Between 2 and 5 years | 8,500 | 7,500 |
| Between 5 and 10 years | 11,000 | 14,500 |
| Over 10 years | 17,848 | 19,598 |
| | 38,963 | 41,598 |

Table 43 INSURANCES

The Council has the following insurance policies with material excess limits:

| Policy | Excess | |
|----------------------|-----------------|-----------------|
| | 2003/04 £000 | 2002/03 £000 |
| Property | 100 | 100 |
| Public Liability | 100 | 100 |
| Employers' Liability | 100 | 100 |
| Vehicles | 139 | 139 |
| Terrorism | 100 | 100 |

The Council maintains an Insurance Fund for uninsured risks. The Fund is recognised generally as a reserve except for that value of the Fund that relates to the amount of existing and undischarged claims that will, with reasonable certainty, give rise to expenditure by the Council. This element of the Fund is recognised as a provision. The total value of the Insurance Fund and the values that are recognised as a reserve and a provision at the balance sheet date are:

| | 2003/04 £000 | 2002/03 £000 |
|-----------------------------|-----------------|-----------------|
| Total Insurance Fund | 3,052 | 2,887 |
| Provisions | 1,632 | 1,545 |
| Reserves | 1,420 | 1,342 |

Table 44 MOVEMENTS IN PROVISIONS

| DESCRIPTION / PURPOSE | Balance at 1st April 2003 | Provision Made | Provision Used | Balance at 31st March 2004 |
|---|------------------------------|-------------------|-------------------|----------------------------------|
| | £000 | £000 | £000 | £000 |
| Provision for bad Debts | (10,975) | (1,418) | 2,969 | (9,424) |
| Section 106 Provision | (5,054) | (1,280) | 1,461 | (4,873) |
| Insurance Fund Provision for Outstanding Claims | (1,544) | (1,632) | 1,544 | (1,632) |
| Section 117 Provision | (1,500) | 0 | 78 | (1,422) |
| Excluded Pupils | (182) | (211) | 182 | (211) |
| Home Loans Unit | (220) | 0 | 0 | (220) |
| Other Social Services Provisions | (505) | (13) | 261 | (257) |
| | (19,980) | (4,554) | 6,495 | (18,039) |

The provision for bad debts is netted off against debtors in the Balance Sheet as an estimate of the reduction in the value of outstanding debts at 31st March.

A number of Provisions and Reserves have been reviewed and reclassified in 2003/04 in order to ensure that Provisions comply fully with the requirements in FRS12. Details of these reclassifications are set out in Table 52 on page 35.

Details of the provisions set out in Table 44 are as follows:

Section 106 Provision: Section 106 obligations are entered into as part of the planning process. Where developers make payments to the Council under Section 106 agreements, the Council is obligated to carry out works that were deemed necessary for planning permission to be given. The payments received are held as a provision and used to pay for the subsequent works in discharge of the Council's obligation.

Insurance Fund: In common with most local authorities, the Council operates an Insurance Fund as a means of self-insurance. The Fund is regularly valued by external assessors to ensure that it is maintained at an appropriate level, sufficient to meet claims on a 'worst year in nine' basis. The Insurance Fund is held as a reserve (see Table 50) except that part of the Fund that relates to claims made upon the fund and outstanding at 31st March. The value of these claims is held as a provision to meet future expenditure that the Fund is likely to incur in meeting the claims.

Section 117: Along with a number of other local authorities, the Council is subject to a legal ruling by the High Court and Court of Appeal that made it unlawful for local authorities to charge clients for after-care placements made under s117 of the Mental Health Act 1983. The provision represents the best current estimate of the potential restitution costs in respect of repayments of charges previously paid by clients and now deemed unlawful.

Excluded Pupils: Excluded pupils that are placed in alternative accommodation in other Authorities' schools are subject to future retrospective claims for Formula Funding. A provision has been established to meet claims that are anticipated after 31st March.

Home Loans Unit: The Council operates the Home Loans Unit on behalf of all London Boroughs. A provision has been established for future disbursements to these Boroughs arising from past transactions.

Other Provisions: The council maintains six provisions within the Social Services service area that relate to funds received from third parties to finance expenditure in specific service areas after 1st April 2004. The Council has a constructive obligation to incur the particular expenditure for which funds have been received.

Table 45 CONTINGENT ASSETS AND LIABILITIES

The Council is party to an agreement under which it guarantees annual lease rental payments in respect of Richmond Theatre that are due to Royal Bank of Scotland (Industrial Leasing) Limited and payable by Ambassadors Theatre Group. The agreement commenced in 1999 and the final payment is due on 31st March 2013. This agreement supersedes a previous loan guarantee that ran from 1992 to 1999 and has been discharged.

Up to 31st March 2004 the council has paid £1.6 million under the loan guarantee agreement and £2.4 million under the lease rental guarantee agreement. Total future lease rentals, for which the Council may be liable, total £6.4 million of which £514,000 is due in 2004/05. The present value of the total future contingent liability is £5.3 million. The Council has made provision in its medium term financial plan to accommodate this potential expenditure.

The Council has a number of potential claims in respect of refunds of fees paid by clients under s117 of the Mental Health Act 1983. A provision of £1.5 million has been made to meet potential claims based on the latest available information. In view of the number, length and complexity of claims it is possible that this provision may need to be adjusted in the future.

Other than PFI assets, referred to in Table 35, there are no other contingent assets or liabilities at 31st March 2004.

Table 46 TRUST FUNDS

The Council acts as sole trustee for a number of Trust Funds. The assets of these Trusts are not included in the Consolidated Balance Sheet.

| Fund | Balance at 1st April 2003 £ | Income £ | Expenditure £ | Balance at 31st March 2004 £ |
|---------------------------|--|---------------------|--------------------------|---|
| Riverside House | 0 | 1,404,217 | 0 | 1,404,217 |
| Endres Bequest Trust Fund | 64,864 | 2,170 | (650) | 66,384 |
| Richmond Chapel | 121,871 | 10,074 | 0 | 131,945 |
| Other minor Trust Funds | 15,962 | 21,397 | (10,486) | 26,873 |
| | 202,697 | 1,437,858 | (11,136) | 1,629,419 |

Riverside House

The site of Orleans Gallery, Riverside House, Garden Cottage and the River Lawn were transferred to the Council as part of the Ionides bequest in 1963. The leaseholder of Riverside House served notice to purchase the freehold of the property and this transaction was completed in 2003/04 and the proceeds paid into an earmarked Trust Fund. The Trust Fund includes the receipt from the sale of Riverside House and the rental income from Garden Cottage.

Endres Bequest

This Trust was established to provide funds for the exchange of cultural and educational values between the residents of Richmond and other countries.

Richmond Chapel

This Trust was established by the proceeds from the sale of the chapel and the interest generated is used to maintain the grounds around the area.

The assets of these funds are held as cash balances with the Council and there are no other assets or liabilities attached to these funds as at 31st March 2004.

Table 47 PENSION LIABILITIES / ASSETS

Table 8 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pensions Scheme (LGPS), administered by the Council through its Pension Fund, and the Teachers Pension scheme. Details of the Pension Fund and the actuarial position are set out in notes to the Consolidated Revenue Account and the Pension Fund Accounts.

The underlying assets and liabilities for retirement benefits attributable to the authority at 31st March are as follows:

| | 31 st March 2004 | 31 st March 2003 |
|---------------------------------|-----------------------------|-----------------------------|
| | £000 | £000 |
| Estimated liabilities in scheme | (282,100) | (264,900) |
| Estimated Assets in Scheme | 188,800 | 152,900 |
| Net asset/(liability) | (93,300) | (112,000) |

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The total liability of £93.3m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a reduction in net worth to £402m. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The LGPS Fund liabilities have been assessed by Hyman Robertson, an independent firm of actuaries, estimates for the Council Fund being based on the latest full valuation of the scheme as at 31st March 2001.

The main assumptions used in their calculations have been:

| | 31 st March 2004 | 31 st March 2003 |
|---|-----------------------------|-----------------------------|
| | £000 | £000 |
| Rate of inflation | 2.9% | 2.5% |
| Rate of increase in salaries | 4.4% | 4.0% |
| Rate of increase in pensions | 2.9% | 2.5% |
| Rate for discounting scheme liabilities (NB based on 3.5% real) | 6.5% | 6.1% |
| The amount of any material prepaid or accrued pension Contributions at balance sheet date | Nil | Nil |

Assets held by the pension fund

| | 31 st March 2004 | | | 31 st March 2003 | | |
|--------------|-----------------------------|--------------------|-------------------------|-----------------------------|--------------------|-------------------------|
| | Value | Asset Distribution | Expected Rate of Return | Value | Asset Distribution | Expected Rate of Return |
| | £000 | % | % | £000 | % | % |
| Equities | 140,900 | 74.6 | 7.7 | 106,972 | 70.0 | 8 |
| Bonds | 24,500 | 13.0 | 5.1 | 23,456 | 15.3 | 4.8 |
| Property | 17,000 | 9.0 | 6.5 | 17,259 | 11.3 | 6 |
| Cash | 6,400 | 3.4 | 4 | 5,213 | 3.4 | 4 |
| Total | 188,800 | 100.0 | | 152,900 | 100.0 | |

Explanation of Change from 31st March 2003:

The improvement in funding levels experienced during the year shown under FRS17 for March 2003 is down to a combination of the following factors.

