

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

CONTENTS

Explanatory Foreword.....	2
Statement of Responsibilities for the Statement of Accounts	10
Statement on Internal Control.....	11
Consolidated Revenue Account.....	14
Housing Revenue Account	25
Collection Fund	32
Consolidated Balance Sheet.....	36
Statement of Total Movement in Reserves	50
Cash Flow Statement	54
Statement of Accounting Policies.....	57
Auditor's Opinion.....	73
Glossary.....	75

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

EXPLANATORY FOREWORD

1. GENERAL COMMENTARY

The Council's accounts for the year 2003/04 are set out on pages 2 to 72.

They consist of:

- **The Statement of Responsibilities**
- **Statement on the System of Internal Control**, which is new for 2003/04, replacing the previous statement, which only concerned financial controls.
- **The Consolidated Revenue Account** - details income and expenditure on all of the Council's services and how this is financed from Government grants and local taxpayers.
- **The Housing Revenue Account** - a separate statutory account for local authority housing provision.
- **The Collection Fund** - shows the transactions in relation to Non Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to the Council's General Fund and Precepting Authorities.
- **The Consolidated Balance Sheet** - sets out the financial position of the Council on 31 March 2004.
- **The Statement of Total Movement in Reserves** - shows all losses and gains on disposal or revaluation of fixed assets and the surpluses and deficits on capital and revenue reserves.
- **The Cash Flow Statement** - summarises the inflows and outflows of cash arising from revenue and capital expenditure and income.
- **Statement of Accounting Policies**
- **The Auditor's Opinion.**

These accounts are supported by **explanatory notes** to the accounts and a **glossary of terms**.

This report provides a general commentary on the Council's finances for the year and gives an indication of the Council's overall financial position.

2. CONSOLIDATED REVENUE ACCOUNT

- This account incorporates all revenue expenditure and income relating to services provided by the Council, including that relating to Council Housing. It also includes the amounts paid to Town and Parish Councils in respect of Parish precepts to cover expenditure incurred by them on local services.
- By excluding both Council Housing (See Section 3 below) and the Parish/Town Council Precepts, the remaining net expenditure relates to the services that are provided and paid for by Council Tax payers and Government grants in the Council's General Fund. The statement below shows this net expenditure for the year compared with the Council's budget:

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

EXPLANATORY FOREWORD

	Original Budget (£m)	Revised Budget (£m)	Actual (£m)	Variance from Revised Budget (£m)
Net expenditure	8.915	9.287	8.762	(0.525)
Direct revenue financing of capital schemes	0.120	-	-	-
Income from				
Government grants	(4.770)	(4.770)	(4.770)	-
Council Taxpayers	(3.521)	(3.521)	(3.521)	-
Reduction (and variation) in General Fund reserves	0.744	0.996	0.471	(0.525)

- The original budget was revised early in 2004 to reflect anticipated changes in income and expenditure for the year. Actual net expenditure for the year was £0.525m less than this revised budget.
- This arose due to lower net expenditure on service costs during the year. Taking into account, however, delayed revenue expenditure of £0.501m, it is estimated that revenue reserves at the end of 2004/05 will be very close to those predicted in the approved budget.

Variations in Net Expenditure between 2002/03 and 2003/04

Net operating expenditure was £2.505m higher in 2003/04 than in the previous year. Council Housing net operating expenditure was £1.606m more than the previous year. Thus the net operating expenditure for the General Fund is £0.899m higher than in the previous year due to:

	£000
Pay award, and inflation	310
Interest costs, income and asset management account changes (net)	(288)
Net service cost increase	735
Increase in parish precepts	142
Total Increase	899

3. COUNCIL HOUSING

- A comparison of actual spending for the year with the original and revised budget for the Housing Revenue Account (HRA) is summarised below:

	Original Budget (£m)	Revised Budget (£m)	Actual (£m)	Variance from Revised Budget (£m)
Income	13.723	13.355	13.367	(0.012)
Expenditure – net of Appropriations	13.823	13.680	13.500	(0.180)
Decrease (increase) in reserves	0.100	0.325	0.133	(0.192)

- From this it can be seen that the use of reserves is less than anticipated when the revised budget was agreed early in 2004. £0.130m of the variance is due to the reclassification of central heating leases from operating leases to finance leases in order to comply with

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

EXPLANATORY FOREWORD

SSAP21. Although there is an amount of £0.054m that is required for revenue expenditure that has been carried forward into the year 2004/05, reserves will be higher than planned levels.

- The main variations in income and expenditure compared to the revised budget are set out below, which shows that the main savings arose on repairs and maintenance costs and on the reclassification of operating leases to finance leases:

	£m
Anticipated deficit for the year	0.325
<u>Less:</u> Lower gross rental and service charge income received	0.023
Lower repairs and maintenance costs	(0.095)
Higher supervision and management costs	0.016
Operating leasing	(0.149)
Other net variations	0.013
Actual deficit for the year	0.133

Variations in Net Expenditure between 2002/03 and 2003/04

The surplus in 2002/03 of £0.270m (restated) changed by £0.403m to a deficit of £0.133m in 2003/04 from the previous year. The main variations are detailed below:

	£000
Increased direct revenue financing and capital charges	110
Increase in management, repairs and other costs	(25)
Increase in rent and other charges	(219)
Reduction in rent rebates/subsidy	537
Total increase	403

4. CAPITAL INVESTMENT

- Capital investment in 2003/04 was substantial for a Council of Babergh's size. During the year £6.7m was spent on capital projects, (£4.5m in 2002/03) compared to a revised forecast for the year of £7.4m. The balance of £0.7m relates to schemes that should be completed in the year 2004/05.

- This money was spent on providing the following schemes or services:

	£m
Council Housing improvements, major repairs and renewals	4.0
New computer systems	0.4
Renovation grants – private housing	0.5
Contribution to pension fund	0.5
Other capital schemes	1.3
Total	6.7

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

EXPLANATORY FOREWORD

- This expenditure was financed from the following sources:

	2003/04 £m	2002/03 £m
Government Credit Approvals	-	1.1
Revenue Financing	0.1	0.3
Major Repairs Reserve	2.5	1.7
Capital Receipts	2.2	1.1
External Contributions/grants	0.5	0.3
Finance Leases	1.1	-
Capital Accruals	0.3	-
Total	6.7	4.5

- As the council was debt-free from 31 March 2003, all capital receipts in 2003/04 are 100% usable. Capital receipts totalling £3.5m were received in 2003/04, of which £2.2m was used to fund capital expenditure, leaving a balance of £1.3m at 31 March 2004. Of this, £0.3m is needed to finance schemes that have been delayed and that will be undertaken in 2004/05 and approximately £0.2m is required to pay for work undertaken but not financed as at 31 March 2004.
- The Council received £1.0m in Government Credit Approvals but these were not used in 2003/04. Contributions and capital grants of £0.5m, mainly from the Government and Suffolk County Council were used to finance capital expenditure. The Major Repairs Reserve relates to Council Housing and the Government makes an annual contribution to cover this. In 2003/04, £2.1m was received and this, plus £0.4m remaining from 2002/03, was used to finance capital work.

5. RESERVES, PROVISIONS AND REVENUE BALANCES

- The level of general revenue reserves and balances, including those related to Council Housing, changed during the year as set out in the table below. This table also incorporates other reserves and balances as indicated:

	31 March 2004 £m	31 March 2003 (restated) £m
General Fund		
General Reserves/Balances	3.525	3.996
Collection Fund (Babergh element)	(0.111)	(0.091)
Deferred Credits	0.284	0.322
Provisions	-	0.097
	3.698	4.324
Housing Revenue Account	1.492	1.625
Total	5.190	5.949

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

EXPLANATORY FOREWORD

- In the case of both the General Fund and Housing Revenue Account reserves, there are sums of £0.428m and £0.502m respectively relating to capital work undertaken but not financed as at 31 March 2004. Of the £0.428m, £0.154m will be met by external contributions and grants. The remaining £0.274m in the General Fund and the £0.502m HRA element will have to be met from reserves, capital receipts or other sources of finance such as leasing.
- Some of the Reserves and Balances will be required to fund the above and the remaining sums will be available to finance expenditure on services and/or in considering future Council Tax and Council House Rent levels.
- More details in respect of the Collection Fund, Deferred Credits and Provisions are to be found in the Statement of Accounts – these sums will be credited or debited to the General Fund accounts over a period of years as appropriate.
- In addition to the above, there are two further significant reserves in the balance sheet, which are the Fixed Asset Restatement Reserve and the Capital Financing Reserve. These reserves are required under Government rules..
- The Fixed Asset Restatement Reserve stands at £186.7m and reflects the difference between the historic or book value of the Council’s assets and its current value. The Capital Financing Reserve of £39.6m reflects the net effect of the amounts that the Council is required to set aside under Government legislation for credit liabilities/debt redemption and the amount of money spent from revenue sources and capital receipts on actual capital expenditure over the years. These amounts are not available to fund the Council’s future capital or revenue expenditure.

6. REVENUE COLLECTION

- The Council is responsible for collecting Council Tax (not only for its own services, but also for Suffolk County Council, Suffolk Police Authority and Town and Parish Councils in the district) and Business Rates. It also collects Council House rents.
- The total amounts collected during the year as a proportion of the amount collectable for the year, and the comparison with the previous year are shown below:

	Total Receipts £m	Proportion of amount due for year collected	
	2003/04	2003/04	2002/03
Council Tax	32.640	98.6%	98.4%
Business Rates	13.472	98.6%	98.8%
Council House Rents (net of housing benefits)	4.503	98.5%	99.1%

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

EXPLANATORY FOREWORD

- Arrears at the year-end compared to the previous year are shown below:

	31 March 2004 £m	31 March 2003 £m
Council Tax	0.890	0.815
Business Rates	0.363	0.346
Council House Rents	0.314	0.308
Total	1.567	1.469

- Provisions for bad and doubtful debts have been made in respect of the above arrears at the end of the year as follows:

	31 March 2004 £m	31 March 2003 £m
Council Tax	0.238	0.218
Business Rates	0.194	0.191
Council House Rents	0.110	0.113
Total	0.542	0.522

7. OTHER MATTERS

Pension Fund

- Until the publication of FRS17 relating to *Retirement Benefits*, local authorities have generally made charges to revenue based on employer's pension contributions payable and payments to pensioners in the year rather than benefits entitlements earned by employees. The 2003 Statement Of Recommended Practice (SORP) requires the full recognition of FRS 17 from 1st April 2003 and as such represents a major change in accounting policy. This includes recognition of the net asset/liability and a pensions reserve in the balance sheet and entries in the Consolidated Revenue Account for movements in the asset/liability relating to defined benefit schemes (with reconciling entries back to contributions payable for council tax purposes). Figures for 2002/03 have been restated as these also need to fully recognise FRS 17.
- The objectives of FRS 17 are to ensure that:
- financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding;
 - the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise; and
 - the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities. (see note 27, pages 47 and 48).

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

EXPLANATORY FOREWORD

- FRS 17 is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if actually giving them will be many years into the future. It is a better reflection of the economic reality of the relationship between an employer and the pension fund than the standard it replaces, SSAP 24 (Statement of Standard Accounting Practice). Inclusion of the attributable share of the fund assets and liabilities does not, of course, mean that legal title has passed to the employer. Instead it represents the employer's commitment to increase contributions to make up any shortfall in attributable net assets, or its ability to benefit (via reduced contributions) from a surplus in the scheme.
- There is a substantial deficit on the Council's Pension Fund, administered by Suffolk County Council. The most recent triennial valuation and actuarial review was on the 31 March 2001 and costs in 2003/04 are based on this review. Contribution rates increased from 29.2% of employees' pensionable pay in 2002/03 to 30.1% in 2003/04. Future rates will be determined once the results of the 2004 review are known in order to remove the deficit, which stood at £7.6m following the 2001 valuation.
- It should be noted, however, that the estimated deficit (under FRS17) stood at nearly £8.7m as at 31 March 2004 and the reasons for this, as assessed by the actuary, are given on page 47. This is a significant improvement on the figure of almost £13.0m reported as at 31 March 2003. These liabilities are now fully disclosed in the balance sheet under FRS17.
- The Council is making higher annual contributions and additional contributions from capital receipts to remove the 2001 deficit of £7.6m. Capital receipts of £0.493m were paid in 2003/04 to reduce the deficit.

Partnerships

- The Council has during the year, and will continue to, bid for funds and resources to enable it to provide the services that are required by the community. In addition, it has and will continue to work with a variety of organisations in partnerships to enable the best possible services to be delivered. A new Procurement Strategy has been developed and was approved by the Council in July 2004 to take this forward.

Future Challenges

- Looking to the future, there are many challenges facing the Council, which include:
 - The Government's Comprehensive Performance Assessment of all Councils. For Babergh, this is being undertaken in September 2004 by the Audit Commission and will result in an overall assessment of the Council being given, on a scale ranging from "poor" to "excellent".
 - The Euro - The Council's main I.T. systems are Euro compliant and the Council will prepare and implement plans to be ready for any future entry by the UK into the European Monetary Union (EMU) as and when required. Other resource commitments have been identified, although the full costs to be incurred will be more accurately known once firm plans are in place.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
EXPLANATORY FOREWORD

- Housing stock options – an appraisal is to be made of the options Babergh has for the future management and ownership of the council’s housing stock. A final decision as to whether stock retention or stock transfer is the best way forward for the council is expected by February 2005. This will then be submitted for approval to the Government office for the East of England in April 2005.

Restating of 2002/03 figures re leases

- A number of figures relating to the Consolidated Revenue Account, the Housing Revenue Account and the Consolidated Balance Sheet have been restated for 2002/03 as a result of the reclassification of certain operating leases as finance leases. The impact of this change on the Council’s financial position is, therefore, fully reflected in the accounts for both the current year and the previous year. This has resulted in an improvement in the level of reserves in the Housing Revenue Account but there is no impact on the General Fund as the lease relating to wheeled bins was only entered into on 31 March 2004.

8. FURTHER INFORMATION

- A Statement of Responsibilities for the Statement of Accounts is included on page 10, which confirms, amongst other matters, that the Statement of Accounts for the year has been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. The accounts for the year have been closed promptly and within laid down Government deadlines. They are published subject to audit, and the Auditor’s opinion on the accounts should be received by 30 November 2004.
- Also, a Statement on Internal Control operated by the Council is shown on pages 11 to 13. This is a new requirement of the 2003 Code, governing what Local Authorities are obliged to include in their published accounts. The Statement covers a review of the Council’s whole system of internal control including corporate governance and risk management.
- In addition, interested members of the public have a statutory right to inspect the accounts before the audit of the accounts for the year is completed. An advert will be placed in the local press indicating when the accounts are available for inspection.

Further information about the Council’s finances and the Statement of Accounts is available from:

Geoff Kistner, Corporate Director
Telephone: 01473 825810
Email: geoff.kistner@babergh.gov.uk

Barry Hunter, Head of Finance and Performance Review
Telephone: 01473 825819
Email: barry.hunter@babergh.gov.uk

The address to contact the above is Babergh District Council, Corks Lane, Hadleigh, Ipswich IP7 6SJ.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required:

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

The unaudited Statement of Accounts was presented to and approved by the Council's Strategy Committee on 5 August 2004. Approval was subsequently given by full council on 14 September 2004.

