

Supplement to the agenda for

Audit and governance committee

Monday 30 July 2018

2.00 pm

**Committee Room 1, Shire Hall, St. Peter's Square, Hereford,
HR1 2HX**

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Audit Findings

Year ending 31 March 2018

Herefordshire Council

30 July 2018



AGENDA ITEM 7

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the group and Council's financial statements give a true and fair view of the group's Council's financial position and of the group and Council's expenditure and income for the year, andThe accounts have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings as at 18 July are summarised within this report. We have identified a number of adjustments to the financial statements. The financial impact of these adjustments has yet to be finalised. Audit adjustments to date are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to completion of the outstanding work and finalisation of the position on PPE, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none">- receipt of management's representation letter;- review of the final set of financial statements, group accounts, MIRS and AGS reflecting adjustments. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
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Headlines

This table summarises the key issues arising from the statutory audit of Herefordshire Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Herefordshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised within this report.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We do not expect to be able to certify the conclusion of the audit yet as there is an outstanding matter yet to be resolved from the prior year.</p>

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. This year has been challenging at all Councils due to the accelerated closedown bringing forward the audit deadline by two months. We have taken steps to complete as much work early in the financial year, and this has taken some pressure off the year end audit. Despite this, delivery of the year end audit in two months is a considerable challenge. There have been some issues arising from the audit, and we have worked hard with your officers to try and resolve these by the earlier deadline. With a relatively small number of finance staff involved in the audit we recognise that this has been a challenge for your team also.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

A decision to prepare group accounts was made subsequent to the issue of the audit plan to the audit and governance committee. Our final accounts planning has therefore been extended to consider the group position. The opinion on the accounts will now differ to previous years as it will cover the group rather than the single entity.

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Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a targeted approach was required for Hoople. An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to completion of the outstanding work and finalisation of the position on PPE, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 30 July 2018, as detailed in Appendix E. These outstanding items include:

- receipt of management's representation letter;
- review of the final set of financial statements, group accounts, MIRS and AGS reflecting adjustments.

Summary

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of financial statements and performance materiality has been adjusted to reflect out-turn gross expenditure. A separate materiality has been set for the group. We have also set a materiality for local government senior manager remuneration at £100k which was not reflected in our audit plan. We detail in the table below our assessment of materiality Herefordshire Council.

∞	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	6,644,000	6,550,000	We determined materiality for the audit of the Council's financial statements as a whole to be £963,000, which is 1.8% of the Council's gross operating expenses in 2017/18. We have revised this from the materiality set at planning of £5,899,000 to reflect the higher gross expenditure.
Performance materiality	4,651,000	4,585,000	We used a lower level of materiality, to determine the extent of our testing. We set this at 70% of financial statement materiality.
Trivial matters	332,200	327,500	We determined the threshold at which we would communicate misstatements to the Audit and Governance Committee at £602,000 (5% of financial statement materiality).
Materiality for specific transactions, balances or disclosures	100,000	100,000	We have set a lower level of materiality for senior manager remuneration disclosures because we believe these disclosures are of specific interest to the reader of the accounts.

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Herefordshire Council. No matters have arisen from our audit procedures.</p>
<p>2 Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements and decisions made by management • tested journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed unusual significant transactions • evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>We noted that journals clearing payroll suspense codes have been regularly posted without description. Officers have agreed to include in future.</p> <p>No significant matters arising from our work.</p>

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

- Review of management's processes and assumptions for the calculation of the estimate.
- Review the competence, expertise and objectivity of any management experts used.
- Review the instructions issued to valuation experts and the scope of their work
- Review the basis on which the valuation was carried out, challenging the key assumptions.
- Review and challenge the information used by the valuer to ensure it was robust and consistent with our understanding.
- Test revaluations made during the year to ensure they were input correctly into the Council's asset register
- Evaluate the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Officers have undertaken extensive valuations this year, cleaned up the asset register and taken steps to address the weaknesses identified in the prior year. A new valuer was appointed in year. Officers have responded positively to the matters raised in the audit process and have undertaken significant additional work, further analysis and additional valuations.

The Council has valued a significant proportion of the asset base this year. Officers have estimated that there is a maximum understatement of £6.4m of PPE as a consequence of not undertaking further valuations. We are satisfied that this estimate is reasonable.