Liabilities -

The liabilities of an employer are the future pension payments already promised to be paid to any member of the scheme – this includes current pensioners, deferred pensioners and those members currently paying contributions into the fund and accruing additional pension. In valuing these liabilities, the actuary makes various assumptions about future financial events – principally investment return, salary growth and inflation. For Local Authorities the actuary uses a rate of return that is prescribed by the Government Actuary's Department. This is currently a fixed discount rate of 6.5%, unchanged from last year.

The liabilities are also expected to increase over time to reflect both the fact that the future pension payments are one year closer and also that any active members are still contributing to the scheme and accruing further benefits.

Assets -

Richmond's Pension fund is predominately invested in equities. In the year since 31st March 2003, equity markets have risen by around 30%. Richmond's pension fund has achieved an estimated return of around 23% for the year.

Table 48 SCHOOLS' BALANCES

Schools are able to carry forward balances on their delegated budgets from one financial year to the next. Prior to 1st April 2002 schools' delegated budgets were restricted to revenue expenditure, but from 1st April 2002 schools received capital funds, including devolved formula capital through the Standards Fund Grant from the DfES.

These balances are committed by the schools concerned to be spent on education purposes and are not available to the Council for any other use. They are, however, consolidated in the Council's accounts and are included in the Balance Sheet as an earmarked reserve.

| Schools' Balances | Revenue | Capital |
|--------------------------------------|--------------|------------|
| | £000 | £000 |
| Schools' balances at 1st April 2003 | 2,378 | 523 |
| Revenue balances accrued | 450 | 0 |
| Capital balances accrued | 0 | 223 |
| Schools' balances at 31st March 2004 | 2,828 | 746 |

Schools' capital balances are held in Government Grants Deferred in the Consolidated Balance Sheet

The following analysis shows the range of the value of Schools' balances

| | 31 st March 2004 £000 | 31 st March 2003 £000 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Range of size of revenue balances: | | |
| Largest Overdrawn Balance | 115 | 174 |
| Largest Surplus Balance | (205) | (214) |
| Range of size of capital balances: | | |
| Largest Overdrawn Balance | 50 | 23 |
| Largest Surplus Balance | (105) | (69) |

Table 49 AMOUNTS DUE TO AND FROM RELATED PARTIES

Transactions with related parties are set out in Table 22. Amounts outstanding in respect of related parties at the year-end are set out in the following table:

| | Amount owed by the Related Party £000 | Amount owed to the Related Party £000 |
|---------------------------------|---|---|
| Audit Commission | 0 | 168 |
| Central Government: | | |
| Grants - Paid in advance | 0 | 1,959 |
| - Due | 3,718 | 0 |
| National Insurance | 0 | 17 |
| Income Tax | 7 | 97 |
| VAT | 371 | 0 |
| Total Central Government | 4,096 | 2,073 |
| Total | 4,096 | 2,241 |

EURO COSTS

The Council made no expenditure during the financial year, nor had any outstanding commitments at 31st March 2004 specifically in respect of the possible adoption of the Euro as the UK's currency.

TOTAL MOVEMENT IN RESERVES

The following statement brings together all the recognised gains and losses of the Council during the financial year.

Table 50 STATEMENT OF TOTAL MOVEMENT IN RESERVES

| | Balance at 1st April 2003 | Net (Surplus)/ Deficit | Revaluation (Gains)/ Losses | Effects of Disposals (Gains)/ Losses | Financing of Fixed Assets | Balance at 31st March 2004 |
|------------------------------------|------------------------------|---------------------------|--------------------------------|--|------------------------------|-------------------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Capital Reserves | | | | | | |
| Fixed Asset Restatement Reserve | (177,339) | 0 | (125,369) | 660 | 0 | (302,048) |
| Capital Financing Reserve | (119,926) | 0 | 0 | 0 | (10,293) | (130,219) |
| Government Grant Deferred | (4,817) | 0 | 0 | 0 | 1,084 | (3,733) |
| Deferred Capital Receipts | (3,299) | 0 | 0 | 1,163 | (20) | (2,156) |
| Usable Capital Receipts Reserve | (11,096) | 0 | 0 | (5,809) | 2,871 | (14,034) |
| TOTAL CAPITAL RESERVES | (316,477) | 0 | (125,369) | (3,986) | (6,358) | (452,190) |
| Earmarked Revenue Reserves | | | | | | |
| PFI Credit Reserve | (1,470) | (1,679) | 0 | 0 | 0 | (3,149) |
| Collection Fund | (2,043) | 1,251 | 0 | 0 | 0 | (792) |
| Home Loans Unit | (416) | 167 | 0 | 0 | 0 | (249) |
| Schools - Balances carried forward | (2,378) | (450) | 0 | 0 | 0 | (2,828) |
| General Insurance Reserve | (1,342) | (78) | 0 | 0 | 0 | (1,420) |
| Infrastructure Reserve | (9,583) | (1,226) | 0 | 0 | 0 | (10,809) |
| Project Development Reserve | (2,000) | (347) | 0 | 0 | 0 | (2,347) |
| Renewal and Repairs Reserve | (1,000) | (2,337) | 0 | 0 | 0 | (3,337) |
| Social Housing Reserve | (1,300) | 0 | 0 | 0 | 0 | (1,300) |
| IT Systems | (521) | (14) | 0 | 0 | 0 | (535) |
| IEG Reserve | 0 | (107) | 0 | 0 | 0 | (107) |
| Carry Forwards Reserve | (1,002) | (1,535) | 0 | 0 | 0 | (2,537) |
| Loss of Government Grant Reserve | (300) | (200) | 0 | 0 | 0 | (500) |
| Pension Reserve | 112,000 | 1,880 | (20,580) | 0 | 0 | 93,300 |
| Other Earmarked Reserves | (1,625) | (409) | 0 | 0 | 0 | (2,034) |
| General Revenue Reserves | | | | | | |
| General Fund Reserve | (6,929) | (4,424) | 0 | 0 | 0 | (11,353) |
| TOTAL REVENUE RESERVES | 80,091 | (9,508) | (20,580) | 0 | 0 | 50,003 |
| TOTAL RESERVES | (236,386) | (9,508) | (145,949) | (3,986) | (6,358) | (402,187) |

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES

TABLE 51 PENSION FUND

The actuarial gains identified as movements 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 31st March 2004:

| | Local Government Pension Scheme | | | |
|---|---------------------------------|-------------------------|-----------------------------|-------------------------|
| | 31 st March 2004 | | 31 st March 2003 | |
| | £000s | As a % of Scheme Assets | £000s | As a % of Scheme Assets |
| Differences between the expected and actual return on assets | 24,300 | 13 | (49,700) | (26) |
| Differences between actuarial assumptions about liabilities and actual experience | (3,720) | (2) | (16,300) | (9) |
| Changes in the demographic and financial assumptions used to estimate liabilities | 0 | 0 | 0 | 0 |
| | <u>20,580</u> | <u>11</u> | <u>(66,000)</u> | <u>(35)</u> |

A review of Reserves and Provisions was carried in 2003/04 to ensure that the accounting treatment was consistent with the SORP and FRS 12 requirements. As a result a number of Reserves and Provisions have been reclassified (corresponding balances at 31st March 2003 are also re-stated).

Table 52 RECLASSIFICATION OF RESERVES AND PROVISIONS

Previously Provisions Reclassified as Reserves:

| PURPOSE | 31 st March 2003 | 31 st March 2004 |
|---|-----------------------------|-----------------------------|
| | £000 | £000 |
| Repairs and Improvements to Buildings | 363 | 397 |
| Purchase and Maintenance of Equipment | 35 | 52 |
| PFI - Surplus Government Grant held to offset Deficits in Later Years | 1,470 | 1,926 |
| Balance of Government Grant held against Possible Future Loss of Income | 85 | 264 |
| Total | 1,953 | 2,639 |

Previously Reserves Reclassified as Provisions:

| PURPOSE | 31 st March 2003 | 31 st March 2004 |
|---|-----------------------------|-----------------------------|
| | £000 | £000 |
| Balances held in respect of the Cost of Excluded Pupils | 182 | 211 |
| Balances Received from Third Parties to whom the Council has Obligations to Incur Expenditure | 167 | 212 |
| Total | 349 | 423 |

Under the terms of FRS17 (Retirement Benefits) the Council is required to recognise the underlying net assets and liabilities for retirement benefits that are attributable to it at 31st March. These are set out on Table 47. The SORP requires the Council to set up a reserve that effectively offsets this net liability so as to avoid any effects on the Consolidated Revenue Account. This reserve is therefore not available to the Council to finance revenue expenditure.