Sue Carpendale, Chairman of the Strategy Committee

Dated:

The Corporate Director's Responsibilities

The Corporate Director is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code of Practice').

In preparing the Statement of Accounts for the year ended 31 March 2004, the Corporate Director has:

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

The Corporate Director has also:

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

I certify that the Statement of Accounts presents fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2004.

Geoff Kistner
Corporate Director

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

Dated:

STATEMENT ON INTERNAL CONTROL

1. Introduction

The Accounts and Audit Regulations 2003 require the Council to publish a Statement on Internal Control within the Statement of Accounts. This is a new requirement and replaces the Statement of Internal Financial Control produced for 2002/03. The scope of the Statement has been widened and requires a review of the Council's whole system of internal control including corporate governance and risk management.

2. Scope of Responsibility

Babergh District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements for continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

3. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; but it does provide reasonable 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 Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

This statement was approved by the Strategy Committee on 5 August 2004. It will be updated and a new statement approved in approximately 12 months' time.

4. The Internal Control Environment

The Council's internal control environment comprises the many systems, policies, procedures and operations in place to:

- Establish and monitor the achievement of the Council's aims and priorities and facilitate policy and decision making - through the service and financial planning arrangements and Performance Management framework.
- Ensure compliance with established policies, procedures, laws and regulations – through internal audit, finance, legal and HR teams.
- Identify, assess and manage the risks to achieving the Council's aims and priorities including risk management – based on the approved risk management strategy.
- Ensure the economic, effective and efficient use of resources, and the achievement of continuous improvement in the way in which the Council's functions are exercised, having regard to our Best Value duty and other requirements – through the service and financial planning arrangements and Performance Management framework.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
STATEMENT ON INTERNAL CONTROL

- Ensure adequate financial and performance management throughout the Council and ensure appropriate systems of reporting are in place – through laid down arrangements for quarterly reporting of performance to members.

5. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of internal control. The review of effectiveness of internal control is informed by the work of internal auditors and managers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by external auditors and other review agencies and inspectorates in their Annual Audit Letter and Inspection Reports.

Throughout 2003/04 the Council has maintained and reviewed its system of internal control in a number of ways. In particular the Council has received, approved and / or adopted the following:-

- Staff Training & Development Policy
- New staff appraisal and PRP arrangements
- Performance Plan 2003/04
- Statement of Accounts 2002/03 and External Audit reports on these
- Strategic E-Vision
- New Financial Regulations and Procedures
- District Audit Report 2002/03 Financial Statements
- A new Vision, Values and Aims for the Council
- A Corporate Plan
- Capital Finance – new Prudential Indicators for borrowing etc.
- Budget and Policy Framework 2004/05
- Corporate and Divisional Service Plans
- Treasury Management Policy
- External Auditors Annual Audit Letter and Audit Plan
- External Inspection / Peer Review Reports
- Regular Performance and Budget monitoring Reports

In addition to these key areas, details of other policies and documents providing evidence of the system of internal control have been prepared and are available for reference purposes.

We will ensure this statement is reviewed and maintained on an ongoing basis and the Overview & Scrutiny (Stewardship) Committee will consider progress on significant internal control issues at least annually. The Strategy Committee will take any views of the Overview & Scrutiny Committee into account in considering and approving subsequent statements.

Future statements will also be considered and monitored by reference to external audit and inspection reports and recommendations contained therein.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
STATEMENT ON INTERNAL CONTROL

The Performance Review and Audit Section carries out a continuous assessment of the implementation of internal and external action plans. They also monitor the Council's overall Corporate Governance arrangements.

Internal Audit has undertaken a number of planned reviews of fundamental systems and internal control procedures across a range of functions in the authority in accordance with the annual audit plan. Recommendations have been made to resolve any control weaknesses found. No major issues have

been identified in 2003/04 although it is important that continued progress on the implementation of the recommendations is made and that these are followed-up and reported to Members. Systems are in place to ensure this happens.

6. Significant Internal Control Issues

A Risk Management Strategy has been adopted and good initial progress has been made on identifying strategic risks facing the Council. These need revisiting following the adoption of the Council's new aims and priorities and significant operational risks need identification. More work on embedding risk management throughout the organisation and within the culture of the Council is needed. Action will be taken during the 2004/05 financial year to progress these issues.

Performance information can generally be relied upon, however it is known that there are a large number of Performance Indicators where the audit trails and accuracy has been questioned and amendments were necessary this year. A Best Practice guide is in place and further steps are being taken to improve the situation.

There is a need to update our existing Business Continuity Plan and put in place procedures to deal with the requirements of the new Freedom of Information Act. Work on this is progressing during 2004/05.

Finally, although the arrangements for implementing Member decisions are felt to be generally sound, a recent example relating to an increase in charges being approved by Members but not implemented has highlighted the need for current processes to be reviewed and strengthened. This will be addressed and mechanisms established for Members to be informed in future should the situation arise where officers believe there are good reasons to delay or not action any Member decisions.

7. Conclusion

A sound system of internal control has been in place at the Council throughout the year ended 31st March 2004 and work to strengthen this is ongoing. Specific areas for attention are identified in section 6 and progress on these and the Council's overall Corporate Governance arrangements will be reviewed further during 2004/05, taking into account any issues arising from the CPA inspection in September 2004.

Patricia Rockall,
Chief Executive

Date: _____

Sue Carpendale,
Chairman of Strategy Committee

Date: _____

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

CONSOLIDATED REVENUE ACCOUNT

This account shows the gross expenditure, income and net expenditure in 2003/04 on all services of the Council and any amounts transferred to and from reserves. This net expenditure is financed by general reserves, government grants and local taxpayers. The notes to this statement provide further explanation of these figures and changes between 2002/03 and 2003/04.

	Note Ref	2003/04			2002/03 (restated)
		Gross Expenditure £000	Income £000	Net Expenditure £000	Net Expenditure £000
Environmental Services		4,274	(1,228)	3,046	2,771
Cultural Services		1,673	(390)	1,283	1,638
Planning Services	4,21	2,513	(1,081)	1,432	1,172
Transport Services		394	(42)	352	391
Housing Services					
General Fund Housing		6,054	(4,572)	1,482	1,815
Housing Revenue Account	3	21,635	(13,367)	8,268	11,344
Central Services to the Public	20	4,852	(3,847)	1,005	1,018
Corporate and Democratic Core	5	2,432	(315)	2,117	1,962
Non-Distributed Costs	5	507	0	507	383
Net Cost of Services		44,334	(24,842)	19,492	22,494
Precepts of Town/ Parish Councils	15			1,442	1,300
Asset Management Account	12			(8,285)	(13,073)
Losses on the early settlement of borrowing	24			285	97
Pensions interest cost and expected return on pensions assets	9			572	393
Interest and Investment Income	11			(318)	(528)
Net Operating Expenditure				13,188	10,683
Council Housing transferred to/(from) HRA balances	3			(133)	270
Capital expenditure financed from revenue	13			108	267
Adjustment for provisions for loan repayment	14			(2,395)	(1,606)
Credit for Commutation - Supplementary Credit Approval				0	(64)
Transfer to/from major repairs reserve	18			(1028)	(123)
Movement on pensions reserve	9			465	533
Amounts to be financed from Government Grants and Local Taxpayers				10,205	9,960
General Government Grant				(1,856)	(971)
Non Domestic Rate Redistribution				(2,915)	(3,381)
Council Taxpayers (Demand on the Collection Fund)	15			(4,963)	(4,479)
Transfers (from)/to the Collection Fund in respect of surpluses/deficits	16			0	(12)
Net General Fund (surplus)/deficit				471	1,117
General Reserve					
Balance at 1 April 2003				3,996	5,113
Balance at 31 March 2004				3,525	3,996

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

1. Classification of Expenditure

The analysis of service costs by expenditure heading has been stated in accordance with the CIPFA's Best Value Accounting Code of Practice.

2. Capital Accounting System

Net expenditure on each service includes capital charges for the fixed assets used in the provision of that service. This charge covers the annual provision for depreciation where appropriate, plus a capital financing charge determined by applying a specified notional rate of interest (3.5% for assets carried at current value and 4.625% for assets carried at historical cost), based on the net amount at which the asset is included in the balance sheet. In order that there should be no effect on the Council Tax Payer these notional charges are credited to the Asset Management Account and offset by the true capital financing costs (see note 12, page 18). Capital charges are also included in the Housing Revenue Account and are based on rules laid down by the Government (see note 8 page 27).

3. Inclusion of Council Housing Expenditure

The net cost of services relating to Council Housing and entries relating to corporate expenditure and income, appropriations, and the surplus or deficit for the year are required by the SORP to be included in the Consolidated Revenue Account. A full analysis of these figures is included in the Housing Revenue Account given on page 25. The net expenditure or surplus is transferred to/from the Housing Revenue Account so there is no effect on the totals to be financed from government grant and local taxpayers. Charges between the General Fund and the Housing Revenue Account are consolidated within this statement. (See also note 9 to the Housing Revenue Account).

4. Economic Development and Industrial Estates

Included within the net expenditure for Economic Development and Industrial Estates is the net cost resulting from the operation of Council owned industrial estates and starter units. The detailed figures are as follows:

	2003/04 £000	2002/03 £000
Income		
Rents	79	75
Expenditure		
Running Costs	(49)	(50)
Capital Charges	(36)	(73)
Net Surplus / (Loss)	(6)	(48)

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

5. Corporate and Democratic Core and Non-Distributed Costs

The Council incurs corporate and democratic costs specifically due to it being an elected multi-purpose authority. These costs are not related to the direct cost of the provision of services, and therefore are shown in total in the Consolidated Revenue Account. Non-distributed costs relate mainly to contributions to meet the pension fund deficit. In 2003/04 £0.486m (£0.457m in 2002/03) relating to these costs were apportioned to the Housing Revenue Account from the General Fund.

6. Section 137, Local Government Act 1972

Section 137 of the Local Government Act 1972, as amended, gives powers to authorities to make contributions to certain charitable funds, not-for-profit bodies providing a public service in the UK and mayoral appeals. Babergh has made a small number of grants (which equated to £0.021m in 2003/04; £0.015m in 2002/03) that fall within the remit of the amended power.

7. Publicity Memorandum Account

Section 5 of the Local Government Act 1986 requires Local Authorities to identify expenditure on publicity.

	2003/04 £000	2002/03 £000
Recruitment advertising	70	90
Other advertising	52	43
Tourism	212	195
Other publicity	143	110
Total	477	438

8. Agency Services

The Council has a service agreement with Suffolk County Council to carry out grass cutting on District Highways. The total reimbursed during 2003/04 was £0.021m (£0.018m in 2002/03). These amounts are included in the Consolidated Revenue Account.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

9. Pension Costs

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

The Council pays contributions to the Suffolk County Council Pension Fund, which provides its members with defined benefits relating to pay and service. The contributions are based on rates determined by the Fund's professionally qualified actuaries based on triennial valuations of the Fund, the most recent of which was 31 March 2001.

In 2003/04 the authority paid an employer's contribution of £1.804m (2002/03 £1.636m) based on 30.1% (2002/03 29.2%) of pensionable employees' reckonable pay, as well as £0.019m (2002/03 £0.023m) in respect of past employees. In addition to these, lump sum contributions of £1.050m have been paid towards the fund deficit between 2001/02 and 2003/04 from capital receipts – a sum of £0.493m was paid over in 2003/04.

We recognise the cost of retirement benefits in 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 cash payable in the year, so the real cost of retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

	2003/04 £000	2002/03 £000
Net Cost of Services:		
- current service costs	(103)	(106)
- past service costs	(934)	(820)
	(1,037)	(926)
Net Operating Expenditure:		
- interest	1,977	1,982
- expected return on assets in the scheme	(1,405)	(1,589)
	572	393
Movement on Pensions Reserve:		
- reverse out FRS 17 composite entries	(1,851)	(1,492)
- employers' contributions payable to the scheme	2,316	2,025
	465	533
Total cost of FRS 17 adjustments to Council Tax Payers	0	0

Note 27 to the Consolidated Balance Sheet contains details of the assumptions made by the actuary in estimating the figures included in this note. Note 5 to the Statement of Total Movements in Reserves details the costs that have arisen through the year where estimates made in preparing figures for previous years have had to be revised (e.g. the expected return on investments).

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Further information can be found in Suffolk County Council's Pension Annual Report, which is available upon request from: Director of Resource Management, PO Box 38, St Giles House, County Hall, Ipswich, IP4 2JP.

10. Leases

The Council's policy has been to acquire certain equipment and vehicles through operating leases. Of the eight leases arranged during 2003/04, four have to be classified as finance leases in accordance with SSAP21, of which 3 relate to the HRA. The other four were for comfort cooling equipment at the HQ (capital cost £.085m), a heat and power unit at the Kingfisher Leisure pool (£0.055m), warden call alarms (£.019m) and IT equipment (£.097m).

The amount paid under operating lease arrangements in 2003/04 was £0.117m (£0.209m in 2002/03). The amounts charged to revenue may vary to actual payments depending when in the year the lease commences. The impact of these differences is set out below, with the figures analysed between general fund and housing revenue account:

Operating leases	2003/04		2002/03 (restated)	
	£000		£000	
	General Fund	HRA	General Fund	HRA
Paid in year	95	22	191	18
Charged to revenue	161	21	225	18

The total amount outstanding on operating leases stands at £0.281m (2002/03 £0.101m). The council is committed to making payments of £0.075m under these leases in 2004/05, comprising the following elements:

	Total	General Fund	HRA
	£000	£000	£000
Leases expiring after 2005/06	75	53	22

See note 29 to the Consolidated Balance sheet for outstanding obligations for finance leases.

11. Interest and Investment Income

This relates to the interest earned on the Council's cash balances, which are invested in accordance with the Council's Treasury Management policy.

Investment income has reduced from £0.528m to £0.318m mostly due to the average level of surplus funds available to invest reducing from £12.8m to £6.8m, resulting from debt repayments made at the end of 2002/03 to achieve debt-free status. There was also a reduction in the average interest rate from 4.09% in 2002/03 to 3.83% in 2003/04.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

12. Asset Management Revenue Account

This account eliminates the notional amounts charged to service accounts for the use of assets and replaces this with the actual capital financing costs, and incorporates charges for both the Housing Revenue Account and General Fund. The amount credited to revenue in 2003/04 in relation to General Fund services was as follows compared with 2002/03. No external interest was paid in 2003/04 due to the decision to repay debt and not re-borrow.

	2003/04 £000		2002/03 (restated) £000	
Capital charges to services for the use of fixed assets	(1,015)		(1,680)	
External Interest Payable	-	-	408	(9.7%)
Less discount arising from debt rescheduling	(38)		(39)	
Release of Government Grants/Contributions	(113)		(76)	
Depreciation – General Fund	374		453	
General Fund credit to Revenue Account	(792)		(934)	
HRA credit to Revenue Account	(7,493)		(12,139)	
Total credit to Consolidated Revenue Account	(8,285)		(13,073)	

The balance on this account cannot be regarded as indicative of good or bad performance in relation to property management.

13. Revenue Financing of Capital Schemes

Contributions to the cost of capital schemes undertaken during the year are made from the Revenue Account. In 2003/04 a total of £0.108m was financed in this way (2002/03 £0.283m). This was in respect of Council Housing Schemes (2002/03 £nil). Nothing was charged to the General Fund (2002/03 £0.267m), with £0.016m in 2002/03 being charged directly to services.

14. Loan Repayment Provision

Under legislation, the Council must set aside a minimum revenue provision towards the repayment of external loans. For 2003/04 the statutory amount set aside was nil, as in 2002/03.

An adjustment for the difference between the minimum revenue provision and the amounts charged to the Asset Management account for depreciation and the writing down of deferred charges has to be made to ensure there is no impact on Council Taxpayers. The calculation of the amounts involved and the credit to the Revenue Account is shown below:

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

	2003/04 £000	2002/03 £000
General Fund		
Minimum Revenue Provision:		
2% of Total Credit Ceiling	-	64
MRP Commutation Adjustment	67	(64)
Minimum Revenue Provision Required	67	0
Adjustment for charges to Asset Management Account:		
Depreciation – General Fund	(374)	(453)
Voluntary MRP	-	301
Deferred Charges	(1,678)	(1,640)
Appropriation re: impairment	(21)	-
Appropriation re: Govt. Grants/Contributions	114	76
Credit to Revenue Account	(1,892)	(1,716)
HRA		
Minimum Revenue Provision:		
2% of Total Credit Ceiling	59	110
Appropriation re: impairment	(567)	-
Appropriation re: Govt. Grants/Contributions	5	-
HRA Sub-total	(503)	110
Total	(2,395)	(1,606)

15. Demand on the Collection Fund (Council Tax)

The total demand from Council Taxpayers includes the amount required by the Town/Parish Councils. An analysis is shown below:

	2003/04 £000	2002/03 £000
Babergh District Council	3,521	3,179
Town/Parish Councils	1,442	1,300
Total Demand	4,963	4,479

16. Collection Fund Transfer

Under Collection Fund legislation any surplus/deficit on the Collection Fund balance relating to Council Tax is shared between Suffolk County Council, Suffolk Policy Authority and Babergh District Council in proportion to the precept/demand on the Fund for the year.

The amount of the transfer in the year is based on an estimate made on the 15 January preceding the start of the year. Any difference between this and the actual amount of surplus/deficit will be transferred in subsequent years.

17. Council Staffing - Remuneration

The Council employs a considerable variety of staff with different skills and expertise. An analysis of the numbers of full and part-time staff employed as at 31 March 2004 in remuneration bands above £50,000 per year is set out in the table below.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

Remuneration includes salary and other benefits as defined in the Accounts and Audit Regulations, which includes basic pay, overtime and bonus payments as well as health cover and car benefits where appropriate, but excludes employer's contributions to pension costs.

Remuneration £	Full Time	Part Time	Full Time	Part Time
	2003/04		2002/03	
90,000 – 99,999	1	-	-	-
80,000 - 89,999	-	-	1	-
70,000 - 79,999	2	-	-	-
60,000 - 69,999	-	-	2	-
50,000 - 59,999	8	-	6	-
Total	11	-	9	-

18. Major Repairs Reserve

There is a significant increase in the amount transferred in 2003/04 (£1.028m, compared to £0.123m in 2002/03 - restated) due to the policy of charging depreciation on Council Housing assets based on the uplifted Existing Use Value for Social Housing instead of using the Major Repairs Allowance (MRA) as previously adopted.

19. Related Party Transactions

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure 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 prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits).

Members of the Council have direct control over the Council's financial and operating policies. There were no transactions that were controlled or influenced by Members during the year.

There were no transactions with Officers that were under their control or influence.

During the year transactions with related parties were as follows:

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

	Receipts £000	Payments £000	Receipts £000	Payments £000
	2003/04		2002/03	
Central Government				
• Revenue Grants				
- Specific and Special Grants	8,355	-	7,097	-
- Redistributed NNDR	2,915	-	3,381	-
- Revenue Support Grant	1,856	-	971	-
• Capital Grants				
- Government	506	-	420	-
Precepts				
• Suffolk County Council	-	27,958	-	23,435
• Suffolk Police Authority	-	3,434	-	2,559
• Parish Council Precepts	-	1,442	-	1,300
Chief Executive, Corporate Directors and Heads of Service				
- Car loans made available under the Council's scheme	6	-	9	-
Suffolk County Council Pension Fund				
- Payment of employer's pension contributions in respect of employees	-	1,804	-	1,636
- Additional lump sum contribution from capital receipts	-	493	-	366
Hadleigh Swimming Pool				
- Sole Trustee, revenue and capital transactions	-	37	-	38
Grants to Parish Councils, Community Councils and Village Halls	-	77	-	56
Other Grants to Voluntary Organisations	-	327	-	948

Outstanding balances at the year-end were as follows:

	2003/04	2002/03
	£000	£000
Central Government		
• Revenue Grants		
- Specific and Special Grants	199	374
Chief Executive, Corporate Directors and Heads of Service		
- Car loans made available under the Council's scheme	5	11

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

20. Trading Accounts

The Council has trading operations covering Council Tax Collection. Details of expenditure and income in relation to this activity is shown below:

Trading Activity	Income £000	Expenditure £000	Surplus/ (Deficit) £000	Surplus/ (Deficit) 2002/03 £000
Council Tax Collection	328	313	15	2

21. Building Control Account

The Building (Local Authorities Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the building control function. Babergh sets charges for work carried out with the aim of covering all costs incurred. However, certain activities carried out by the Building Control section cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the building control section, divided between the fee-earning and non-fee earning activities:

	Non-fee earning	Fee earning	TOTAL
	2003/04 £000	2003/04 £000	2003/04 £000
Expenditure:			
Central and support charges	(100)	(335)	(435)
Income:			
Building regulation charges	-	317	317
Other	-	4	4
TOTAL INCOME	-	321	321
Surplus/(deficit) for the year	(100)	(14)	(114)
	2002/03 £000	2002/03 £000	2002/03 £000
Expenditure	(86)	(328)	(414)
Income	-	338	338
Surplus/(deficit) for the year	(86)	10	(76)

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

22. Local Authorities (Goods and Services) Act 1970

The council is empowered by the above Act to provide goods and services to other public bodies. During the year the council provided services for Housing Associations and undertook project work that was of benefit to other public bodies as well as to Babergh.

	2003/04		2002/03	
	Income £000	Expenditure £000	Income £000	Expenditure £000
Housing Associations	-	16	-	16
Other public bodies	(15)	15	(4)	4
Total	(15)	31	(4)	20

23. Members' Allowances

The total amount of Members' allowances paid during 2003/04 was £0.175m (£0.161m in 2002/03).

24. Gains or Losses on the Early Settlement of Borrowing

In 2003/04, nothing was payable in respect of premiums for premature repayment of external borrowing (£2.583m in 2002/03). Such premiums are debited to the HRA over a period of ten years. Because these amounts are paid initially from the General Fund there is a loss of interest to the General Fund and this is charged to the HRA and credited to the General Fund over the ten years. The net residual impact of £0.285m in 2003/04 (£0.097m in 2002/03) relating to this amortisation charge is shown in the Consolidated Revenue Account.

25. Audit and Inspection Costs

In 2003/04 Babergh District Council incurred the following fees relating to external audit and inspection:

	2003/04	2002/03
	£000	£000
• Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	99	51
• Fees payable to the Audit Commission in respect of statutory inspection	16	15
• Fees payable to the Audit Commission for the certification of grant claims and returns	49	64
• Fees payable in respect of other services provided by the appointed auditor.	0	1

The increased fees for external audit services in 2003/04 mostly relate to a change in the accounting treatment of the audit of the Best Value Performance Plan. The fees for certification of grant claims and returns in 2002/03 includes £19,000 relating to 2001/02 fees. The fees for other services in 2002/03 are in respect of the National Fraud Initiative 2002.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

HOUSING REVENUE ACCOUNT

The Housing Revenue Account shows the major elements of Council housing revenue expenditure - maintenance, administration, rent rebates - and capital financing costs, and how these are met by rents, subsidy and other income. There is a statutory requirement to keep this account separate from those of the Council's other activities.

	Note Ref	2003/04 £000	2002/03 (restated) £000
INCOME			
Dwelling rents	4	10,114	10,048
Non-dwelling rents		211	205
Charges for services and facilities	6	923	781
Contributions towards expenditure	9	113	110
Government Subsidy	16	1,996	2,724
Other income		10	8
		13,367	13,876
EXPENDITURE			
Repairs and maintenance		1,688	1,765
Supervision and management	2		
- General		1,646	1,637
- Special		1,279	1,236
Rents, rates, taxes and other charges	11	26	22
Housing Benefit	5	5,807	5,998
Provision for bad and doubtful debts	7	13	17
Cost of capital charge	17	7,640	12,524
Depreciation and impairment of fixed assets	15	3,692	2,232
Debt management costs		29	29
		21,820	25,460
Net Cost of Services			
		8,453	11,584
Net HRA income or expenditure on the Asset Management Revenue account	8	(7,493)	(12,139)
Interest on loan premium	18	99	31
Amortised premiums and discounts	18	285	97
Investment income	3	(46)	(69)
Net Operating Expenditure			
		1,298	(496)
Appropriations:			
Revenue contribution to capital expenditure	10	108	0
Contribution to minimum repayment provision	20	(503)	110
Transfer to/from Major Repairs Reserve	13	(1,028)	(123)
Movement on pensions reserve	19	258	239
Total: Deficit/(Surplus) for the year		133	(270)
Housing Revenue Account Balance			
Balance at 1 April 2003		1,625	1,355
Balance at 31 March 2004		1,492	1,625

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE HOUSING REVENUE ACCOUNT

1. Housing Stock

The Council was responsible for managing an average of 3,730 dwellings during 2003/04. The stock was made up as follows as at 31 March 2004:

	No. of properties
Houses and bungalows	2,985
Flats	678
Other	44
Total Stock at 31 March 2004	3,707

The change in the stock can be summarised as follows:

	2003/04	2002/03
Stock at 1 April	3,762	3,854
Less : sales	(55)	(92)
Stock at 31 March	3,707	3,762

The Council has part ownership (50%) of 5 houses, acquired under the Do-It-Yourself Shared Ownership (DIYSO) Scheme, included in the above figures.

2. Supervision and Management

This is divided into two areas, general and specialised support services. General relates to the general management of the Council's housing stock and includes the cost of policy and management, ensuring the welfare of tenants, tenancy applications and selection, and rent collection and accounting. Special services relates to services provided for specific dwellings or residents and includes items such as central heating, caretaking and cleaning, wardens services and estate maintenance.

3. Investment Income

This relates to interest credited to the Housing Revenue Account in respect of the working balance of the fund. The interest rate applicable in 2003/04 was 3.83% compared with 4.09% in 2002/03.

4. Gross Rent Income

During the year 1.1% of dwellings were vacant (0.9% in 2002/03). The actual average rent per week in 2003/04 was £53.09 (52 week basis), an increase of £1.55 (3.0%) over the previous year. The amount of rent/service charges due to be collected from tenants (net of rebates granted) was £5.441m (£5.036m in 2002/03).

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

NOTES TO THE HOUSING REVENUE ACCOUNT

5. Housing Benefit

Assistance with rents and service charges is available under the Housing Benefits Scheme for those on low incomes. Approximately 60% of the Council's tenants received some help in 2003/04 (59% in 2002/03).

6. Service and Facility Charges

These charges relate particularly to heating and scheme management services provided to residents in sheltered accommodation and homeless units, including charges and grants received towards the provision of support services to tenants. They also include the charges for community alarm systems in Council Houses.

7. Rent Arrears

At the end of the year rent arrears, as a proportion of gross rent income, remained the same as 2002/03, at 3.0% of the amount due. The figures are as follows:

	2003/04 £000	2002/03 £000
Arrears at 31 March	314	308

The balance sheet provision in respect of uncollectable debts is £0.110m, which includes a decrease of £0.003m for 2003/04. The arrears figure includes some other charges that are normally paid by tenants with their rent.

8. Asset Management Revenue Account

This account reverses out charges for the use of assets included in the Net Cost of Services and replaces them with the actual financing costs. Depreciation costs are compensated by the major repairs allowance included in the Government subsidy receivable and from transfers to/from the Major Repairs reserve, in order to ensure that there is no impact on Council tenants.

	2003/04 £000	2002/03 (restated) £000
Capital charge – interest (notional)	(7,640)	(12,524)
Interest	108	409 (9.7%)
Financing charge re finance leases	44	(24)
Depreciation – dwellings and non-dwellings	3,126	2,232
Depreciation charged to net cost of services	(3,126)	(2,232)
Release of government grants/contributions	(5)	-
Total	(7,493)	(12,139)

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE HOUSING REVENUE ACCOUNT

9. Contributions towards expenditure

The General Fund makes a contribution to reflect the benefit the community as a whole receives from amenities provided for tenants. This relates to the cost of amenity area maintenance in respect of sold Council houses.

10. Direct Revenue Financing of Capital Schemes

In 2003/04, £0.108m of the Housing Revenue Account capital programme was financed directly from revenue, which was the amount planned.

11. Rent, Rates, Taxes and other charges

	2003/04 £000	2002/03 (restated) £000
Miscellaneous rents payable	4	4
Operating lease payments	22	18
Total	26	22

Outstanding obligations on the operating lease agreements at 31 March 2004 amounted to £0.052m, which related to community alarms (£0.054m at 31 March 2003). Operating lease agreements shown under this heading in 2002/03 have now been classified as finance leases and the outstanding liability is now shown as a deferred liability on the balance sheet. See note 29 to Consolidated Balance sheet.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE HOUSING REVENUE ACCOUNT

12. HRA Fixed Assets 2003/04

	Value as at 31 March 2004 £000	Value as at 1 April 2003 £000 (restated)
Land	3,404	3,288
Houses	210,635	202,444
Other Property	2,378	2,303
Leased Heating Systems	1,405	696
	217,822	208,731
Operational assets comprising dwellings and other land and buildings	211,930	203,689
Leased Heating Systems	1,405	696
Non operational assets	4,487	4,346
	217,822	208,731

The value of the dwellings within the HRA shows the economic cost to Government of providing Council housing at less than open market rents. The vacant possession value of dwellings as at 1 April 2004 was £370.7m.

13. Major Repairs Reserve

The Major Repairs Reserve is established from the Government's annual Major Repairs Allowance (MRA). It is credited with an amount equal to the depreciation on dwellings, borrowed from the Capital Financing Reserve (CFR). It is written back to the CFR when capital expenditure is incurred that is eligible to be funded from MRA monies.