With the exception of this Pension Reserve other earmarked revenue reserves available to the Council amount to some £31.3million at 31st March 2004, plus the General Fund Reserve. In addition to the specific reserves set out in Table 50 above, the Council has 26 separate revenue reserves that make up the 'Other Earmarked Reserves'.

The following Table analyses all usable revenue reserves in broad categories to provide some indication of the purposes for which they are held.

TABLE 53 ANALYSIS OF REVENUE RESERVES

| DESCRIPTION / PURPOSE | Balance at 1st April 2003 | Movement in year | Balance at 1st April 2004 | |
|---|---------------------------|------------------|---------------------------|-----------------|
| | £000 | £000 | £000 | £000 |
| Reserves that the Council holds but distribution is governed by Statute: | | | | |
| Collection Fund | (2,043) | 1,251 | (792) | |
| Home Loans Unit | (416) | 167 | (249) | (1,041) |
| Reserves outside the Council's direct control: | | | | |
| Schools' balances | (2,378) | (450) | | (2,828) |
| Reserves held to meet probable or certain future expenditure outside the Council's direct control: | | | | |
| PFI Credit Reserve | (1,470) | (1,679) | (3,149) | |
| General Insurance Reserve | (1,342) | (78) | (1,420) | (4,569) |
| Reserves earmarked for future capital expenditure including design & feasibility: | | | | |
| Infrastructure Reserve | (9,583) | (1,226) | (10,809) | |
| Project Development Reserve | (2,000) | (347) | (2,347) | |
| Renewal and Repairs Reserve | (1,000) | (2,337) | (3,337) | |
| Social Housing Reserve | (1,300) | 0 | (1,300) | (17,793) |
| Other Reserves Earmarked for investment in IT and E-Government | (521) | (121) | | (642) |
| Other reserves earmarked for repair and maintenance of buildings & infrastructure | (678) | (23) | | (701) |
| Other reserves earmarked for purchase and maintenance of vehicles, equipment etc. | (233) | (230) | | (463) |
| Other reserves earmarked for possible expenditure / loss of income outside the Council's control | (759) | (319) | | (1,078) |
| Other reserves earmarked for specific purposes within specific services | (256) | (36) | | (292) |
| Other reserves earmarked for specific services: | | | | |
| Carry Forwards earmarked Reserve | (1,002) | (1,535) | | (2,537) |
| Total Earmarked Reserves | (24,981) | (6,963) | | (31,944) |
| General Fund Reserve | (6,928) | (4,425) | | (11,353) |
| Total Usable Revenue Reserves | (31,909) | (11,388) | | (43,297) |
| Pension Reserve | 112,000 | (18,700) | | 93,300 |
| Total Revenue Reserves | 80,091 | (30,088) | | 50,003 |

CASH FLOW STATEMENT

Table 54 CASH FLOW STATEMENT

| | 2003/04 | | 2002/03 | |
|--|-----------|-----------------|----------|-----------------|
| | £000 | £000 | £000 | £000 |
| Revenue Activities | | | | |
| <i>Cash Outflows:</i> | | | | |
| Cash paid to, and on behalf of employees | 125,680 | | 114,711 | |
| Other operating cash payments | 137,282 | | 119,521 | |
| Housing benefit paid out | 46,121 | | 42,527 | |
| NNDR payments to the national pool | 51,436 | | 50,332 | |
| Precepts Paid | 18,763 | 379,282 | 14,530 | 341,621 |
| <i>Cash Inflows</i> | | | | |
| Rents | (7,105) | | (5,598) | |
| Council tax receipts | (106,578) | | (92,183) | |
| NNDR receipts from the national pool | (50,593) | | (57,802) | |
| Non-domestic rate receipts | (51,436) | | (50,332) | |
| Revenue support grant | (36,342) | | (22,603) | |
| DSS grants for benefits | (44,296) | | (40,446) | |
| Other government grants | (31,813) | | (27,805) | |
| Cash received for goods and services | (62,420) | (390,583) | (65,288) | (362,057) |
| Net cash flow from Revenue Activities | | (11,301) | | (20,436) |
| Returns on Investments and Servicing of Finance | | | | |
| <i>Cash Outflows:</i> | | | | |
| Interest paid | 4,776 | | 6,094 | |
| <i>Cash Inflows:</i> | | | | |
| Interest received | (3,079) | 1,697 | (3,285) | 2,809 |
| Capital Activities | | | | |
| <i>Cash Outflows:</i> | | | | |
| Purchase of fixed assets | 13,924 | | 13,306 | |
| Other capital cash payments | 6,351 | | 16,366 | |
| Total capital outflows | 20,275 | | 29,672 | |
| <i>Cash Inflows:</i> | | | | |
| Sale of fixed assets | (12,365) | | (14,892) | |
| Capital grants received | (12,876) | | (8,780) | |
| Total capital inflows | (25,241) | (4,966) | (23,672) | 6,000 |
| Net Cash Inflow before Financing | | (14,570) | | (11,627) |
| Management of Liquid Resources | | | | |
| Net increase/(decrease) in short term deposits | | 11,405 | | (12,482) |
| Financing | | | | |
| <i>Cash Outflows:</i> | | | | |
| Repayments of amounts borrowed | 10,750 | | 31,665 | |
| <i>Cash Inflows:</i> | | | | |
| New loans raised | (1,404) | 9,346 | (16,555) | 15,110 |
| Net (increase)/decrease in cash | | 6,181 | | (8,999) |

Liquid resources are comprised of short term asset investments that can be sold or converted into cash without any material impact or consequential effect, financial or otherwise, upon the Council.

Table 55 RECONCILIATION TO REVENUE CASHFLOW

| | 2003/04 | 2002/03 |
|--|-----------------|-----------------|
| | £000 | £000 |
| (Surplus) / Deficit | (5,154) | (3,412) |
| Change in stock | (35) | 65 |
| Change in debtors | 12 | (5,454) |
| Change in creditors | 1,403 | 1,144 |
| Change in provisions/reserves | (7,433) | (12,779) |
| Net cash flow from Revenue Activities | (11,207) | (20,436) |

Table 56 CASH AND CASH EQUIVALENTS

| | 1st April 2003 | Movement | 31st March 2004 |
|------------------------|----------------|--------------|-----------------|
| | £000 | £000 | £000 |
| Cash | (6,028) | (6,181) | (12,209) |
| Short term Investments | 64,267 | 11,405 | 75,672 |
| | 58,239 | 5,224 | 63,463 |

Table 57 RECONCILIATION OF FINANCING ITEMS

| | £000 | £000 |
|--|----------|-----------------|
| Balance at 31st March 2003 | | |
| Temporary borrowing | (7,442) | |
| Long term borrowing | (41,598) | (49,040) |
| Movement in year | | |
| Repayments of amounts borrowed | 10,750 | |
| New borrowing | (1,404) | 9,346 |
| Balance at 31st March 2004 | | |
| Temporary borrowing | (730) | |
| Long term borrowing | (38,963) | (39,693) |

Table 58 ANALYSIS OF GOVERNMENT GRANTS

| Grants Received in 2003/04 | £000 | £000 |
|-----------------------------------|--------------|----------------------|
| Education Grants | | |
| Education Support Grant | 2,013 | |
| Schools Standards Fund | 3,722 | |
| PFI | 1,991 | |
| Learning Skills Council | 1,449 | |
| Threshold Grant | 1,975 | |
| Other | <u>2,122</u> | 13,272 |
| Corporate Services | | |
| Council Tax Benefit | 8,346 | |
| Council Tax Other | 493 | |
| Benefits Administration Grant | 810 | |
| Other | <u>167</u> | 9,816 |
| Environmental Services | | |
| Planning Delivery Grant | 277 | |
| London Recycling Fund Claim | 308 | |
| Other | <u>63</u> | 648 |
| Social Services | | |
| Preserved Rights | 1,943 | |
| PFI | 1,048 | |
| Care Leavers Grant | 1,002 | |
| Building Capacity | 541 | |
| Performance Grant | 290 | |
| Mental Healthy Specific Grant | 451 | |
| Quality Protects | 502 | |
| Residential Allowance | 542 | |
| Carers Grant | 336 | |
| Other | <u>1,264</u> | 7,919 |
| Housing Services | | |
| Rent Allowances | 36,074 | |
| Asylum Seekers | 4,844 | |
| Supporting People | 3,237 | |
| Other | <u>299</u> | 44,454 |
| Total | | <u>76,109</u> |