	2003/04	2002/03 (restated)
	£000	£000
Balance as at 1 April 2003	(390)	-
Amount transferred to the reserve (equivalent to depreciation on HRA dwellings)	(3,126)	(2,232)
Amount transferred from the reserve to the HRA	1028	123
Capital Expenditure in the year (all on Council Housing)	2,488	1,719
Balance as at 31 March 2004	0	(390)

14. Capital Expenditure and Financing Summary

Capital expenditure in 2003/04 in the HRA was financed as follows:

	2003/04	2002/03		2003/04	2002/03
	£000	£000		£000	£000
Dwellings	3,141	2,006	Capital receipts	464	-
Other Property	-	506	Use of credit approvals	-	515
Central Heating	857	-	Revenue contributions	108	-
			Major repairs reserve	2,488	1,719
			Contributions	22	116
			Finance Lease	857	-
			Change in working capital	59	162
	3,998	2,512		3,998	2,512

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE HOUSING REVENUE ACCOUNT

Total capital receipts from disposals of Council houses through the Right to Buy scheme during 2003/04 were £2.96m (this includes one rent to mortgage £0.039m), receipts from sale of DIYSO properties were £0.149m and receipts from sale of housing land were £0.280m.

15. Depreciation and Impairment

The total charge for 2003/04 is as follows:

	2003/04		2002/03 restates	
	Depreciation £000	Impairment £000	Depreciation £000	Impairment £000
Houses	2,950	567	2,109	-
Other Property	45	-	35	-
Central Heating (leased)	130		88	
	3,125	567	2,232	-
Operational assets comprising dwellings and other land and buildings and leased heating	3,103	567	2,212	-
Non operational assets	22	-	20	-
	3,125	567	2,232	-

The impairment charge reflects the revised valuations applied by the external valuer. Further details are provided in accounting policies note 10, page 61.

16. Breakdown of the Amount of HRA Subsidy Payable

The amount received from the Government is based on a notional assessment of the HRA and details on how this is determined are set out below:

	2003/04 £000	2002/03 £000
Management Allowance	1,009	1,049
Maintenance Allowance	2,003	1,960
Major Repairs Allowance	2,098	2,109
Housing Benefits	5,615	5,757
Charges for capital	617	895
Other items of reckonable expenditure	5	5
	11,347	11,775
Interest on Receipts	(5)	(11)
Notional Income from Rents	(9,345)	(9,072)
Adjustment to 2002/03 subsidy	(1)	32
Total subsidy receivable	1,996	2,724

17. Cost of Capital Charge

A cost of capital charge is included in the Housing Revenue Account. This represents a financing charge at a specified notional rate of interest (3.5% for assets carried at current value and 4.625% for assets carried at historical cost) based on the net amount at which the asset is included in the balance sheet. The charge is then credited out of the account below the 'Net Cost of Services' in order to ensure that there is no impact on tenants.

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

NOTES TO THE HOUSING REVENUE ACCOUNT

18. Amortised Premiums and Interest on Loan Premium

See note 24 to the Consolidated Revenue Account on page 24.

19. Pension Costs

Details of total revenue retirement benefit transactions are shown in note 9 to the Consolidated Revenue account on page 17.

For 2003/04, Authorities have been permitted to individually choose the methodology which they consider to be most appropriate for the HRA, as explained in the accounting policies. Hence the appropriate share of all pension cost components have been allocated (except actuarial gains and losses) to the HRA. A pension reserve movement entry adjusts the pension cost borne by the HRA so that there is no impact on the bottom line. Entries to the HRA are as follows:

	2003/04 £000	2002/03 £000
Supervision & management		
- General	(255)	(236)
- Special services	(3)	(3)
	(258)	(239)
Movement on pensions reserve:		
- reverse out FRS 17 composite entries	(203)	(196)
- employers' contributions payable to the scheme	461	435
	258	239
Total cost of FRS 17 adjustments to HRA	0	0

20. Contribution to minimum repayment provision

See note 14 to the Consolidated Revenue Account on page 19.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

THE COLLECTION FUND

This account reflects the statutory requirement for the Council to maintain a separate Collection Fund. It shows the transactions in relation to Council Tax, and Non-Domestic Rates and illustrates the way in which these have been distributed to Suffolk County Council, the Suffolk Police Authority, Parish and Town Councils and the Council's General Fund.

	Note Ref	2003/04 £000	2002/03 £000
INCOME			
Income from Council Tax	1	32,962	27,665
Transfers from General Fund			
- Council Tax Benefits	2	3,333	2,706
- Council Tax transitional relief	2	(1)	-
Income collectable from business ratepayers	3	12,981	13,065
Contribution from the General Fund (Discretionary Rate Relief)	6	74	74
		49,349	43,510
EXPENDITURE			
Precepts and Demands	5	36,355	30,407
Business Rates			
- Payment to National Pool	3	12,942	13,024
- Costs of collection	3	115	115
Council Tax - Bad and doubtful debts			
- Write offs		57	79
- Provisions	4	20	18
Contributions			
- Towards previous year's estimated Collection Fund Surplus	5	-	78
		49,489	43,721
Movement on Fund Balance	6	(140)	(211)
FUND BALANCE			
(Deficit)/Surplus at 1 April		(189)	22
Movement on fund balance		(140)	(211)
(Deficit)/Surplus at 31 March	6	(329)	(189)

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

NOTES TO THE COLLECTION FUND ACCOUNT

1. Council Tax Income

This figure reflects the net amount receivable from taxpayers in 2003/04 after allowing for entitlements to Council Tax benefits and transitional relief.

All domestic properties are banded according to their value at 1 April 1991 and a tax level is set to meet the demands from Suffolk County Council, Suffolk Police Authority, Babergh District Council and Parish/Town Councils.

The tax is set by dividing these demands by the Council's tax base, which is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts and estimated changes during the year apply) expressed as an equivalent number of Band D dwellings.

The calculation of the tax base for 2003/04 and the income it was forecast to generate is shown below:

Band	Chargeable Dwellings	Factor	Band D Equivalents	Forecast Income £000
A	3,326.12	6/9ths	2,217.41	2,567
B	9,641.00	7/9ths	7,498.56	8,681
C	6,869.00	8/9ths	6,105.78	7,068
D	6,146.00	9/9ths	6,146.00	7,115
E	3,520.75	11/9ths	4,303.14	4,982
F	1,820.25	13/9ths	2,629.25	3,044
G	1,370.50	15/9ths	2,284.17	2,644
H	149.00	18/9ths	298.00	345
Total	32,842.62		31,482.31	36,446
Less provision for bad and doubtful debts (0.25%)			(78.71)	(91)
Tax base for tax setting			31,403.60	36,355

The shortfall of £0.152m between the forecast gross income from the tax base of £36.446m and the amount of income from Council Tax payers, Benefits and Transitional Relief was equivalent to a reduction of 131 Band D properties and arose due to actual growth in the tax base being less than anticipated during the year.

2. Transfers from General Fund

These amounts represent the total of individual entitlements to reductions in the amount of Council Tax payable in the year. Council Tax benefit and Transitional Relief granted are credited to the Collection Fund and charged to the General Fund. Transactions in relation to reimbursement by the Government of benefits and reliefs granted and the costs of administration are accounted for in the General Fund.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE COLLECTION FUND ACCOUNT

3. Business Rates

The Council collects business rates in the district. The amount collected less an allowance for the cost of collection (of £0.115m in 2003/04) is paid over to the Government's National "Pool" for redistribution. The rateable value of all properties in the district at 31 March 2004 was £35.213m and the national rate in the pound (fixed by the Government) for the year was 44.4p. The comparable figures for 2002/03 were £34.153m and 43.7p.

The net amount collectable from ratepayers reduced from £13.065m in 2002/03 to £12.981m in 2003/04 due to movements in the rating list following the 2000 revaluation. Reductions are made from gross charges for reliefs (transitional and charitable), allowances for empty properties and a provision for non-collection. This amount, less the allowance towards the cost of collection, which is transferred to the General Fund, is paid to the National Pool.

Every 5 years, all business properties are re-valued by the District Valuer to reflect movement in market prices. This last took place on 1 April 2000.

4. Bad and Doubtful Debts

Provision has been made for a 0.10% non-collection rate in respect of Council Tax, compared to 0.11% as at 31 March 2003.

5. Precepts / Demands

The amounts included in the accounts are as follows:

	2003/04		2002/03	
	£000	£000	£000	£000
Suffolk County Council		27,958		23,375
Suffolk Police Authority		3,434		2,553
Babergh District Council				
District Council purposes	3,521		3,179	
Town/Parish Council purposes	1,442		1,300	
		4,963		4,479
Total		36,355		30,407

**BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04**

NOTES TO THE COLLECTION FUND ACCOUNT

6. Fund Balance / Allocations of Estimated Collection Fund Surplus

The Fund balance relating to Council Tax is shared between Suffolk County Council, Babergh District Council and the Suffolk Police Authority in proportion to the precept/demand on the fund for the year. This is based on an estimate of the balance made on 15 January in the preceding financial year. As at 31 March 2004 there was a deficit on Council Tax overall of £0.253m.

The movement on fund balance in respect of individual precepting bodies in 2003/04 is as follows:

	Fund Balance 31 March 2004 £000	Movement on Fund Balance 2003/04 £000	Balance 1 April 2003 £000
Babergh District Council			
- Council Tax	(35)	(18)	(17)
- Discretionary Rate Relief	(76)	(2)	(74)
Suffolk County Council			
- Council Tax	(194)	(106)	(88)
Suffolk Police Authority			
- Council Tax	(24)	(14)	(10)
Total	(329)	(140)	(189)

The deficit of £0.076m relating to discretionary rate relief granted to businesses is not met by the General Fund until the following year in accordance with Government regulations. However, the expenditure has been allowed for in the Consolidated Revenue Account for 2003/04.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
CONSOLIDATED BALANCE SHEET

This shows the overall financial position of the Council and summarises its assets and liabilities at the end of the financial year.

	Note Ref	31 March 2004		31 March 2003 (restated)	
		£000	£000	£000	£000
Fixed assets					
Operational assets					
- Council housing dwellings			212,040		202,444
- Other land and dwellings			10,276		9,756
- Vehicles, plant and equipment			614		799
- Infrastructure			721		760
- Community assets			599		-
Non operational assets			6,601		6,429
Assets under construction			93		61
Total fixed assets	1-6		230,944		220,249
Deferred Charges					
- Improvement grants	6,7		44		61
- Other	6,7		568		307
Long term debtors/mortgages	8		2,101		2,408
Long term investments	9		80		80
Total Long Term Assets			233,737		223,105
Current Assets					
Stocks and Stores			45		51
Debtors	10		3,955		3,752
Investments (short term)	11		2,469		3,663
Cash and bank			366		-
Other current assets	12		725		638
			7,560		8,104
Current Liabilities					
Creditors	13		(2,899)		(2,700)
Other current liabilities	14		(1,748)		(1,391)
Provisions	15		-		(97)
Cash overdrawn			-		(1,182)
Net current assets			2,913		2,734
Total Assets less Current Liabilities			236,650		225,839
Deferred capital receipts	17		(160)		(178)
Deferred credits	25		(284)		(322)
Deferred Liability (finance leases)	29		(1,517)		(566)
Pensions liability	27		(8,670)		(13,018)
			(10,631)		(14,084)
Total Assets less Liabilities			226,019		211,755
Fixed asset restatement reserve	19		186,742		176,986
Capital financing reserve	19		39,579		39,966
Capital contributions unapplied	23		133		52
Capital grants unapplied	23		154		105
Capital receipts unapplied	21		1,328		1
Major Repairs Reserve			-		390
Government grants - deferred	18		492		243
Capital contributions - deferred	18		1,573		1,598
Revenue balances	24		4,688		5,432
Pensions reserve	27		(8,670)		(13,018)
Total Equity			226,019		211,755

Geoff Kistner, Corporate Director.....Dated:.....

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. Fixed Assets

	Council Housing Dwellings £000	Other land and buildings. £000	Vehicles Plant and Equipment £000	Infra-structure £000	Communi-ty assets £000	Non-Operational incl. HRA £000	Assets under construc-tion £000	Total £000
Book value as at 1 April 2003 (restated)	203,140	9,756	103	760	-	6,429	61	220,249
Expenditure in year	3,998	406	609	-	-	-	32	5,045
Disposals in year	(2,961)	(107)	-	-	-	(449)	-	(3,517)
Revaluations in year	11,510	477	(29)	-	615	682	-	13,255
Gross book Value 31 March 2004	215,687	10,532	683	760	615	6,662	93	235,032
Depreciation for year	(3,080)	(250)	(69)	(39)	(1)	(61)	-	(3,500)
Impairment	(567)	(6)	-	-	(15)	-	-	(588)
Net book value 31 March 2004	212,040	10,276	614	721	599	6,601	93	230,944
Note: Accumulated depreciation and impairment at 1 April 2003	(6,516)	(1,454)	(465)	(474)	-	(505)	-	(9,414)
Accumulated depreciation and impairment to 31 March 2004	(10,163)	(1,710)	(534)	(513)	(16)	(566)	-	(13,502)

The revaluation figures are analysed below:

Revaluations in Year 2003/04	£m
Annual indexing update of value of HRA assets and revaluation of general fund assets as at 31 March 2004	16.9
Capital expenditure in year that does not increase asset values	(3.6)
Total Variation	13.3

The revaluation figures reflect the fact that not all capital expenditure adds to the value of the asset - capital expenditure can also be incurred on extending the life of an asset or enhancing its use. Community assets have previously been carried at a notional value of £1 each. The revaluation in the year reflects the current value assigned by the valuers.

Assets held under finance leases include Central Heating systems (all HRA) valued at £1,405k as at 31st March 2004 (£696k at 31/03/03) and Wheeled bins valued at £307k as at 31/03/04.

The bins were purchased in 2003/04 as were central heating systems to the value of £857k.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

2. Capital Commitments

As at 31 March 2004 the Council was contractually committed to certain capital works. There are major commitments on the following items of capital expenditure:

	£000
Housing	
Drainage and estate improvements	51
North St/Gainsborough St Sudbury – environmental improvements	232
Renovation Grants approved	97
Roofing works	73
Other commitments	203
Total	656

Other commitments, above, are contracts and grants that, individually, are not of sufficient value to require separate disclosure.

3. Information on Assets Held

Fixed assets owned by the Council include the following:

	Number at 31 March 2004	Number at 31 March 2003
Operational Assets		
HRA		
Council Dwellings (incl DIYSO)	3,707	3,762
General Fund		
Council Headquarters	1	1
Offices and Other Buildings	1	1
Tourist Information Centres	2	2
Depots and Workshops	3	3
Off-Street Car Parks	22	22
Leisure Centres and Swimming Pools	1	1
Public Conveniences	13	13
Bus Stations	1	1
Amenity Land and Community Assets	29	29
Non-operational assets		
HRA		
Shops	9	9
Misc Properties	8	8
Vacant Land	26	26
General Fund		
Commercial Property available for rent	14	14
Other dwellings	5	5
Surplus property	2	2
Infrastructure Assets		
General Fund		
Town Centre CCTV System	1	1
Gt Cornard Drainage System	1	1

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

4. Fixed Asset Valuation

The freehold and leasehold properties that comprise the authority's general fund property portfolio (and certain housing accommodation for the homeless) were professionally valued as at 1 April 2004. The valuation was carried out by an external independent FRICS qualified valuer from The Valuation Office on the undermentioned basis in accordance with the Statements of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Specific assets are revalued on an annual basis where appropriate.

Plant, machinery and furniture & equipment in the main office accommodation is included in the valuation of the buildings.

Properties regarded by the authority as operational were valued on the basis of open market value for the existing use or, where this could not be assessed because there was no market for the asset, the depreciated replacement cost.

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

Council dwellings were revalued on an Existing Use Value for Social Housing basis as at 1 April 2000, by an external independent FRICS qualified valuer from Countrywide Surveyors, in accordance with the requirements of Resource Accounting for the HRA. These values have been uplifted by Countrywide Surveyors to reflect any increase in valuations up to 31 March 2004.

Infrastructure assets represent the value of the Great Cornard Flood Relief Drainage System and the CCTV equipment installed in Sudbury and Hadleigh. These assets have been valued on the basis of historical cost.

	Council Housing Dwellings	Other land and buildings	Vehicles Plant and Equipment	Infra-structure	Communi-ty assets	Non-Operational incl. HRA	Assets under construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Valued at historical cost			614	721			93	2,833
Valued at current value in:								
2003/04		9,130			599	2,115		11,844
2002/03								
2001/02								
2000/01								
Earlier years	212,040	1,146				4,486		216,267
Total	212,040	10,276	614	721	599	6,601	93	230,944

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

5. Depreciation

Depreciation is charged on all Council assets, except in a few cases where the charge would not be material. Depreciation is calculated on a straight-line basis over the estimated remaining useful lives of the assets, which are set out in the table below.

Class of asset	Remaining life (years)
Council housing	50
Other land & buildings	3 – 50
Vehicles, plant & equipment	3 – 14
Community assets	5
Infrastructure assets	5 – 29
Non-operational assets	12 - 50

The wide range of useful lives reflects the individual nature of the assets concerned.

Central heating systems installed in Council Housing and financed by lease have been depreciated over the length of the leases (10 years).

Council housing has a range of estimated useful lives and 50 years is deemed to be the most appropriate and representative mid-point of these lives. See further information in note 6 of accounting policies on page 59.

6. Capital Financing

Capital expenditure in 2003/04 was financed as follows compared with 2002/03:

	2003/04 £000	2002/03 £000		2003/04 £000	2002/03 £000
Fixed Assets	5,045	2,820	Capital receipts	2,199	1,076
Deferred Charges	1,700	1,631	Use of credit approvals	-	1,083
			Revenue contributions	108	283
			Major Repairs Reserve	2,488	1,719
			Capital grants	491	187
			External Contributions	29	160
			Finance Lease	1,164	-
			Change in Working Capital	266	(57)
Total	6,745	4,451	Total	6,745	4,451

7. Deferred Charges

Under the capital accounting system deferred charges arise where expenditure is charged to capital and financed by loan but no tangible asset is acquired (e.g. grants towards capital costs incurred by other bodies/individuals). The balance is charged to the revenue account over an appropriate number of years. Movements in the year compared with 2002/03 were:

	2003/04 £000	2002/03 £000
Balance at 1 April	368	715
Prior year adjustment re E-Gov't/HB grant used to fund IT	106	-
Expenditure (including accruals)	1,700	1,631
Amounts financed from usable receipts/revenue etc	(1,348)	(1,797)
Amounts charged to consolidated revenue account	(214)	(181)
Balance at 31 March	612	368

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

The total balance of deferred charges at 31 March is analysed between improvement grants and other capital expenditure as follows:

	Improvement Grants £000	Other £000	Total £000
Balance at 1 April 2003	61	307	368
Balance at 31 March 2004	44	568	612

Other deferred charges relate mainly to capitalised software and accrued expenditure.

8. Long Term Debtors

These are amounts owing to the Council which become due over a longer period of time than one year, although some repayments will be made in the next financial year. The amounts are analysed below:

	31 March 2004 £000	Written down in year	31 March 2003 £000
Loan premium repayments	2,013	(285)	2,298
Housing mortgages	80	(19)	99
Other	8	(3)	11
Total	2,101	(307)	2,408

9. Long Term Investment

The investment concerned is £80,000 debentures issued by the Association of District Councils (ADC), which is now incorporated within the Local Government Association. This investment was in respect of new office accommodation; the earliest that any part of this could have been redeemed was June 2001. Interest is not receivable on these debentures but on redemption the Council will be repaid in full and will receive a share of any accrued capital appreciation (less tax) on the property acquired by the ADC from the amount raised by the debenture issue. Any future dividend arising from appreciated capital value of the ADC office building will accrue at the end of the debenture scheme in 2011. The Council has taken a prudent view in respect of the current property market and therefore no allowance for capital appreciation has been made in the accounts at this time and the investment is included at cost price.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

10. Debtors

An analysis of amounts due is shown below:

	31 March 2004 £000	31 March 2003 £000
HM Customs & Excise	267	286
Government departments	239	784
Other Local Authorities	1,058	434
Business ratepayers	369	350
Council taxpayers	959	870
Housing rents	314	308
Rent rebate overpayments	134	148
Employee car loans	135	190
Sundry debtors	734	641
Listed debtors	288	263
	4,497	4,274
Less: bad debt provision (see below)	(542)	(522)
Total	3,955	3,752

The significant increase in amounts due from other local authorities is due to collaborative funding of £0.695m owed by Suffolk County Council in respect of waste management.

The Council is required to use estimation techniques in establishing a provision for bad and doubtful debts in respect of local taxation and housing rent arrears. The provisions in relation to Council Tax and business rates are based upon experience of debt recovery and the specific stage within the debt recovery process that individual accounts stand. The provision for housing rents is based upon full debts for former tenants and a percentage basis for all current tenants over £100 in arrears.

The provisions at 31 March were:

	2004 £000	2003 £000
Council Tax	238	218
Non Domestic Rates (NNDR)	194	191
Housing Rents	110	113
Total	542	522

11. Short-Term Investments

Short-term investments were deposited with the following lenders at 31 March.

	2004 £000	2003 £000
UK Clearing Banks	969	2,663
Foreign Banks	500	-
Building Societies	1,000	1,000
Total	2,469	3,663

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
NOTES TO THE CONSOLIDATED BALANCE SHEET

12. Other Current Assets

These include payments made in advance for goods and services to be received in 2004/05. The total is £0.087m more than the previous year. This is mainly due to additional insurance premiums and BUPA subscriptions.

13. Creditors

An analysis of amounts due is shown below:

	31 March 2004 £000	31 March 2003 £000
Government departments	244	151
Inland Revenue	180	166
Other Local Authorities	220	61
Sundry creditors	2,255	2,322
Total	2,899	2,700

14. Other Current Liabilities

An analysis of amounts due is shown below:

	31 March 2004 £000	31 March 2003 £000 (restated)
Receipts in advance:		
- Council Tax	696	678
- Business rates	334	195
- Housing rents	47	28
- Other	210	188
Finance Leases	195	130
Miscellaneous	266	172
Total	1,748	1,391

15. Provisions

	31 March 2004 £000	Payments/ transfers in Year £000	1 April 2003 £000
Planning Appeals	-	97	97
Total	-	97	97

The Council's liability recognised at the end of 2002/03 in respect of the planning appeals has been fully discharged during the year.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

16. Long Term Borrowing

The Council remained debt-free at 31 March 2004.

17. Deferred Capital Receipts

Deferred capital receipts are amounts derived from sales of assets, which will be received in installments over agreed periods of time. They arise principally from mortgages on sales of Council houses which form the main part of mortgages under long term debtors and £80,000 is also included in respect of the ADC debenture (see note 9 page 41).

18. Government Grants / Capital Contributions Deferred

These balances represent monies received in respect of the acquisition or improvement of a fixed asset. For depreciable assets, the balance will be released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates. At 31 March these amounts were:

Capital Scheme	Grant/Contribution	2004 £000	2003 £000
Closed Circuit TV	Home Office Grant	52	65
Great Cornard Surface Water Drainage – Phase 1	Ministry of Agriculture Grant Suffolk County Council	119	125
Great Cornard Surface Water Drainage – Phase 2	Ministry of Agriculture Grant Suffolk County Council	167	175
Great Cornard Surface Water Drainage – Anglia Estates	Ministry of Agriculture Grant Suffolk County Council GF Suffolk County Council HRA	52	53
Kingfisher Leisure Centre	National Lottery Award Other Sources	71	73
East House	Insurance Suffolk County Council	44	44
Flatford TIC	National Lottery Award	100	98
Girling Street Car Park	Tesco	209	218
Raydon Way, Great Cornard	Insurance Claim	70	72
Recycling bins	DEFRA	495	508
IT (E-Gov't grant)	ODPM	43	44
IT (HB admin grant)	ODPM	152	156
Other Schemes	Various contributions	38	38
		46	47
		114	-
		145	-
		10	-
		138	125
Total		2,065	1,841

19. Fixed Asset Restatement Reserve and Capital Financing Reserve

The movement on these reserves is fully detailed in the Statement of Total Movement on Reserves and the accompanying notes.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
NOTES TO THE CONSOLIDATED BALANCE SHEET

20. Capital Receipts

The government specifies the amount of capital receipts that has to be set aside for the repayment of external loans. This is 50% for Housing land sales, 75% of Council House sales and 100% of Housing Corporation Grant, but zero for sales of other assets. The remaining proportions can be used for new capital investment. The figures for the last two years are as follows:

	2003/04 £000	2002/03 £000
Set aside	-	3,472
Usable	3,526	1,390
Total Receipts	3,526	4,862

There is nil set aside for this Council due to its debt-free status.

21. Usable Capital Receipts

	2003/04 £000	2002/03 £000
Balance at 1 April	1	261
Receipts in year	3,526	1,390
Applied during the year:		
- on new expenditure	(1,706)	(710)
- to reduce pension fund deficit	(493)	(366)
- voluntary set-aside	-	(574)
Balance at 31 March	1,328	1

22. Amount set aside for Loan Debt Redemption (Memorandum Account)

The Council is required to set aside sums for the repayment of debt or the financing of capital expenditure (providing there are sufficient unused credit approvals). The balance is included within the capital financing reserve. No new borrowing was undertaken in 2003/04, therefore capital expenditure backed by credit approvals has been funded from internal investments.

	2004 £000	2003 £000
Balance at 1 April	14,335	15,321
Reserved receipts in the year	-	3,472
Usable receipts set-aside	-	574
Minimum revenue provision	67	-
Voluntary revenue provision	-	301
	14,402	19,668
External debt repayments	-	(4,250)
Used to finance capital expenditure	-	(1,083)
Balance at 31 March	14,402	14,335

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

23. Capital Contributions/Grants Unapplied

These are sums that are not defined as capital receipts but have been received in connection with capital schemes and will be used to finance new capital expenditure or repay debt in the future.

24. General Fund Reserves and Balances

The movements on the various reserves are shown below:

	Balance 31 March 2004 £000	(Used)/ Added in Year £000	Balance 1 April 2003 restated £000
General Fund Reserves/Balances	3,525	(471)	3,996
Housing Revenue Account	1,492	(133)	1,625
Collection Fund	(329)	(140)	(189)
Total	4,688	(744)	5,432

The collection fund balance consists of a £0.253m deficit on Council Tax, and a deficit of £0.076m resulting from the treatment of discretionary rate relief. The Council Tax deficit will be debited to the General Fund and to Suffolk County Council/Suffolk Police Authority in due course, although the actual debit will be dependent on future tax yields and collection rates. The discretionary rate relief will be charged to the General Fund in 2004/05 and an accrual has been made for this liability (see note 6 to the Collection Fund on page 35).

25. Deferred Credits

This is the balance of the discounts received on premature repayment of external debt and will be credited to the revenue account in future years to reduce capital financing costs in the asset management account. The current balance of deferred credits will be credited to revenue over the next 11 years. Note 20 of the accounting policies describes the basis (on page 71).

26. Analysis of Net Assets Employed

The table below shows the reserves (both revenue and capital) attributable to the General Fund, the Housing Revenue Account and the authority's trading operations (see note 20, page 23).

	31 March 2004 £000	31 March 2003 £000
General Fund	20,996	16,701
Trading Operations	25	10
Housing Revenue Account	204,998	195,044
Total	226,019	211,755

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

27. Pension Fund

Note 9 to the Consolidated Revenue Account contains details of the Authority's participation in the Local Government Pensions Scheme (administered by Suffolk County Council) in providing retirement benefits. The underlying assets and liabilities for retirement benefits attributable to the authority as at 31 March are as follows:

	31 March 2004 £000	31 March 2003 (restated) £000
Estimated liabilities in scheme	(34,385)	(32,420)
Estimated assets in scheme	25,715	19,402
Net asset/(liability)	(8,670)	(13,018)

The liabilities show the underlying commitments that the authority has in the long-run to pay retirement benefits. The 2002/03 figures have been restated to reflect an amendment to the figures provided by the actuary. The total liability of £8.67m has an impact on the net worth of the authority as recorded in the balance sheet, which is reflected in the total equity figure of £224m. 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;
- finance is only required to be raised to cover pensions when the pensions are actually paid.

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 scheme has been assessed by Hymans Robertson, an independent firm of actuaries, estimates being based on the last full valuation of the scheme as at 31 March 2001. The main assumptions used in their calculations are:

Assumptions as at:	31 March 2004 %	31 March 2003 %
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	6.5	6.1

Assets in the Suffolk County Council's Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CONSOLIDATED BALANCE SHEET

Assets (Whole Fund)	Long term return %	31 March 2004 % of assets	31 March 2003 % of assets
Equity investments	7.7	67	63
Bonds	5.1	18	20
Property	6.5	11	14
Cash	4.0	4	3
Total	7.0	100	100

The movement in net pension liability is as follows:

	Year to 31 March 2004	Year to 31 March 2003
	£000	£000
Net pensions liability at 1 April	(13,018)	(7,741)
Movements in the year:		
Current service cost	(786)	(729)
Employers' contributions payable to scheme	2,316	2,025
Retirement benefits payable to pensioners	0	0
Past service costs	0	(4)
Interest costs	(1,977)	(1,982)
Expected return on assets in the scheme	1,405	1,589
Actuarial gains / (losses)	3,390	(6,176)
Net pensions liability at 31 March	(8,670)	(13,018)

The above figures have been provided by the actuaries to the Pension Scheme using information provided by the scheme and assumptions determined by the Council in conjunction with the actuary. As noted earlier, the 2002/03 figures have been restated to reflect an amendment to the figures provided by the actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possibilities.