PENSION FUND ACCOUNTS

Table 59 FUND ACCOUNT

| | 2003/04 | 2002/03 |
|--|------------------|------------------|
| | £000 | £000 |
| Fund Account | | |
| Contributions and benefits | | |
| Contributions Receivable | | |
| - from Employers | (10,057) | (8,843) |
| - from Employees or members | (3,493) | (3,204) |
| Contributions Received (Advanced Voluntary Contributions) | (478) | (367) |
| Transfers In | <u>(2,826)</u> | <u>(2,710)</u> |
| | (16,854) | (15,124) |
| Benefits Payable | | |
| - Pensions | 9,090 | 8,851 |
| - Lump Sums (including retirement and death grants) | 1,124 | 964 |
| Payments to and on account of Leavers | | |
| - Refunds of Contributions | 111 | 91 |
| - Transfers Out | 3,352 | 2,560 |
| Contributions Paid Over (AVCs) | 478 | 367 |
| Administrative and other Expenses borne by the Scheme | <u>404</u> | <u>406</u> |
| Net Additions/Withdrawals from Dealings with Members | (2,295) | (1,885) |
| Returns on Investments | | |
| Investment income | (6,061) | (5,519) |
| Change in market value of investments: | | |
| Realised | (455) | 11,448 |
| Unrealised | (36,232) | 42,080 |
| Investment management expenses | <u>643</u> | <u>547</u> |
| Net Returns on Investments | (42,105) | 48,556 |
| Net increase/decrease in the fund during the year | (44,400) | 46,671 |
| Opening net assets of the scheme (1st April 2003) | <u>(172,107)</u> | <u>(218,778)</u> |
| Closing net assets of the scheme (31st March 2004) | <u>(216,507)</u> | <u>(172,107)</u> |

Table 60 NET ASSET STATEMENT

| | 31 st March 2004 | 31 st March 2003 |
|---|-----------------------------|-----------------------------|
| | £000 | £000 |
| Investment Assets | | |
| Fixed Interest securities | | |
| - Public Sector | 4,543 | 4,228 |
| - Other | 0 | 42 |
| Equities | 128,110 | 108,585 |
| Index-linked Securities | 2,422 | 3,840 |
| Unit Trusts | | |
| -Property | 19,240 | 18,289 |
| - Other | 52,650 | 31,628 |
| Other Investments | 0 | 137 |
| | 206,965 | 166,749 |
| Net Current Assets and Liabilities | | |
| Debtors | 961 | 1,281 |
| Short Term Investments | 6,196 | 3,592 |
| Cash and Bank | 3,170 | 870 |
| | 10,327 | 5,743 |
| Creditors | (785) | (385) |
| | 9,542 | 5,358 |
| Total Net Assets | 216,507 | 172,107 |

NOTES TO THE PENSION FUND ACCOUNTS**FUND OPERATION AND MEMBERSHIP**

Employees of the Council are generally entitled to join an occupational pension scheme. Non-teaching staff can join the Local Government Pension Scheme (the LGPS). This scheme is a statutory scheme, and rules in respect of membership and benefits etc. are prescribed under regulation. The LGPS is a defined benefits scheme, in which members of the scheme make a contribution based on a percentage of pensionable salary, and on retirement receive a guaranteed, indexed-linked, pension based on their final pensionable salary and the period of scheme membership.

The scheme is administered locally by the Council through its Pension Fund, but the Fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The Council as the employer is responsible for collecting and paying over employee contributions to the Pension Fund. The Council makes the employer's contribution to the Fund and, under the rules of the scheme, these contributions have to be set at a level sufficient to meet the long-term obligations of the Fund. The Council is therefore effectively responsible for the financial liabilities of the Fund and, for this reason, the disclosure notes in respect of the financial position of the Fund are attributed to the Consolidated Revenue Account.

The role of the Pension Fund is to collect employees' and employers' contributions from the Council and the other admitted bodies, invest surplus funds and make payment of benefits out of the Fund. It is also responsible for making and receiving transfer payments for members joining and leaving the Fund. The Fund's accounts and disclosure notes reflect these responsibilities as opposed to those of the Council.

An annual report is made available for Fund members and this includes a summary of the Fund's accounts and investments. The report also includes the Statement of Investment Principles (SIP) that governs the investment activities of the Fund.

The Fund is administered by the London Borough of Richmond upon Thames, but also includes the employees of certain other bodies. Membership details as at 31st March 2004 are summarised in the table below:

Table 61 MEMBERSHIP OF THE PENSION FUND

| Fund Membership at 31st March 2004 | Contributors | Pensioners and Dependents |
|--|---------------------|----------------------------------|
| LBRUT (including Scheduled Bodies) | 2,908 | 2,376 |
| Former employees with preserved benefits | 2,065 | |
| Other bodies: | | |
| Association of District Councils | | 16 |
| Hampton School | 48 | 6 |
| Notting Hill Housing Trust | 4 | 5 |
| St. Mary's College | 138 | 57 |
| SW Middlesex Crematorium Board | 10 | 14 |
| Richmond CAB | 0 | 2 |
| Housing Organisations Mobility & Exchange Services | 16 | 2 |
| Council for Voluntary Services | 1 | 4 |
| Richmond upon Thames Music Trust | 5 | 1 |
| IRRV | 16 | 1 |
| Project for Children with Special Needs | 2 | 2 |
| St. Catherine's School | 10 | 0 |
| Museum of Richmond | 2 | 0 |
| Richmond Housing Partnership | 40 | 10 |
| Twining Enterprises | 8 | 1 |
| Mears Building Contractors Ltd | 9 | 3 |
| Former employees with preserved benefits | 125 | |
| | 5,407 | 2,500 |

Two firms managed the fund's investments during the financial year 2003/04, Henderson Global Investors and Schroder Investment Management Limited. The activities of the fund managers are supervised by the Investment Committee that consisted of the following members in 2003/04:

Councillor S. Lamb (Chairman)
 Councillor J. Elloy (Vice-Chairman)
 Councillor M. Hoskinson (*prior to November 2003*)
 Councillor S. Lourie (*from November 2003*)
 Councillor C. Percival
 Councillor A. Tresigne

In addition, the Committee's meetings were attended by:

Mr. D. Taylor/Mr. R. Wyatt (Henderson)
Mr. C. Crole/Mr B. Whitmore (Schroders)
Mr. R. Borland/Ms C. Gardner (Hymans Robertson & Co – Actuaries)

The Sub-Committee is responsible for ensuring that the Fund is protected against inflation and that there is sufficient cash to meet all present and future liabilities. They have decided on a spread of investments, the details of which are shown in the Net Asset Statement.

ACCOUNTING POLICIES

The Pension Fund Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2003 (the Statement of Recommended Practice, or SORP). The Fund Account is generally prepared on an income and expenditure basis. This means that funds receivable and payable by the Fund, whether or not the sum has been received or paid, are included in the accounts. Investment income (in respect only of dividends declared but not due) and transfers are the major exceptions to this policy, being accounted for on a cash basis.

From the start of the financial year 1997/98, the Council adopted the practice of paying capital contributions to the Pension Fund where premature retirement is granted on grounds of redundancy/efficiency or ill health. These payments represent the cost (calculated as a capital sum) of paying the scheme pension from the date of retirement to the date at which, in normal circumstances, it would have fallen due, and in 2003/04 amounted to £0.182m.

Transfer values are accounted for on a cash basis given the following:

- i) There is often a significant delay in obtaining from the transferring pension scheme details of the value due in respect of an employee (or, alternatively, in confirming that no transfer is due).
- ii) Transfers from the Fund, particularly when a non-local government scheme is involved, can be subject to delay. In these cases, the formula-based transfer value cannot be arrived at until the point at which the transfer is made.
- iii) The difference in using a cash rather than accruals basis for transfer values is not considered to be material.

Investment assets are shown at the mid market price at the close of business on 31st March 2004.

Property Unit Trusts are valued on the basis of net present value (LAMIT investment) and mid-value (i.e. the mid point between the bid/offer spread) for Schroder and Henderson property unit trusts

Investments denominated in currencies other than Sterling, are translated using the closing rate method.

The net effect of gains and losses arising from currency transactions undertaken in the course of the purchase or sale of non-Sterling denominated investments, and on the closure of currency futures contracts, is included within "Change in the market value of investments (Realised)" within the Fund Account, and in 2003/04 represented a net profit of £0.100m.

Unrealised gains and losses on any currency futures contracts held by the fund managers are not shown in the Net Asset Statement, but are recorded in the Fund Account upon settlement. At 31st March 2004, however, there were no open currency futures contracts held by either manager.

Investment management expense represent fees paid directly to external fund managers. All other expenses are included in "Administrative and Other Expenses". Fund management fees are payable on an ad valorem, "clean fee" basis. The fees disclosed in the accounts are fully adjusted to account for fees deducted at source from unitised investments i.e. these are represented in the disclosed figure.