28. Hadleigh and District Swimming Pool

The Council acts as sole Trustee for the Hadleigh and District Swimming Pool, which is a registered charity. The asset relating to the pool building is not included in the balance sheet as it is not an asset of Babergh District Council in its Local Authority role. The Authority, however, fully funds the net revenue expenditure of the pool as part of the Council's normal activities and this is recorded as such in the General Fund. This is equivalent to Babergh giving an annual grant to the charity and is reflected as such in the charity's accounts. During the year, the authority incurred gross expenditure of £0.052m (2002/03 £0.060m) in its capacity of trustee of the pool. As part of the management agreement for the pool, a share of the pool's income is deducted from the monthly management fee charged to Babergh. The charity's share of this income amounted to £0.001m (2002/03 £0.002m). Additional income was received in the year by way of a rate refund amounting to £0.014m (2002/03 £0.02m).

Due to the funding mechanism mentioned above, the charity has no liabilities at any given year-end.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
NOTES TO THE CONSOLIDATED BALANCE SHEET

29. Deferred Liabilities (re Finance leases)

The Council entered into four lease arrangements in 2003/04, three for central heating (HRA) and one for wheeled bins, with a capital value of £857k for heating and £307k for the wheeled bins.

Prior to 2003/04 the council had entered into a further three leases for central heating. These were originally classified as operating leases but are now shown as finance leases to comply with SSAP21.

	Central Heating £000	Wheeled Bins £000	Total £000
Deferred liability as at 1 April 2003	696	-	696
New agreements in year	857	307	1,164
Disposals re sold council houses	(18)	-	(18)
Payments in year	(130)	-	(130)
Deferred liability as at 31 March 2004	1,405	307	1,712
Amount due in 2004/05	164	31	195
Long-term liability	1,241	276	1,517

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF TOTAL MOVEMENT IN RESERVES

The Statement of Total Movement in Reserves brings together all the recognised gains and losses of the Council during the year. The statement separates the movement between revenue and capital reserves. The current statutory framework for accounting for capital income and expenditure requires that profits and losses upon the disposal of fixed assets do not pass through the Consolidated Revenue Account. These transactions are reflected in the account below as movements in reserves.

	Note ref.	2003/04		2002/03 (restated)	
		£000	£000	£000	£000
Surplus/(Deficit) for the year					
- General Fund		(471)		(1,117)	
- Housing Revenue Account		(133)		270	
- Collection Fund		(140)		(211)	
- Deferred Credits		(38)		(39)	
- Major Repairs Reserve		(390)		390	
- Appropriation from pensions reserve	6	958		899	
- Actuarial gains and losses relating to pensions	5	3,390		(6,176)	
Total increase/(decrease) in revenue resources	6		3,176		(5,984)
Increase/(decrease) in usable capital receipts		1,327		(260)	
Increase/(decrease) in unapplied capital grants and contributions		130		129	
Total increase/(decrease) in realised capital resources	1		1,457		(131)
Total increase/(decrease) in unrealised value of fixed assets	2		16,831		36,660
Value of assets sold, disposed of or decommissioned	3		(7,075)		(7,987)
Capital receipts set aside		-		4,063	
Revenue resources set aside		(387)		(1,099)	
Movement on Government Grants deferred		249		(36)	
Movement on contributions deferred		(25)		118	
Total increase/(decrease) in amounts set aside to finance capital investment	4		(163)		3,046
Total recognised gains and losses			14,226		25,604

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2003/04		2002/03	
1 Movements in realised capital resources	Usable capital receipts £000	Unapplied capital grants and contributions £000	Usable capital receipts £000	Unapplied capital grants and contributions £000
Amounts receivable in year	3,526	650	1,390	476
Amounts applied to finance new capital investment in year	(2,199)	(520)	(1,076)	(347)
Voluntarily set aside to repay debt	-	-	(574)	-
Total increase/(decrease) in realised capital resources in year	1,327	130	(260)	129
Balance brought forward at 1 April	1	157	261	28
Balance carried forward at 31 March	1,328	287	1	157

	2003/04	2002/03
2 Movements in unrealised value of fixed assets	Fixed asset restatement reserve £000	Fixed asset restatement reserve £000
Gains/(losses) on revaluation of fixed assets in year	16,831	36,660
Impairment losses on fixed assets due to general changes in prices in year	-	-
Total increase/(decrease) in unrealised capital resources in year	16,831	36,660
3 Value of assets sold, disposed of or decommissioned		
Amounts written off fixed asset balances for disposals in year	(3,499)	(4,516)
Other movement on the reserve	(3,576)	(3,471)
	(7,075)	(7,987)
Total movement on reserve in year	9,756	28,673
Balance brought forward at 1 April	176,986	148,313
Balance carried forward at 31 March	186,742	176,986

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

	2003/04				2002/03 (restated)
	Capital Financing Reserve £000	Govern- ment Grants Deferred £000	Contribu- tions Deferred £000	Total £000	Total £000
4 Movements in amounts set aside to finance capital investment					
Capital receipts set aside in year					
- reserved receipts	-			-	3,472
- usable receipts applied	-			-	591
Total capital receipts set aside in year	-			-	4,063
Revenue resources set aside in year					
- capital expenditure financed from revenue	108			108	110
- capital expenditure financed by capital receipts	1,027			1,027	-
- capital expenditure financed by BCA (deferred charges)	-			-	(377)
- capital expenditure financed by MRA	2,488			2,488	1,719
- reconciling amount for provision for loan repayment	(402)			(402)	(257)
- adjustment re HRA depreciation	(3,126)			(3,126)	(2,232)
- SCA re commutation	-			-	(64)
- impairment	(588)			(588)	-
- other adjustments	106			106	2
Total revenue resources set aside in year	(387)			(387)	(1,099)
Grants applied to capital investment in year		321	22	343	157
Amounts credited to the asset management revenue account in year		(72)	(47)	(119)	(75)
Movement on Government Grants Deferred		249	(25)	224	82
Total increase in amounts set aside to finance capital investment				(163)	3,046
Total movement on reserve in year	(387)	249	(25)	(163)	3,046
Balance brought forward at 1 April	39,966	243	1,598	41,807	38,761
Balance carried forward at 31 March	39,579	492	1,573	41,644	41,807

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
NOTES TO THE STATEMENT OF TOTAL MOVEMENT IN RESERVES

5. Actuarial Gains/(Losses) on Pensions Reserve

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 31 March 2004:

	£000	%
Differences between the expected and actual return on assets	3,402	13.2
Differences between actuarial assumptions about liabilities and actual experience	(12)	0.0
Changes in the demographic and financial assumptions used to estimate liabilities	0	0.0
Total	3,390	

Comparative total for 2002/03	(6,176)
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6. Movement in revenue resources

	General Fund Balances £000	HRA Balances £000	Pensions Reserve £000	Major Repairs Reserve £000	Collection Fund & Deferred Credits £000
Surplus/(deficit) for 2003/04	(471)	(133)			
Appropriations to/from revenue				(390)	(178)
Actuarial gains and losses relating to pensions			3,390		
Reversal of FRS17 composite pension entries			(1,358)		
Charging of pension costs payable to Council Tax			2,316		
	(471)	(133)	4,348	(390)	(178)
Balance brought forward at 1 April 2003	3,996	1,625	(13,018)	390	133
Balance carried forward at 31 March 2004	3,525	1,492	(8,670)	-	(45)

Further details of the reporting requirements for pension payments and on the pensions reserve can be found in note 9 to the Consolidated Revenue Account (page 17) and in note 27 to the Consolidated Balance Sheet (page 47).

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

CASH FLOW STATEMENT

	Note Ref	2003/04		2002/03	
		£000	£000	£000	£000
Revenue Activities					
<u>Cash Outflows</u>					
Cash paid to and on behalf of employees		9,440		8,718	
Other operating cash payments		6,095		7,737	
Housing Benefit paid out		4,486		4,459	
Precepts and Demands		32,834		27,307	
Contribution to pool in respect of NNDR collected		12,942		13,024	
<u>Cash inflows</u>					
Rents (after rebates)		(4,704)		(4,471)	
Council Tax receipts		(29,542)		(25,025)	
Non Domestic Rate Income (NNDR)		(13,179)		(13,273)	
Contribution from NNDR pool		(3,612)		(2,471)	
Revenue Support Grant		(1,855)		(971)	
DWP grants for housing benefits		(9,291)		(8,931)	
Other Government grants	4	(1,181)		(299)	
Cash received for goods and services		(2,739)		(2,298)	
Other operating cash receipts		(703)		(1,767)	
	2		(1,009)		1,739
Servicing of Finance					
<u>Cash Outflows</u>					
Interest paid		45		496	
<u>Cash inflows</u>					
Interest received		(374)		(471)	
			(329)		25
Capital Activities					
<u>Cash Outflows</u>					
Purchase of fixed assets		4,326		2,535	
Deferred Charges		1,700		1,631	
<u>Cash inflows</u>					
Sale of fixed assets		(3,573)		(4,943)	
Capital grants received		(358)		(445)	
Other capital cash receipts		(77)		(326)	
			2,018		(1,548)
Net cash (inflow)/outflow before financing			680		216
Management of Liquid Resources					
Net increase/(decrease) in short term deposits	3		(1,194)		(4,351)
Financing					
<u>Cash outflows</u>					
Repayments of amounts borrowed	5	-		4,250	
Capital element of finance lease rental payments		130		88	
<u>Cash inflows</u>					
New loans raised		(1,164)		-	
			(1,034)		4,338
(Increase)/decrease in cash and cash equivalents	3		(1,548)		203

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CASH FLOW STATEMENT

1. General

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

2. Reconciliation of Surplus to Net Cash Flow

This note gives a reconciliation between the (surplus) deficit on the income and expenditure accounts for the General Fund, Housing Revenue Account and Collection Fund and the net cash flow from revenue activities.

	2003/04		2002/03	
	£000	£000	£000	£000
(Surplus)/Deficit for the year		744		1,058
Non Cash Transactions				
+/- SCA commutation adjustment	-		64	
+/- minimum revenue provision	(66)		(301)	
+/- provisions set aside in the year	(20)		(1)	
+/- contbs. to/from Major Repairs Reserve	(2,098)		(2,109)	
-/+ premature debt redemption	38		39	
		(2,146)		(2,308)
Items on an Accruals Basis				
+/- increase/decrease in stocks	(6)		23	
+/- increase/decrease in debtors	152		1,240	
+/- increase/decrease in payments in advance	(196)		1,811	
+/- increase/decrease in imprests	(2)		(2)	
-/+ increase/decrease in creditors	(33)		83	
-/+ increase/decrease in receipts in advance	(197)		(239)	
-/+ increase/decrease in suspense accounts	(94)		(14)	
-/+ increase/decrease in provisions	97		(5)	
		(279)		2,897
Items Classified in another Classification in the Cash Flow Statement				
Interest	329		(25)	
Internal recharges to capital	451		400	
Direct revenue financing of capital schemes	(108)		(283)	
		672		92
Net cash (inflow)/outflow from revenue activities		(1,009)		1,739

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

NOTES TO THE CASH FLOW STATEMENT

3. Increase / Decrease in Cash and Liquid Resources

The table below links the net decrease in cash overdrawn and short-term investments with the movements in the balance sheet.

	Balance 31 March 2004 £000	Movement In year £000	Balance 1 April 2003 £000
Cash overdrawn	366	1,548	(1,182)
Short-term investments	2,469	(1,194)	3,663
Movement in net cash	2,835	354	2,481

Short-term investments are amounts placed on deposit with approved institutions such as banks and building societies. See also note 11 to the consolidated balance sheet on page 42.

4. Analysis of Other Government Grants

The government grants included within the "other government grants" figure are shown below.

	2003/04 £000	2002/03 £000
HB (Admin) grant	305	152
Verification Framework Grant	112	53
Housing Defects Act subsidy	7	-
Participation in Housing Benefit Incorporation	-	7
H.B. Section 19 Fraud Grant	-	108
Fraud Incentive Scheme	142	15
Fast Track Subsidy	-	(30)
Civil Protection grant (Home Office)	12	7
Supporting People grant	477	-
Pension Credits (Admin) grant	36	-
Tax Credits (Admin) grant	12	-
Planning Delivery grant	75	-
Council Tax reduction scheme grant	(1)	2
Discretionary Housing Payments	4	(15)
Total	1,181	299

5. Financing Costs

As the council repaid in full its external borrowing at the end of 2002/03 and has remained debt-free throughout 2003/04, the only financing costs relate to finance leases for central heating in council houses.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), guidance notes issued by CIPFA on the application of accounting standards and the latest Statement of Recommended Practice (SORP).

The following accounting policies are consistent with the accounting concepts and, where appropriate, the relevant accounting standard is followed in respect of the specific areas of income, expenditure and balances.

2. Accruals of Income and Expenditure

a) Customer and Client Receipts

Customer and client receipts in the form of sales, fees, charges and rents are accrued and accounted for in the period to which they relate. An exception to this policy relates to electricity and similar quarterly payments which are charged at the date of meter reading rather than being apportioned between financial years. No significant estimates have been made for debtors.

b) Employee Costs

The full cost of the employees is charged to the accounts of the period within which the employees worked. Accrual is made for wages earned but unpaid at the year-end. Where retrospective adjustments or special payments are required, for example through pay awards or redundancy payments, the accounts are charged (or credited) with the additional amount as soon as it can reasonably be estimated.

c) Interest

Interest on external borrowing and invested reserves is accrued and charged in the accounts of the period to which it relates. Interest charges are based on actual rates in force during the year.

d) Supplies and Services

The cost of supplies and services is accrued and accounted for in the period during which they were consumed or received. Accrual is made for all material sums unpaid at the year end for goods or services received or works completed. No significant estimates have been made for creditors.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

3. Capital Charges to Revenue

General Fund service revenue accounts, central support services and statutory trading accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation and any related impairment loss plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. The aggregate charge to individual services is determined on the basis of the capital employed in each service.

The charge made to the housing revenue account is laid down by legislation and is similarly calculated to include a depreciation, impairment and capital financing charge.

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

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

4. Capital Receipts

Receipts from the disposal of assets are split between a usable part and a reserved (set aside) part as defined under the Local Government and Housing Act 1989. Usable receipts are held in a usable capital receipts account until such time as they are used to finance new capital expenditure, to repay debt or for other allowable purposes. Reserved receipts are held as amounts set aside for loan debt redemption (there are no reserved receipts in 2003/04 due to the Council's debt-free status).

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

5. Deferred Charges

Deferred Charges represent expenditure that has been properly capitalised, but does not result in a tangible fixed asset. The balance of deferred charges on the face of the balance sheet relates only to the element of deferred charges where a clear and continuing benefit accrues to the Council for a period in excess of one year. These charges are amortised to revenue over an appropriate period. All other deferred charges are financed in the year in which the expenditure occurs and a charge is made to the revenue account.

6. Depreciation

Depreciation is provided for on all fixed assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:

- newly acquired assets are depreciated from the start of the year, although assets in the course of construction are not depreciated until they are brought into use.
- depreciation is calculated using the straight-line method based on the length of the useful life of the asset, normally determined by professional valuation.
- for fixed assets other than non-depreciable land and non-operational investment properties, the only ground for not charging depreciation is that the depreciation charge is immaterial.

Depreciation has also been charged in relation to any impairment loss relating to any other permanent diminution in asset values.

Provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets as fairly as possible to the periods expected to benefit from their use.