The Pension Fund Accounts do not take into account any liabilities to pay pensions or other benefits after 31st March 2004. The notes to the Consolidated Revenue Account, Consolidated balance Sheet and Statement of Total Movement in Reserves are drawn up in accordance with FRS17 that includes an actuarial assessment of pension liabilities based on future retirement benefits that have been earned as at 31st March 2004.

PERFORMANCE AND ACTUARIAL POSITION

During 2003/04, the Fund showed a return of 25.0% on its assets compared with an average of 23.4% for all Local Authorities (using the WM Local Authority weighted average return, this being one of the main published comparative measures of pension fund performance).

The latest actuarial valuation of the fund was completed as at 31st March 2001. The results of the revaluation indicated that the actuarial value of the available assets of £237.1m were sufficient to cover 88.0% of the accrued liabilities.

The Council is required, however, to set employers' contributions rates such as to ensure that the Fund is sufficient to meet 100% of its liabilities. Contributions to the fund are, therefore, being made up over the future lifetime of existing employees to bring the funding level up to a fully solvent position. (This policy also applies to the scheduled bodies to the fund.)

The actuarial method used to determine the contribution rate required to meet liabilities accruing in the future is known as the Projected Unit Method. The principal financial assumptions adopted in the valuation were as follows:

| | |
|-----------------------------------|---|
| Investment Return - Equities (Av) | 6.5% p.a. |
| - Bonds (Av) | 5.5% p.a. |
| Salary Increases | 4.3% p.a. (plus an allowance for promotional increases) |
| Pension Increases | 2.8% p.a. |

Table 62 MARKET VALUE OF ASSETS UNDER MANAGEMENT

| Type of Asset | 31 st March 2004 | | | 31 st March 2003 | | |
|-------------------------------|-----------------------------|-------------------|----------------|-----------------------------|-------------------|----------------|
| | Schroders £000 | Henderson £000 | Total £000 | Schroders £000 | Henderson £000 | Total £000 |
| UK Investments | | | | | | |
| Listed | 71,133 | 65,567 | 136,700 | 57,175 | 52,810 | 109,985 |
| Unlisted | | | 0 | 10 | 0 | 10 |
| Foreign Investments | | | | | | |
| Listed | 36,738 | 29,801 | 66,539 | 27,515 | 25,600 | 53,115 |
| Cash | 2,756 | 3,805 | 6,561 | 3,550 | 1,176 | 4,726 |
| Total Under Management | 110,627 | 99,173 | 209,800 | 88,250 | 79,586 | 167,836 |
| Percentage of Fund | 51% | 46% | 97% | 51% | 46% | 97% |

Table 63 ANALYSIS OF INVESTMENT TRANSACTIONS

| | 31 st March 2004 | | | 31 st March 2003 | | |
|---------------------------|-----------------------------|-------------------|----------------|-----------------------------|-------------------|----------------|
| | Schroders £000 | Henderson £000 | Total £000 | Schroders £000 | Henderson £000 | Total £000 |
| Purchases | 37,579 | 39,366 | 76,945 | 71,716 | 64,594 | 136,310 |
| Sales | 34,050 | 39,410 | 73,460 | 65,936 | 54,896 | 120,832 |
| Total Transactions | 71,629 | 78,776 | 150,405 | 137,652 | 119,490 | 257,142 |

Table 64 CONTRIBUTIONS AND BENEFITS

| | 2003/04 | | | 2002/03 | | |
|---------------------------------|-------------------|-------------------|---------------|-------------------|-------------------|---------------|
| | Employers £000 | Employees £000 | Total £000 | Employers £000 | Employees £000 | Total £000 |
| Contributions | | | | | | |
| Administering Authority (LBRUT) | 8,011 | 2,805 | 10,816 | 6,974 | 2,561 | 9,535 |
| Scheduled Bodies | 877 | 302 | 1,179 | 708 | 258 | 966 |
| Admitted Bodies | 1,169 | 386 | 1,555 | 1,161 | 385 | 1,546 |
| Total Contributions | 10,057 | 3,493 | 13,550 | 8,843 | 3,204 | 12,047 |
| Benefits | | | £000 | | | £000 |
| Administering Authority (LBRUT) | | | 9,335 | | | 9,017 |
| Scheduled Bodies | | | 372 | | | 334 |
| Admitted Bodies | | | 507 | | | 464 |
| Total Benefits | | | 10,214 | | | 9,815 |

Table 65 ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Council is required to offer the facility for Additional Voluntary Contributions (AVCs). These contributions are voluntary and are paid over to the AVC provider for investment on behalf of the members concerned and these transactions are included in the Fund Account. As the Council has no direct interest in these AVC investments, they are not included in the Fund Balance sheet but details are given in the following table:

| | 2003/04 £000 | 2002/03 £000 |
|--|-----------------|-----------------|
| Value of Investments | | |
| Clerical Medical | 931 | 506 |
| Equitable Life ** | 1,192 | 1,139 |
| Total | 2,123 | 1,645 |
| Number of Members Participating | | |
| Clerical Medical | 125 | 121 |
| Equitable Life | 205 | 225 |
| Total | 330 | 346 |

**NOTE: No Investment return in respect of 2003/04 has been made by Equitable Life by the date of these accounts. The value of investments in 2003/04 has been estimated by reference to the value of investments at 1st April 2003 and estimated value of contributions during 2003/04.

Table 66 MATERIAL TRANSACTIONS WITH RELATED PARTIES

The Council

The Pension Fund is a separate entity from the Council with its own statement of accounts and balance sheet. The following material transactions took place between the Council and the Pension Fund in 2003/04:

| | 2003/04 £000 | 2002/03 £000 |
|---|-----------------|-----------------|
| Receipts: | | |
| Pension Contributions - from the Council (employer's contributions) | 8,011 | 6,968 |
| Pension Contributions - from employees (deductions paid over) | 2,804 | 2,562 |
| Interest | 31 | 78 |
| Total Receipts | 10,846 | 9,608 |
| Payments: | | |
| Indirect support costs provided by the Council | 353 | 353 |

STATEMENT OF ACCOUNTING POLICIES

General Principles

The general principles adopted in preparing this Statement of Accounts are those recommended in the CIPFA / LASAAC Code of Practice on Local Authority Accounting in Great Britain 2003 (the SORP). The Statement of Accounts also complies with the CIPFA Best Value Accounting Code of Practice (the BVACOP). Both the SORP and BVACOP are recognised by statute as representing proper accounting practice. These policies apply to all the statements except those relating to the Pension Fund for which separate accounting policies are set out on page 39 and specific exceptions that are referred to in detail in the following paragraphs.

Changes in Accounting Policies

The following changes have been made in accounting policies in 2003/04:

The major change in 2003-04 is the requirement within the SORP 2003 to implement fully the Financial Reporting Standard (FRS) 17 – Accounting for Retirement Benefits. The FRS sets out the principles of accounting for employee retirement benefits. Its objectives are to ensure that financial statements reflect at fair value the assets and liabilities underlying the employer's obligations relating to retirement benefits, and that the true cost of these obligations is recognised. The full implementation of the FRS requires full recognition of the pensions asset/liability (and the movement of its constituent parts) in the Consolidated Revenue Account of the authority. This has required that the Council's Consolidated Revenue Account, Balance Sheet and Movement in Reserves for the prior year 2002-03 have had to be restated. *[further details on Pension Costs are contained later in this section]*.

Other changes introduced as a result of changes in the 2003 Code of Practice are:

- (1) The requirement to disclose audit costs. The SORP's requirement to disclose audit costs is new for the 2003/04 statement of accounts. It brings local government into line with other parts of the public services in disclosing the amounts that an authority has paid to auditors for work carried out in performing statutory functions and in providing additional services, such as tax advice. The intention is that the note will demonstrate that the objectivity of the auditor is not compromised by fees for other work being significant in relation to audit costs.
- (2) The review of all reserves and provisions and the reclassification of them in light of the current guidance on their correct accounting treatment. This has led to the restatement of the Movement in Reserves and Movement in Provisions for 2002-03.

Accruals Basis

The accounts are prepared on an accruals basis, with the exception of regular utility payments. Accruals are made for outstanding invoices (for example fourth quarter not paid by 31st March) but no accruals are calculated for consumption of utilities that have not been billed at 31st March. This change from the SORP is made on the basis that taking one year with another the effect of this treatment on the accounts is negligible and does not justify the additional time and cost necessary to accurately estimate consumption figures for the numerous cost centres affected.

Estimation

The following material estimations are made in preparation of the Statement of Accounts:

- **Creditors** – All creditors are based on are based on accruals at 31st March that are based on the value of orders placed or invoices received. The only exceptions are in respect of government grants where draft grant claims are prepared (in respect of grants that are based on volume or expenditure) using the latest data available at 31st March to provide an estimate of the amount of grant that is owed to, or by the government, and Business Rates (NNDR) where a draft return is compiled (using the latest available data) to assess the net contribution due to, or from the national NNDR pool at 31st March.
- **Debtors** – Provision for bad debts are estimated having regard to the age of debt and the status of recovery procedure. Separate bad debt provisions are made for general debtors, Collection Fund (Council tax and NNDR) and housing debts (short term lets and bed and breakfast).