Depreciation has been made in respect of tangible fixed assets relating to the Council Housing Service, including Council Houses, which have been depreciated according to their estimated remaining useful lives. These lives have been assessed by a professional valuer, and the straight-line method was used based on the length of the useful life of the asset. This is a departure from the previous policy. Depreciation is only applied to the building element of the asset and not to the land. Up to and including 2002/03, council housing assets were depreciated by the Major Repairs Allowance (MRA) value calculated by the Government. This allowance is based on the estimated useful lives and replacement values of the property elements of council houses and equates to 1.37% of their value. It is acceptable to use this allowance as the basis for depreciation, where the resultant figure is a reasonable proxy for the actual level of depreciation. However, it was felt that this proxy understated the required amount of depreciation and no longer gave a true reflection of the estimated remaining useful lives of the assets.

7. Estimation Techniques

Separate disclosures are given within the notes to the accounts where the amounts estimated are so significant that the use of a different amount from within the range of the technique could materially affect the financial statements. There are no estimates so significant that they will materially affect the financial statements within debtors and creditors.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

8. Prior Period Adjustments

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions for the year in which they are identified and are accounted for accordingly. Material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors are accounted for by restating the comparative figures for the preceding period in the statement of account and notes and adjusting the opening balance of reserves for the cumulative effect. The cumulative effect of the adjustments is also noted at the foot of the statement of total movements in reserves of the current period. The effect of prior period adjustments on the outturn for the preceding period is also disclosed where practicable.

9. Fixed Assets

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

Expenditure that is capitalised includes expenditure on the:

- acquisition, reclamation, enhancement or laying out of land;
- acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures;
- acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles and vessels.

In this context, enhancement means the carrying out of works that are intended to:

- lengthen substantially the useful life of the asset; or
- increase substantially the open market value of the asset; or
- increase substantially the extent to which the asset can or will be used for the purposes of or in conjunction with the functions of the authority.

Under this definition, improvement works and structural repairs are capitalised, whereas expenditure to ensure that the fixed asset maintains its previously assessed standard of performance is recognised in the revenue account as it is incurred. Expenditure on existing fixed assets is capitalised in three circumstances:

- enhancement (as defined above);
- where a component of the fixed asset that has been treated separately for depreciation purposes and depreciated over its individual useful life is replaced or restored;
- where the subsequent expenditure relates to a major inspection or overhaul of a fixed asset that restores the benefits of the asset that have been consumed by the authority and have already been reflected in depreciation.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
STATEMENT OF ACCOUNTING POLICIES

Where a fixed asset is acquired for other than a cash consideration or where payment is deferred, the asset is recognised and included in the balance sheet at fair value.

A fixed asset is initially measured at its cost. Costs, but only those costs, that are directly attributable to bringing the asset into working condition for its intended use are included in its measurement.

When substantially all the activities that are necessary to get the fixed asset ready for use are complete, fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting as follows:

- land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value in existing use.
- non-operational assets, including investment properties and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost or net realisable value. In the case of investment properties, this is normally open market value.
- infrastructure assets and community assets are included in the balance sheet at historical cost, net of depreciation.

Revaluations of assets are planned at five yearly intervals, although annual values are uplifted or adjusted based on indices provided by the Council's external valuers. In addition, material changes to asset valuations are adjusted in the interim period. The surpluses arising on the initial valuation of fixed assets are held in the fixed asset restatement reserve as are changes resulting from subsequent revaluations.

Council dwellings are valued on an Existing Use Value for Social Housing basis in accordance with the requirements of Resource Accounting for the HRA.

10. Impairment

The value at which each category of assets is included in the balance sheet is reviewed at the end of each accounting period and where there is reason to believe that its value has changed materially in the period, the valuation should be adjusted accordingly. Examples of events and circumstances that indicate a reduction in value may have occurred include:

- A significant decline in a fixed asset's market value during the period;
- Evidence of obsolescence or physical damage to the fixed asset;
- A significant adverse change in the statutory or other regulatory environment in which the authority operates; and
- A commitment by the authority to undertake a significant reorganisation.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

Where an impairment loss on a fixed asset occurs, the loss is recognised, if it is caused by a clear consumption of economic benefits (e.g. physical damage or a deterioration in the quality of service provided by the asset), in the contribution to minimum repayment provision revenue account and the service revenue account. Other impairments (reflecting a general fall in prices) are recognised in the fixed asset restatement reserve, up to a maximum of the amount remaining in the fixed asset restatement reserve (and subject to there being sufficient revaluation against the impaired asset itself for the impairment to be set against). If a reversal of an impairment loss is required the accounting will mirror the original treatment applied.

Fixed assets, other than non-depreciable land, are reviewed for impairment at the end of each reporting period when either:

- a) no depreciation charge is made on the grounds that it would be immaterial (either because of the length of the estimated remaining useful life or because the estimated residual value of the fixed asset is not materially different from the carrying amount of the asset); or
- b) the estimated remaining useful life of the fixed asset exceeds 50 years.

Impairment will also be recognised and included in the accounts if identified during annual review by the external valuers.

11. Disposals

Income from the disposal of fixed assets is credited to the usable capital receipts reserve, and accounted for on an accruals basis. Where applicable, the proportion reserved for the repayment of external loans is credited to a capital financing reserve.

Where a fixed asset is disposed of for other than a cash consideration, or a payment is deferred, an equivalent asset is recognised and included in the balance sheet at its fair value.

Upon disposal, the net book value of the asset disposed of is written off against the fixed asset restatement reserve.

12. Government Grants towards Revenue Costs

Grants and subsidies have been credited to the appropriate revenue accounts and accruals are made for revenue balances estimated to be receivable for the period.

13. Government Grants and Contributions towards Capital Schemes

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the government grants-deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to match the depreciation charged on the asset to which it relates.

Government grants and other 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.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

14. Investments

All investments have been recorded in the accounts at cost less provision, where appropriate, for loss in value.

15. Leases

Rentals payable under operating leases are charged to revenue on a straight-line basis over the term of the lease, unless another systematic and rational basis is more appropriate. Certain leases are classified as operating leases under the Government's capital control system, but, for accounting and reporting purposes under the relevant Financial Reporting Standards and Statements of Standard Accounting Practice, are treated as finance leases. They are, therefore, shown in the accounts as fixed assets with depreciation and interest charged to the Consolidated Revenue Account accordingly.

16. Overheads

Charges or cost apportionments covering all support service costs are made to all users, including services to the public, trading undertakings, capital accounts, services provided to other bodies and other support services. The cost of service management is in the same way apportioned to the accounts representing the activities managed.

The cost of service strategy and regulation of any service to the public are allocated to a separate objective expenditure head in the accounts of that service. The costs of the corporate and democratic core and of non-distributed costs are allocated to a separate objective expenditure head and are not apportioned to other expenditure heads.

The bases of apportionment adopted are used consistently for all the heads to which apportionments are made. If any overheads are not charged or apportioned, the reason for not doing so, together with the nature of the overhead and the amount, are disclosed in a note to the accounts.

17. Pension costs

These accounting policies represent a change to those applied in prior years, reflecting the requirements of FRS17: *Retirement Benefits*. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which we were directly responsible. The new policies better reflect our commitment in the long-term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

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

- the overall amount to be met from Government grants and local taxation has remained unchanged, but the costs disclosed for individual services are 5.1% lower after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 3.4% lower than it would otherwise have been;

the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the authority by 3.7%.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
STATEMENT OF ACCOUNTING POLICIES

Pension costs (continued)

Pensions Reserve

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing the Local Government Pension Scheme. However, accounting for employees' pensions is in accordance with generally accepted accounting practice subject to the interpretations set out in the Accounting Standards Board's code of Practice.

Where the payments made for the year in accordance with the scheme requirements do not match the change in the Council's recognised asset or liability for the period, the recognised cost of pensions will not match the amount required to be raised in taxation. This is represented by an appropriation to or from the pensions reserve, which equals the net change in the pensions liability recognised in the Consolidated Revenue Account.

Defined Benefit Scheme

The Council pays contributions to the Suffolk County Council Pension Fund, which is a defined benefit scheme. The attributable assets of the pension scheme are measured at fair value at the balance sheet date. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses are deducted. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method. The scheme liabilities comprise:

- i) any benefits promised under the formal terms of the scheme; and
- ii) any constructive obligations for further benefits where a public statement or past practice by the Council has created a valid expectation in the employees that such benefits will be granted.

Measurement of scheme assets

The scheme assets to be recognised include the attributable proportion of all related pension fund assets. Scheme assets include current assets as well as investments. Any liabilities such as accrued expenses are deducted.

Scheme assets are measured at their fair value. The basis for determining fair value for different classes of assets is as follows:

- (i) For quoted securities, the mid-market value is taken down as the fair value. For unquoted securities, an estimate of fair value is used. The fair value of unitised securities is taken to be the average of the bid and offer prices;
- (ii) Property is valued at open market value or on another appropriate basis of valuation determined in accordance with the *Appraisal and Valuation Manual* published by the Royal Institution of Chartered Surveyors and the Practice Statements contained therein;
- (iii) Insurance policies that exactly match the amount and timing of some or all of the benefits payable under the scheme is measured at the same amount as the related obligations. For other insurance policies there are a number of possible valuation methods. A method is

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

chosen which gives the best approximation to fair value given the circumstances of the scheme.

The surplus/deficit in the scheme is the excess/shortfall of the value of the assets in the scheme over/below the present value of the scheme liabilities. An asset is recognised to the extent that a surplus may be recovered either through reduced contributions in the future or through refunds from the scheme. A liability is recognised to the extent that it reflects a legal or constructive obligation. Any unpaid contributions to the scheme are presented in the balance sheet as a creditor due within one year.

Measurement of scheme liabilities

The scheme liabilities to be recognised include the attributable proportion of all scheme liabilities. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method.

In determining the liability, benefits are attributed to periods of service according to the scheme's benefit formula, except where the benefit formula attributes a disproportionate share of the total benefits to later years of service. In such cases, the benefit is attributed on a straight-line basis over the period during which it is earned.

The assumptions underlying the valuation are mutually compatible and lead to the best estimate of the future cash flows that will arise under the scheme liabilities. The assumptions are ultimately the responsibility of the authority but are set upon advice given by an actuary and the administering authority. Any assumptions that are affected by economic conditions (financial assumptions) reflect market expectations at the balance sheet date.

Because of the long-term nature of most defined benefit schemes and the inherent uncertainties affecting them, the liabilities of the scheme are measured on an actuarial basis. This involves estimating the future cash flows arising under the scheme liabilities based on a number of actuarial assumptions such as mortality rates, employee rates and salary growth, then discounting the cash flows at an appropriate rate.

Some of these assumptions are affected by the same economic factors. Actuarial assumptions are mutually compatible if they reflect the underlying economic factors consistently. To be consistent with the measurement of the assets of the scheme at fair value, they must also reflect market expectations at the balance sheet date.

For example, the rate of increase in salaries and the discount rate must reflect the same rate of general inflation. Where there is a liquid market in long-dated inflation-linked bonds, the yields on such bonds relative to those on fixed interest bonds of similar credit standing will give an indication of the expected rate of general inflation.

The actuarial assumptions reflect expected future events that will affect the cost of the benefits to which the employer is committed (either legally or through constructive obligation) at the balance sheet date.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

Expected future events that will affect the cost of the benefits include:

- (i) Any expected cost of living increases either provided for in the scheme rules, publicly announced or awarded under an established practice that creates among the employees a valid expectation of receiving them;
- (ii) In the case of pensions based on final salary, any expected salary increases, and;
- (iii) Expected early retirement where the employee has that right under the scheme rules.

These events affect the measurement of benefits to which the employer is committed at the balance sheet date.

Expected future redundancies are not reflected in the actuarial assumptions unless the employer is committed in advance (either legally or constructively) to making such redundancies. When the employer does become committed to making the redundancies, any impact on the defined benefit scheme is treated as a settlement and/or curtailment.

The scheme liabilities should be discounted at a rate that reflects the time value of money and the characteristics of the liability. The appropriate rate is an assumed long-term real rate of return expected to be earned on a portfolio of long-dated index-linked gilts. This rate is determined by the Government Actuary's Department, and is subject to periodic review every two years. The rate is currently 3.5% real.

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding three years. The actuary reviews the most recent actuarial valuation at the balance sheet date and updates it to reflect the current conditions.

Recognition of defined benefit schemes

An attributable surplus gives rise to an asset of the authority to the extent that:

- (i) The authority controls its use, i.e. has the ability to use the surplus to generate future economic benefits for itself, either in the form of a reduction in future contributions or a refund from the scheme and;
- (ii) That control is a result of past events (contributions paid by the employer and investment growth in excess of rights earned by the employees);

Usually the employers' obligation in a funded scheme is to pay such contributions as the actuary believes to be necessary to keep the scheme fully funded but without building up a surplus. When a surplus arises, it is unlikely that the employers can be required to make contributions to maintain the surplus. Thus, in general, the employers control the use of a surplus in the scheme.

Conversely, the authority has a liability if it has a legal or constructive obligation to make good a deficit in a funded benefit scheme. In general the employer will have a legal obligation; where this is not the case the authority may, by its past actions and statements, have created a constructive obligation. The legal or constructive obligation to fund the deficit is assumed to apply to the deficit based on assumptions used under the Code, not the funding assumptions.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

In determining the asset to be recognised, the amount that can be recovered through reduced contributions in the future is the present value of the liability expected to arise from future service by current and future scheme members less the present value of future employee contributions. No growth in the number of active scheme members is assumed but a declining membership would be reflected if appropriate. The amount that can be recovered is based on the assumptions used under the Code, not the funding assumptions. The present value of the reduction in future contributions is determined using the discount rate applied to measure the defined benefit liability.

Any amount to be recovered from refunds from the scheme reflects only refunds that have been agreed by the pension scheme trustees at the balance sheet date.

The amount recoverable through reduced contributions reflects the maximum possible to be recovered without assuming an increase in the number of employees covered by the scheme. There is no restriction on the period over which the reduction in contributions can be obtained, but the effect of discounting will increasingly reduce the impact of the reductions the further into the future they are, leading to an absolute limit on the amount that can be recognised.

The change in the defined benefit asset or liability is analysed into the following components:

- i) Periodic costs:
 - a) current service cost;
 - b) interest cost;
 - c) expected return on assets; and
 - d) actuarial gains and losses; and
- ii) Non-periodic costs;
 - a) past service costs; and
 - b) gains and losses on settlements and curtailments.

The current service cost is included within Net Cost of Services. The net of the interest cost and the expected return on assets is included within Net Operating Expenditure. Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the statement of Total Movement in Reserves for the period.

Current service cost

The current service cost is based on the most recent actuarial valuation at the beginning of the period, with the financial assumptions updated to reflect conditions at that date. The current service cost will therefore be based on the discount rate at the beginning of the period. Employee contributions during the period are set off against the current service cost.