Fixed Assets

Expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis.

Assets are brought into the balance sheet on the basis of valuation less depreciation. The basis of valuation for each class of asset is as follows:

Operational assets

- Land and buildings are valued at open market value on existing use basis except Specialised Operational assets (see below).
- Specialised Operational assets (mainly leisure centres and schools) are valued on open market value – alternative use basis because there insufficient evidence of market value on existing use basis. This is in accordance with RICS guidance.
- Vehicles, plant and equipment are valued at historic cost. This basis of valuation is used because the effect is not material to the accounts (the total value of this category of assets is just over £200,000 and current policy is to acquire vehicles, plant and equipment through either operating leases or short-term hire) and the time and cost involved in revaluing a disparate inventory of vehicles and plant is not justified. This treatment complies with the requirement of the SORP on grounds of materiality.
- Infrastructure assets are valued at historic cost.
- Community assets are valued at historic cost.

Non-operational assets are valued at open market value.

Assets other than land and community assets (which are not depreciated) are written down for depreciation on a straight-line basis over their estimated life. These lives are assessed on an individual basis for vehicles, plant and equipment and on a standard basis for other classes of assets as follows:

Operational assets

- Buildings are depreciated over the period of their useful life, from between 20 and 60 years depending upon the type of structure.
- Infrastructure assets are depreciated over a standard period of 40 years.
- Vehicles, plant and equipment are depreciated over the period of their useful lives. These vary from between 3 to 25 years and are based upon technical or professional advice at the time of acquisition.

Non-operational assets are depreciated over the period of their useful life from between 20 and 50 years.

Land and buildings, including those that are non-operational, are valued on a rolling programme over 5 years. A full simultaneous valuation of all assets has not been carried out since capital financing regulations first required current valuations in April 1994.

No formal review for impairment of assets is carried out each year but checks are made annually for known material changes to the value or usefulness of assets.

Sale of Fixed Assets

Sales of fixed assets give rise to capital receipts that are credited to the Usable Capital Receipts Reserve and are available to finance further capital expenditure. An exception to this policy arises in respect of the Home Loans Unit that manages a mortgage portfolio on behalf of all London Boroughs. Capital receipts that arise from the repayment and redemption of mortgages in respect of the Home Loans Unit are not available to the Council and are distributed to all London Boroughs, as set out in the disclosure note to the Home Loans Unit Accounts.

Basis of charges to revenue in respect of fixed assets

Capital charges are made to the revenue account of individual services on the basis of depreciation (as set out above) plus an interest charge calculated on the net amount that the asset is held on the balance sheet. For 2003-04 the interest charges used, which are prescribed by the CIPFA/LASAAC joint Committee were: - 3.5% on assets carried in the balance sheet at current value (6% in 2002-03), and 4.65% (6% in 2002-03) on assets carried on the balance sheet at historical cost (that is infrastructure and community assets)

Deferred Charges

Deferred charges arise where the Council incurs capital expenditure that does not result in the creation or enhancement of an asset for the Council. This can arise where no asset is created (for example capitalisation of redundancy costs), or where an asset is created or enhanced that is the property of a third party (for example improvement grants in respect of private residences).

Accounting regulations require deferred charges to be written down and charged to revenue over an appropriate period. In most cases the deferred charge is written down in the year of expenditure, as there is no continuing benefit to the Council. An exception in this Statement of Accounts is a premium paid on the early redemption of a long term loan from the PWLB that is written down over a period of 21 years on a straight line basis to reflect the continuing benefit of the transaction (reducing future net interest payments). A corresponding appropriation is made to revenue from the Capital Financing Reserve so that the effect on the amount to be met by government grants and local taxpayers is neutral.

Leases

The Council has no Finance Leases. Operating leases allow the Council to have the use, but not the ownership, of assets over the term of the lease. Lease rentals are regular payments and are charged to revenue as they occur. As all leases are on a fixed annual rental basis, this accounting treatment complies with the requirement of the SORP.

Investments

Long-term investments are loans made to another local authority and are valued at par. Temporary investments consist of loans of 364 days or less, in accordance with the Council's Treasury Management Policy (in compliance with the CIPFA Code of Practice for Treasury Management), and are valued at par.

Early Repayment of Debt

Long-term debt is reviewed on a regular basis and where there is economic advantage loans are repaid prematurely. A premium is usually required to be paid on early repayment and where such cost is incurred it is shown separately on the face of the Consolidated Revenue Account and is written off to the Provision for Credit Liabilities (PCL) as an appropriation from the Capital Financing Reserve.

Current Assets

Stocks are valued on a weighted-average basis, taking account of all items in stock at their purchase cost. Work in progress is valued at cost. This policy does not comply with the SORP that requires stocks and work in progress to be valued at the lower of cost or net realisable value. The effect of this non-compliance is regarded to be not material.

Government Grants

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

Revenue grants and contributions are credited to the relevant service and matched with the expenditure to which they relate. Revenue Support Grant and the contribution in respect of non-domestic rates are made to finance the general activities of the Council and are credited to the consolidated revenue account in the year that they are payable.

Where the acquisition of a fixed asset is financed either wholly or partly by a government grant or contribution, it is the Council's policy to write down the whole of the grant in the year the grant is received. This does not comply with the practice that is recommended in the SORP. The effect of this policy is to match the grant more closely to the acquisition or enhancement of the asset, and to be more consistent with the treatment of other cash-backed capital resources such, as capital receipts.

Allocation of Support Costs

Support costs are fully allocated to services in accordance with the Best Value Accounting Code of Practice. This requires that the cost of the corporate and democratic core and of non-distributed costs be treated as two objective cost centres in the consolidated revenue account.

The main bases for allocating support costs are the floor area for accommodation costs, and the most appropriate basis (primarily staff numbers or staff time) in respect of other costs. The basis for allocating the cost of buildings is to the individual services that occupy that particular building on the basis of floor area.

Long Term Contracts

Some contracts for capital expenditure extend beyond one financial year. Expenditure on these contracts is charged to capital expenditure on an accruals basis in the relevant financial year. These assets are initially valued at cost and the value of the asset will increase in the balance sheet in line with each year's capital expenditure. As part of the rolling five-year valuation process these assets will be revalued as described in the paragraph above on Fixed Assets.

The Council has a number of revenue contracts, for example for the provision of IT support services that extend over a number of years. The period of these contracts varies, but are usually for periods of between 5 to 10 years. Expenditure on these contracts is charged, on an accruals basis, to revenue in the financial year in which value (goods or services) are received.

The Council has entered into two PFI contracts that have substantially longer periods than usual. Details of these two contracts and their financing arrangements are set out in Table 12. As a result of the effect of government grant on the financing of these contracts, an earmarked reserve has been established into which surpluses in the early years of these contracts are paid. The reserve will be used to fund deficits in the later years of the contracts. The effect of this accounting treatment is that the Cost of Services in the Consolidated Revenue Account reflects the actual net cost of the PFI contracts for each financial year taking into account the full unitary charge and government grant received, but the appropriation to or from the PFI reserve adjusts the amount to be met by Council Tax in each year effectively smoothing the effect of the incidence of the government grant over the period of each PFI contract.

Revenue Provisions and Reserves

Amounts are set aside from the revenue account to both revenue provisions and reserves.

Provisions are established in accordance with FRS 12, where a future loss or liability is recognised but the timing and value are uncertain. In the balance sheet, the provision for bad debts is deducted from current debtors.

Reserves are established in a prudent manner to meet future expenditure needs that are non-specific at the balance sheet date, including general contingencies and cash flow management in respect of the General Fund Reserve. Earmarked reserves are set aside for specific purposes.

Pension Costs

The Council operates a Pension Fund as an administering authority for the Local Government Pension Scheme. This is a funded, defined benefits scheme, details of which are given in the notes to the Pension Fund Accounts.

The Council's contributions to the Fund are based upon periodic actuarial valuation and set at a level sufficient to enable the Fund to meet its accrued liabilities. The last valuation was for 31st March 2001, at which time the Fund covered 88% of its accrued liabilities, and the Council's contributions were increased to make up the deficit. The Council's contributions are set as a percentage of pensionable pay and charged to service expenditure alongside employees' pay.

In accordance with the introduction of FRS 17 'Retirement Benefits' in local authority accounts, additional disclosure notes (the Transitional Pensions Disclosures) are included in the Statement of Accounts in relation to the Consolidated Revenue Account. These disclosure notes have been revised in accordance with the accounting policy requirements of the 2003 SORP and of FRS17.

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 the individual services are 1.9% (1.4% in 2002/03) lower after the replacement of employer's contributions by the current service costs and Net Operating Expenditure is 3% (1.2% in 2002/03) 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 in 2003/04 by 18% (by 32% in 2002/03).