Interest cost and expected return on assets

The interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period. The interest cost, in addition, reflects changes in the scheme liabilities during the period.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

The expected return on assets is based on long-term expectations at the beginning of the period and is expected to be reasonably stable. For quoted corporate or government bonds, the expected return is calculated by applying the current redemption yield at the beginning of the period to the market value of the bonds held by the scheme at the beginning of the period. For other assets (for example, equities), the expected return is calculated by applying the rate of return expected over the long term at the beginning of the period (given the value of the assets at that date) to the fair value of the assets held by the scheme at the beginning of the period. The expected rate of return is set by the authority having taken advice from an actuary.

For quoted fixed and index-linked securities, the expected return can be observed from the market. For other assets, the expected return has to be based on assumptions about the expected long-term rate of return. The rate of return expected over the long term will vary according to market conditions, but it is expected that the amount of the return will be reasonably stable.

Actuarial gains and losses

Actuarial gains and losses may arise on both the defined benefit scheme liabilities and any scheme assets. They comprise:

- (i) On the scheme assets, differences between the expected return and the actual return (for example, a sudden change in the value of the scheme assets) and;
- (ii) On the scheme liabilities;
 - (a) differences between the actuarial assumptions underlying the scheme liabilities and actual experience during the period;
 - (b) the effect of changes in actuarial assumptions and;
 - (c) any adjustment necessary in accordance, resulting from the limit on the amount that can be recognised as an asset in the balance sheet.

Once an actuarial gain or loss has been recognised in the Statement of Total Movements in Reserves it is not recognised again in the Consolidated Revenue Account in subsequent periods.

Past service costs

Past service costs arise when the employer makes a commitment to provide a higher level of benefit than previously promised where such a benefit did not previously exist, such as a grant of early retirement with added-on years of service. In local government such benefits tend to be granted to vest immediately. To the extent that the benefits do not vest immediately any unrecognised past service costs are deducted from the scheme liabilities and the balance sheet asset or liability adjusted accordingly.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

Past service costs do not include increases in the expected cost of benefits that the employer is already statutorily, contractually or implicitly committed to, for example cost of living increases to pensions in payment and deferred pensions. Such increases are covered by the actuarial assumptions and any differences between actual experience and the assumptions or the effects of any changes in the assumptions are actuarial gains and losses.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increases in benefit vest. To the extent that benefits vest immediately, the past service cost is recognised immediately.

Settlements and curtailments

Where under the scheme rules the employees have the option to retire early or transfer out of the scheme, the resulting settlements and curtailments are allowed for in the normal demographic assumptions made by the actuary and any gains and losses arising are actuarial gains and losses.

In contrast, some settlements and curtailments arise from decisions made by an authority that are not covered by actuarial assumptions, for example a reduction in employees because of the transfer or termination of an operation. Gains and losses arising from such events are part of the employer's Net Cost of Services for the period (unless they attach to one of the items shown immediately after Net Cost of Services).

An increase in the recoverable amount of a surplus arising from an increase in the active membership of the scheme is recognised within Net Operating Expenditure. An increase in the active membership can arise either from an increase in general recruitment or from the transfer of employees following a transfer of services.

A decrease in the recoverable amount of a surplus arising from a fall in the active membership is treated as an actuarial loss unless it arises from an event not covered by the assumptions underlying the amount originally regarded as recoverable, for example a settlement or curtailment. If it does arise from such an event, it should be treated as part of the loss arising on that event.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which the Council becomes demonstrably committed to the transaction and recognised in Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions is measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

Death-in-service and incapacity benefits

A charge is made to the Net Cost of Services in the Consolidated Revenue Account to reflect the expected cost of providing any death-in-service or incapacity benefits for the period. Any difference between that expected cost and amounts actually incurred is treated as an actuarial gain or loss. Where a scheme insures the death-in-service costs, the expected cost for the accounting period is simply the premium payable for the period. Where the costs are not insured, the expected cost reflects the probability of any employees dying in the period and the benefit that would then be paid out.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
STATEMENT OF ACCOUNTING POLICIES

Initial recognition

Gains and losses arising on the initial recognition of pension items in accordance with this Code are dealt with as prior period adjustments.

Accounting for Pensions in the HRA

For 2003/04, Authorities have been permitted to individually choose the methodology that they consider to be most appropriate for the application of FRS17 to the HRA. Accordingly, this Authority considers that the ring-fenced nature of the HRA and Resource Accounting in the HRA does require full allocation of all pension cost components on the grounds of proper practice. Hence the appropriate share of all pension cost components have been allocated (except actuarial gains and losses) to the HRA. A pension reserve movement entry adjusts the pension cost borne by the HRA so that there is no impact on the bottom line.

General Pension Matters

The capital cost of funding new early retirement cases is charged to revenue over a period of up to 5 years, depending on the savings payback period.

Contribution rates are determined in the long term on meeting 100% of the liabilities of the Pension Fund, in accordance with relevant Government regulations.

In respect of pension costs incurred under the Local Government Pension Scheme, additional information is disclosed in the notes to the accounts.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

18. Provisions

Provisions are for any liabilities of uncertain timing or amount that have been incurred.

Provisions are recognised when:

- a) the local authority has a present obligation (legal or constructive) as a result of a past event;
- b) it is probable that a transfer of economic benefits will be required to settle the obligation; and
- c) a reliable estimate can be made of the amount of the obligation.

A transfer of economic benefits or other event is regarded as probable if the event is more likely than not to occur. If these conditions are not met, no provision is recognised.

A provision is also recognised when the Council has a contract that is onerous i.e. the unavoidable costs of meeting the obligations under it exceed the economic benefit/service potential expected to be received under it.

Provisions are charged to the appropriate revenue account. When payments for expenditure are incurred to which the provision relates they are charged direct to the provision. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the events.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision is reversed.

19. Provisions for Bad and Doubtful Debts

Provision has been made for bad and doubtful debts in respect of Council Tax, Non Domestic Rates and Housing Rents. Known uncollectable debts have been written off.

20. Repurchase of Borrowing

As a part of debt restructuring exercises, discounts or premiums can arise following the premature repayment of external debt. Where a premium or discount arises, this would normally be charged to the revenue account in the year in which the debt rescheduling took place. However, when the early repayment of debt is coupled with a rescheduling or refinancing with the same overall economic effect as the original debt, the discount or premium is credited or charged to the Asset Management Revenue Account over the life of the replacement loan. In cases of debt repayment when a premium has arisen, the HRA share of the premium has been carried forward on the balance sheet as a prepayment. This will be written down over subsequent years with amounts credited to the HRA in accordance with the Item 8 determination

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

STATEMENT OF ACCOUNTING POLICIES

21. Reserves

Reserves are amounts set aside for purposes falling outside the definition of provisions, and transfers to and from them are distinguished from service expenditure disclosed in the Statement of Accounts. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.

Capital reserves are not available for revenue purposes and certain of them can only be used for specific statutory purposes. The fixed asset restatement reserve, usable capital receipts, and capital financing reserves are examples of such reserves.

The major repairs reserve is required by statutory provision to be established in relation to the HRA.

Details of all reserves are shown in the Notes to the Balance Sheet and in the Statement of total movement in reserves.

22. Stocks

Stocks are included in the balance sheet at the total of the lower of cost and net realisable value of the separate items of stock or groups of similar items.

23. Value Added Tax

VAT is included in income and expenditure accounts, whether of a capital or revenue nature, only to the extent that it is irrecoverable.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

AUDITOR'S OPINION

Independent Auditor's Report to Babergh District Council

I have audited the statement of accounts on pages 10 to 72, which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 57 to 72.

This report is made solely to Babergh District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Chief Financial Officer and Auditor

As described on page 10 the Chief Financial Officer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2003. My responsibilities, as independent auditor, are established by statute, the Code of Audit Practice issued by the Audit Commission and my profession's ethical guidance.

I report to you my opinion as to whether the statement of accounts present fairly:

- the financial position of the Council and its income and expenditure for the year,
- the financial transactions of its Pension Fund during the year and the amount and disposition of the Fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year.

I review whether the statement on internal control on pages 11 to 13 reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the other information published with the statement of accounts and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

AUDITOR'S OPINION

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion the statement of accounts present fairly the financial position of Babergh District Council as at 31 March 2004 and its income and expenditure for the year then ended.

Certificate

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

Signature:

Date: 30 November 2004

Name: Paul King

Address: Audit Commission
Springvale Court
Hadleigh Road
Sproughton
Ipswich
IP8 3AS

(A hard copy of the signed Auditor's report is available on request from the Council.)

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

GLOSSARY

ACCOUNTING POLICIES

Those principles, bases, conventions, rules and practices applied by Babergh District Council that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- 1) recognising
- 2) selecting measurement bases for, and
- 3) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue it is to be presented.

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

ACTUARIAL GAINS AND LOSSES

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

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

CAPITAL CHARGE

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

Proceeds from the sale of a fixed asset, e.g. land or a building. Capital receipts can be used to repay the debt on assets financed from loan or to finance new capital expenditure. They cannot be used to finance revenue expenditure directly.

COLLECTION FUND

The collection fund records the income received in respect of Council Tax, Community Charges, Non Domestic Rates and Government Revenue Support Grant and the expenditure demands of Suffolk County Council, The Suffolk Police Authority, Babergh District Council and Town/Parish Councils.

CONSISTENCY

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

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

GLOSSARY

CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the local authority's control.

CONTINGENT LIABILITY

A contingent liability is either:

- a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or
- b) a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which Babergh District Council engages in specifically because it is an elected, multi-purpose authority. The costs of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

CREDIT CEILING

This is the balance of debt (external and internal) incurred for capital purposes offset by the amount set aside to repay this debt. The credit ceiling for the Housing Revenue Account is used to calculate capital charges. The Council's overall credit ceiling determines the minimum revenue provision for debt repayment.

CURRENT ASSETS

An asset where the value may change because the volume held can vary through day to day activity, e.g. cash, stock.

CURRENT LIABILITIES

An amount which will become payable in the next accounting period (e.g. creditors, cash overdrawn).

CURRENT SERVICE COST (PENSIONS)

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

DEFERRED CHARGES

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets.

DEFINED BENEFIT SCHEME

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

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

GLOSSARY

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use or obsolescence through technological or other changes.

DIRECT REVENUE FINANCING

A charge to the revenue account to finance capital expenditure.

EMOLUMENTS

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

ESTIMATION TECHNIQUES

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

Estimation techniques implement the measurement aspects of accounting policies. An accounting policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique.

EXCEPTIONAL ITEMS

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

EXPECTED RETURN ON PENSION ASSETS

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

EXTRAORDINARY ITEMS

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

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

GLOSSARY

FIXED ASSETS

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

GENERAL FUND

The main fund of the Council into which all receipts are paid and liabilities met and which summarises the cost of services provided.

GOING CONCERN

The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

HOUSING BENEFITS

A system of financial assistance to individuals towards housing costs, which is administered by the Council. The Social Security and Housing Benefits Act 1986 introduced the present arrangements, assistance takes the form of Council Tax Rebates, Rent Allowances (private dwellings) and Rent Rebates (council houses) towards which the Government pays a subsidy to the Council to cover a proportion of the costs.

HOUSING REVENUE ACCOUNT (H.R.A.)

An account which covers the expenditure and income arising in connection with the provision, repairs and maintenance and supervision and management of housing accommodation by a local authority.

IMPAIRMENT

A reduction in the value of a fixed asset, below its carrying amount on the balance sheet.

INFRASTRUCTURE ASSETS

Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INTEREST COST (PENSIONS)

The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

GLOSSARY

INVESTMENTS

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the authority. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments which do not meet the above criteria should be classified as current assets.

LIQUID RESOURCES

Current asset investments that are readily disposable by the Council without disrupting its business and are either: readily convertible to known amounts of cash at or close to the carrying amount, or traded in an active market.

LONG TERM CONTRACTS

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

NET BOOK VALUE

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET DEBT

The Council's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

NET REALISABLE VALUE

The open market value of an asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

NON-OPERATIONAL ASSETS

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirement, pending sale or redevelopment.

OPERATING LEASE

A lease other than a finance lease.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04

GLOSSARY

OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the local authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

POST BALANCE SHEET EVENTS

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

PRIOR YEAR ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROJECTED UNIT METHOD

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

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

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

PRUDENCE

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

PUBLIC WORKS LOAN BOARD (P.W.L.B.)

A government agency which provides long term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow. Local authorities are able to borrow a proportion of their requirements to finance capital expenditure from this source, the rates of interest being generally lower than "market" rates.

RATEABLE VALUE

A value placed on all properties subject to rating (Business properties only). The value is the annual assumed rental (determined by the Inland Revenue), calculated by deducting from the assessed gross annual rent an amount representing the cost of repairing, maintaining and insuring the property.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
GLOSSARY

RELATED PARTIES

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

- 1) one party has direct or indirect control of the other party; or
- 2) the parties are subject to common control from the same source; or
- 3) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- 4) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Examples of related parties of an authority include:

- 1) central government;
- 2) local authorities and other bodies precepting or levying demands on Council Tax;
- 3) its subsidiary and associated companies;
- 4) its joint ventures and joint venture partners;
- 5) its members;
- 6) its chief officers; and
- 7) its pension fund.

Examples of related parties of a pension fund include its:

- 1) administering authority and its related parties;
- 2) scheduled bodies and their related parties; and
- 3) trustees and advisors.

These lists are not intended to be comprehensive.

For individuals identified as related parties, the following are also presumed to be related parties:

- 1) members of the close family, or the same household; and
- 2) partnerships, companies, trusts or other entities in which the individual, or a member of their close family or the same household, has a controlling interest.

RELATED PARTY TRANSACTION

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

- 1) the purchase, sale, lease, rental or hire of assets between related parties;
- 2) the provision by a pension fund to a related party of assets of loans, irrespective of any direct economic benefit to the pension fund;
- 3) the provision of a guarantee to a third party in relation to a liability or obligation of a related party;
- 4) the provision of services to a related party, including the provision of pension fund administration services;
- 5) transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

This list is not intended to be comprehensive.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
GLOSSARY

RETIREMENT BENEFITS

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

REVENUE EXPENDITURE

The day-to-day costs the Council incurs in providing services; the Council's revenue expenditure covers employee expenses, running expenses and capital financing costs.

SCHEME LIABILITIES

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

STATEMENTS OF RECOMMENDED PRACTICE AND STANDARD ACCOUNTING PRACTICE

Accounting practice recommended by the ASB (Accounting Standards Board of the joint accountancy bodies) for adoption in the preparation of accounts to ensure a true and fair view.

STOCKS

Comprise the following categories:

- (a) goods or other assets purchased for resale;
- (b) consumable stores;
- (c) raw materials and components purchased for incorporation into products for sale;
- (d) products and services in intermediate stages of completion;
- (e) finished goods.

TOTAL COST

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or brought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, transfer payments, support services and capital charges. This includes an appropriate share of all support services and overheads, which need to be apportioned.

NON DISTRIBUTED COSTS

These are overheads for which no user now benefits and should not be apportioned to services.

USEFUL LIFE

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

BABERGH DISTRICT COUNCIL
STATEMENT OF ACCOUNTS 2003/04
GLOSSARY

VESTED RIGHTS

In relation to a defined benefit scheme, these are:

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

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