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council

The Council is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. That officer is the Director of Finance and Corporate Services.

The Director of Finance and Corporate Services

The Director of Finance and Corporate Services is responsible for the preparation of the Council's Statement of Accounts that presents fairly the financial position at the accounting date and its income and expenditure for the year.

In preparing the statement of accounts, the Director of Finance and Corporate Services has:

- selected suitable accounting policies and applied them consistently;
- made estimates and judgements that were reasonable and prudent;
- stated whether applicable accounting standards, and the CIPFA / LASAAC Code of Practice have been followed, subject to any material departures disclosed and explained in the statement of accounts;
- kept proper and up-to-date accounting records;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate

I certify that the Statement of Accounts presents fairly the financial position of Richmond Upon Thames Council at the end of the period to which it relates and its income and expenditure for that period.

Mark Maidment
Director of Finance and Corporate Services
13th October 2004

**THE STATEMENT OF ACCOUNTS IS SUBMITTED FOR APPROVAL AND PUBLISHED
SUBJECT TO AUDIT.**

The independent auditor's opinion will be included in the Statement of Accounts that will be re-published in due course.

STATEMENT OF INTERNAL CONTROL**1. Scope of Responsibility**

The London Borough of Richmond upon Thames is responsible for ensuring 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 London Borough of Richmond upon Thames also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Accounts and Audit Regulations 2003 introduced the requirement for an annual review of the effectiveness of its system of internal control in accordance with proper practices. CIPFA produced a guidance note in December 2003 that sets out proper practices for the Internal Control and Risk Management. The CIPFA guidance makes clear that, although the requirements of the Accounts and Audit Regulations applied from 1st April 2003, the 2003/04 financial year is a transitional period and that it would be unrealistic to expect full compliance by all authorities with all aspects of the guidance. The Council has therefore relied upon existing processes and procedures to monitor the effectiveness of Internal Control during 2003/04 and this Statement is based on these interim arrangements.

The system of internal control, as described above and based on the interim existing arrangements for risk and control management, has been in place in the Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts and, except for the details of significant internal control issues at section 5, accords with proper practice.

3. The Internal Control Environment

In our opinion the effectiveness of the internal control environment is based on an assessment of the following key controls:

- Establishing and monitoring the achievement of the Council's objectives.
- The facilitation of policy and decision-making.
- Ensuring compliance with established policies, procedures, laws and regulations.
- Identifying, assessing and managing the risks to the Council's objectives – including how risk management is embedded in the activity of the Council, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their responsibilities and duties.
- Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty
- The financial management of the authority and the reporting of financial management, and
- The performance management of the authority and the reporting of performance management.

4. Review of Effectiveness

The London Borough of Richmond upon Thames has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual audit letter and other reports.

As set out in paragraph 2, because 2003/04 has been treated as a transitional year a full review, in accordance with the CIPFA guidance, was not carried out in that year and reliance was placed on the existing arrangements for risk and control

management that that were currently in place. The nature of these existing arrangements was that separate risk and control management systems were in existence across the Council and these were operational at departmental and/or local service level. However, the CIPFA guidance requires a more comprehensive and structural assurance process to be in place in order to provide a coordinated and hierarchical reporting structure upon which the review of effectiveness of the internal control environment can be based. Following a comprehensive review of the existing arrangements, a structural risk management assurance process has been developed, approved in outline by the Audit Sub Committee and detailed working arrangements approved by the Executive Board of Directors. These arrangements will ensure that risk management is firmly embedded at the detailed service level and that reporting and assurance processes are fully compliant with both the CIPFA guidance and best practice, and will provide the appropriate degree of assurance for the 2004/05 Statement of Internal Control.

The key features of the control system as determined by the Council's Section 151 officer and each Director are set out below

- An organisational structure that is closely aligned to and supportive of Community Plan objectives
- A planning framework with objectives and financial targets as set out in the Medium Term Financial Strategy
- The appointment of experienced and suitably qualified staff. Annual objective setting and appraisal procedures for staff enable standards of performance to be monitored by management
- A system of financial reporting via Cabinet and the Executive Board, including forecasts and budgets which allow the monitoring of the key activities and progress towards strategic, including financial, objectives.
- Defined procedures governing approval of capital and other project expenditure. These include budgets, detailed project approval procedures and monitoring reports.
- Oversight of the management of the Council's revenue and capital position by Cabinet and the Strategy and Resources Overview and Scrutiny Committee.
- Internal Audit activity across the Council's financial and non-financial systems. The system of internal control is subject to scrutiny by the Executive Board and by internal audit and the Audit Sub-Committee. A risk-based internal audit programme is being prepared for endorsement by Audit Sub-Committee
- The developing risk management processes within the Council, including the work of the Council's Risk Manager and other initiatives such as ITNeT risk profiling and Chief Executive's risk assessment.
- The system of internal control is subject to scrutiny by Cabinet, Executive Board and in particular, the Council's Section 151 officer. The Head of Internal Audit and Risk Management reports directly to the Section 151 officer, thereby creating clear lines of accountability.
- Monitoring the effectiveness of internal control is undertaken by the Audit Sub-Committee. Cabinet, Executive Board and the Council's Section 151 Officer (Director of Finance and Corporate Services) receive regular reports from management, from internal audit and, where appropriate, from the external auditors. The Audit Sub-Committee reviews the activities of the internal and external auditors to ensure comprehensive audit coverage.
- The Council is in the process of developing an assurance framework that will identify other review and assurance mechanisms.

We have been advised of the nature of the existing arrangements for risk and control management that were in operation during 2003/04 and these have been relied upon to identify significant internal control issues set out in the following paragraphs. We have also been advised of the new arrangements that will provide a more comprehensive reporting and assurance process for 2004/05.

5. Significant Internal Control Issues

The fundamental control issue facing the London Borough of Richmond upon Thames is the implementation of the new financial systems in April and May 2004. Inherently, there is substantial risk exposure in terms of the transfer and matching of data, error rates, reconciliations and the processing of payroll, accounts payable and receivable and the council tax, housing and council tax benefits systems.

The risks identified above will be rigorously monitored and reviewed throughout the year by the Director of Finance and Corporate Services and other key officers. Regular reports on progress will be made to Cabinet and Strategy and Resources Overview and Scrutiny Committee. Key external financial risks exist to the Council in respect of Government funding. Past experience of periods of reduced government funding indicate that internal risks could follow from the consequences of losing significant government funding because major reductions in revenue

spending may need to be implemented over very short timescales. The risks arise through the ability of the Council to respond to funding shortfalls and avoid the need for short term planning and expediency to achieve changes to service delivery and staffing levels. Poor decisions arising from short term pressures can result in longer term inefficiencies or reductions in quality of services. Richmond is particularly vulnerable to the loss of government funding through the 'floor' mechanism of Revenue Support Grant that has no future guarantee and provided £8.3 million to Richmond in 2003/04.

In the short term the level of reserves that the Council has established in recent years mitigates the risk of grant loss. The cushion of adequate revenue reserves enable the longer term risks to be considered as part of the Medium Financial Strategy and ultimately are addressed through carefully considered and planned adjustments to service expenditure or Council Tax that can be implemented over a planned and realistic timescale.

The Audit Sub-Committee receives reports during the year that review the work of Internal and External Audit. These reports identify and comment upon on-going and new audit and risk issues. During 2003/04 only one significant issue arose that warranted a separate individual report to the Sub-Committee and that was in respect of certain control weaknesses in care purchasing for the elderly. Significant measures have been implemented to address these risks and to specifically improve monitoring demand for the service, budgetary control, collection of income and contract monitoring in respect of care providers.

As explained in paragraph 4, a structural risk management assurance process has been approved and is being implemented to ensure compliance with best practice and CIPFA guidance following the interim arrangements for 2003/04. The key elements of these new arrangements are:

- An assurance process for the regular (quarterly/half yearly) management significant risks
- An assurance process for the regular (half yearly) monitoring key areas of internal control
- Responsibility at Director and Cabinet Member level for half yearly certification of assurance
- Monitoring and approval of the effectiveness of internal control half yearly, and consideration and approval of the Annual Statement of Internal Control by the Audit Sub Committee.

Councillor Tony Arbour
Leader of the Council
13th October 2004

Gillian Norton
Chief Executive
13th October 2004

CORPORATE GOVERNANCE STATEMENT

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. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. To this end, the Council has approved and adopted a code of corporate governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework *Corporate Governance in Local Government: A Keystone for Community Governance*. A copy of the code can be obtained from the Corporate Policy Unit, Civic Centre, 44 York Street, Twickenham, TW1 3BZ or on the Council's Website at www.richmond.gov.uk.

The Council's internal audit function reports on aspects of corporate governance throughout the year in various financial and non-financial reviews.

In 2003/04 the Head of Policy had responsibility for:

- Overseeing the implementation and monitoring the operation of the code
- Reviewing the operation of the code in practice
- Reporting annually to the Cabinet on compliance with the code and any changes that may be necessary to maintain it and ensure its effectiveness in practice.

For 2004/05 the Council's Chief Internal Auditor will be given this responsibility to review independently and provide the annual report to Cabinet on the adequacy and effectiveness of the codes and the extent of compliance with it. This will form a major audit review for 2004/05.

Except for the matters outlined below, we are satisfied that the arrangements now in place are adequate and being operated effectively.

We report that the majority of aspects of the Code of Corporate Governance are in place. The main areas to be actioned are:

- Directors are to sign positive assurance statements from 2004/5 which will describe how they manage risks and ensure effective governance within each Directorate
- Development of controls assurance and the self-assessment process. With the support of Internal Audit, Heads of Service and Managers will carry out a self assessment process to ensure principal risks are being managed effectively
- Implementing the Council's new Procurement Strategy to incorporate new requirements for assessing risks in dealing with suppliers.
- Ensuring that all departments maintain Registers of Interests for staff and that they are reminded annually to update them.
- Protocols for joint commissioning, joint funding and joint accountability with the health service should be developed.

We propose over the coming year to take steps to address the above matters to further enhance our corporate governance arrangements. We are satisfied that these steps will address the need for improvements and we will review their implementation and operation as part of our next annual review.

Gillian Norton
Chief Executive
13th October 2004

Mark Maidment
Director of Finance and Corporate Services
13th October 2004

GLOSSARY OF TERMS

ACCRUALS

Amounts charged to the accounts for goods or services received during the year for which payments have not yet been made and income due but has not yet been received.

ARICS

This term designates an Associate Member of the Royal Institution of Chartered Surveyors.

ASSET MANAGEMENT REVENUE ACCOUNT (AMRA)

An account required under capital accounting arrangements so that the asset rental transactions are reversed out to leave just the historic debt charges impacting on Council Tax levels.

BEST VALUE CODE OF PRACTICE (BVACOP)

This code of practice was introduced in support of the Government's modernisation agenda for local government and, in particular, the process of performance management and best value. The code modernises the system of local authority accounting and reporting and provides a common service cost to facilitate comparison between authorities.

BUSINESS RATES

Also referred to as non-domestic rates. This is a national tax based on the rateable value of business properties. The tax is administered by the government that also determines the level of the tax. The Council collects business rates on behalf of the government and pays over the proceeds after costs of collection. The proceeds are re-distributed to local authorities based on the size of their population.

CAPITAL EXPENDITURE

Spending on assets that have a useful life beyond one year.

CAPITAL FINANCING RESERVE

This reserve contains the balance of depreciation against the Minimum Revenue Provision (MRP), additional debt repayments over the MRP, reserved capital receipts and usable capital receipts and grants etc. applied to meet capital expenditure.

CAPITAL CHARGES

Charges made to service revenue accounts, based on the value of the assets used by the service, and consisting of interest and depreciation.

CAPITAL RECEIPTS

Income received from the sale of land, buildings and other capital assets. These may be used to finance capital expenditure but are not available to finance revenue expenditure.

CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY (CIPFA)

This is an accountancy body that produces standards and codes of practice for accounting and financial functions in the public sector. It is one of the bodies responsible for the two principal codes of practice that determine how the Council presents its accounts (see the next paragraph).

CODES OF PRACTICE

In addition to the BVACOP (see above) the principal code of practice that governs the presentation of local authority accounts is the Code of Practice on Local Authority Accounting in the United Kingdom. This code is a Statement of Recommended Practice (or SORP) that is approved by the Accounting Standards Board and is recognised by statute as representing proper accounting practice.

COLLECTION FUND

Local authorities that are required by law to collect council tax and business rates must establish a 'Collection Fund' that records the amounts collected from Council Tax and Business Rates, and payments made to the government and precepting authorities, and transfers to the Council's General Fund.

COMMUNITY ASSETS

Assets that the local authority intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and historic buildings.

CONSOLIDATED BALANCE SHEET

A statement of the Council's assets and liabilities at the balance sheet date.

CONTINGENCIES

Money set aside from a budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

CORPORATE AND DEMOCRATIC CORE

Under the terms of BVACOP, all support costs are allocated to services except for Corporate and Democratic Core and Non Distributed Costs. Corporate and Democratic Core includes corporate policy making and all other member-based activities, and activities that relate to the corporate management of the authority.

COUNCIL TAX

The main source of local taxation to local authorities. It is levied on households within the Authority's area based on property values and the proceeds are paid into the Collection Fund for distribution to precepting authorities and to the Authority's own General Fund.

COUNCIL TAX BENEFIT

Assistance provided by the Council to adults on low incomes to help them pay their Council Tax bill. The cost to the Council of Council Tax benefit is largely met by government grant.

CREDIT APPROVAL

These are government limits on in the level of capital expenditure an authority can finance by raising new long-term loans.

CREDITORS

Organisations and individuals to whom the Council owes money.

CURRENT ASSETS

These are assets that will be consumed within the next accounting period (i.e. less than one year). Examples are stock, cash and debtors.

CURRENT LIABILITIES

Those amounts which will become payable or could be called upon in the next accounting period (i.e. less than one year).

DEBTORS

Organisations and individuals who owe money to the Council.

DEFERRED CHARGE

Capital expenditure that does not result in a tangible fixed asset in the Council's accounts. An example is improvement grants made to individuals.

DEPRECIATION

The writing down of the value of a fixed asset in the balance sheet in line with its expected useful life.

EARMARKED RESERVES

Amounts set aside for specific purposes falling outside the definition of provisions.

FIXED ASSETS

These are assets that have a realisable value, such as land and buildings.

FIXED ASSET RESTATEMENT RESERVE

A reserve required on the implementation of asset rents. It contains the balance on the revaluation of fixed assets, from the net historic cost previously shown in the accounts to the current asset rent basis, and any subsequent movement arising from revaluations or disposals of those assets.

GENERAL FUND

This is the main revenue account of the Council and includes the net cost of all services.

INFRASTRUCTURE ASSETS

These are fixed assets that are not marketable, for example, roads.

LONG TERM BORROWING

This is external borrowing for a period of one year or more. Temporary borrowing is defined as external borrowing for 364 days or less.

MINIMUM REVENUE PROVISION (MRP)

The minimum amount which must be charged to the Consolidated Revenue Account each year and set aside as provision for credit liabilities, as required by the Local Government Act 1989.

NON-DOMESTIC RATES

Also referred to as National Non-domestic Rates (NNDR), this is explained in the paragraph on Business Rates.

NON-DISTRIBUTED COSTS

This category of expenditure under BVACOP comprises the costs of any unused IT facilities and long term unrealizable assets as well as a number of adjustments in relation to pension costs that are not attributable to the current cost of frontline services.

OPERATIONAL ASSETS

These are fixed assets that are held, occupied, used or consumed by the Council in the direct delivery of its services.

OPERATIONAL LEASE

Sometimes referred to as Operating Leases, this is a type of lease, usually of office, computer equipment or vehicles under which lease rentals are paid for the use of the asset over the period of the lease. The asset remains the property of the lessor and has to be returned at the end of the lease.

PRECEPT

A charge made by prescribed public authorities that do not administer the local Council Tax.

PREMATURE REPAYMENT OF DEBT

The Council's long-term debt is regularly reviewed and when there is economic advantage loans are repaid prematurely. Such repayments are usually, but not necessarily, replaced by new borrowing at a more advantageous interest rate. A premium is normally paid in respect of the early repayment and the amount of premium is written off to the Provision for Credit Liabilities (PCL) in the year that it arises.

PROVISIONS

Amounts set aside for liabilities and losses which are likely to occur but where the exact amount or timing is uncertain.

PROVISION FOR CREDIT LIABILITIES

The sums that the government requires the Authority to set aside each year from revenue and new capital receipts in order to meet credit liabilities. The accumulation of these provisions, and their application to debt redemption, are reflected in a memorandum account.

PWLB

The Public Works Loan Board is a government body that makes long-term loans to local authorities.

RESERVES

Amounts set aside in a prudent manner to cover potential future liabilities that are not specific at the balance sheet date.

REVENUE EXPENDITURE

Day to day payments on the running of Council services such as salaries and wages, operating costs and charges for the use of assets.

REVENUE SUPPORT GRANT (RSG)

A grant paid by central government in aid of local authority services in general as opposed to specific grants that may only be used for specific purposes.

SPECIFIC GRANTS

A term used to describe government grants to local authorities that are related to a specific service or policy and are each subject to conditions. A list of the main grants received is provided in the Cash Flow Statement.

TEMPORARY BORROWING

This is defined as external borrowing for 364 days or less. Long-term borrowing is external borrowing for a period of one year or more.