This is close to our assessed materiality of £6.5m. However all other errors in PPE have been adjusted and when considered in the context that this represents a very small percentage of the total value of non current assets (1%) and the extent of valuations undertaken this year we are satisfied that officers have undertaken sufficient work to demonstrate that non current assets are not materially misstated.

Valuations are significant estimates and different valuers may make different professional judgments and we have seen that this has impacted on the valuation of some assets, in particular investment assets. Officers have taken steps to assure themselves that these estimates are reasonable, however this should be more clearly articulated in the accounts and working papers. We have suggested that reference to changes in basis of some valuations is referred to within the significant estimates section of the accounting policies within the accounts this year, because some valuations have changed due to changes in assumptions of a new professional valuer in addition to the usual judgements around general market conditions.

Officers annually complete a 'market forces' assessment to demonstrate that by valuing on a 5 year rolling programme, the accounts comply with accounting and code requirement that the balance sheet value of property plant and equipment (PPE) is not materially misstated. Indices are applied to the assets not valued and if this suggests that there has been a material change in value, then further valuations are generally required to be undertaken. Indices provided by the Valuer were used for this review. Also the Council's practice of valuing at 1st April but the need to state the value at 31 March balance sheet date requires a similar review of any in year change. Officers completed this assessment work and found that further valuations were required which were undertaken.

We found that Indices had actually been applied to uplift the 1.4.17 valuations on some assets on the balance sheet. This is not appropriate.

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Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment
The Council revalues its land and buildings on a quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary (continued)

Several iterations of working papers were provided, errors corrected, new indices applied where required and evidence provided to demonstrate that the indices used were reasonable based on the Valuer's suggestions. Further valuations were also commissioned.

The Council has demonstrated that by not valuing any further assets than PPE at the balance sheet date is potentially undervalued by £6.4m. This is below our materiality and is therefore acceptable, as all other matters in relation to PPE have been corrected. We have asked for specific assurance to be provided around this within the letter of representation.

Indices are used as indicators but it is not appropriate to apply these to the balance sheet. Consequently the valuations uplifted by indices (DRC assets) have now been reversed and instead a desk top review has been undertaken by the Valuer. The desk top review uplifted valuation by approximately £2m whereas the original indexing had uplifted by approximately £9m. This has been adjusted

Officers should to engage with their valuers to ensure that similar difficulties are not encountered in 2018/19. In other councils we have seen various practices adopted to ensure PPE valuations comply with the code. Approaches include undertaking valuations later in the year, e.g. 31 December, with the valuer uplifting to the year end via a desk top review, valuing all assets over a de-minimus annually, and undertaking desk top reviews of recent valuations to ensure they remain current and providing greater assistance in the market forces review. These matters and how the Council can most effectively comply with the code in this area should be considered in the appointment process of valuers in 2018/19.

In addition to the matters above, we also identified errors in the accounting for reversal of impairments through the statement of comprehensive income and expenditure (CIES). Where a current year review indicates an increase in value of an asset, where there has been a previous year impairment reflected in the CIES then the impact on the CIES can be reversed. It was found that this had not been considered in 2017/18 or 2016/17 and so an adjustment has been made in 2017/18. The asset register has been updated so that revaluation and impairment changes are now included.

A reversal of depreciation £3.5m on 'Plough Lane' should have occurred upon revaluation in 2015/16. However the accumulated depreciation was not reversed. This means the 2015/16 and 2016/17 carrying value on this asset was £3.5m lower than appropriate. This has been corrected in year so the 2017/18 closing balance is now accurate. We judged that this accounting appropriate in the circumstances due to its materiality and we confirmed this issue does not apply to any further assets on register.

Significant audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

- Identify the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Evaluate the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.
- Gain an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Check the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

The actuary makes his assessment of the IAS19 disclosures based on the month 10 submission to the pension fund. As part of the accounts working paper, officers should reconcile the month 10 submission to the pension fund, payroll and the actuary's report to demonstrate accuracy of this significant estimate.

No issues arising from our work.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

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Employee remuneration

Payroll expenditure represents a significant percentage (27%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions throughout the year including transactions involving new starters grade changes and leavers there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness
- documented our understanding of processes and key controls over the transaction cycle
- undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding
- obtained the year end payroll reconciliation and ensures that the amounts in the accounts reconcile to the ledger and through to payroll.
- agreed payroll related accruals (e.g. unpaid leave) to supporting documents and reviewed for reasonableness, and
- performed substantive analytical procedure for M1 to 12, disaggregated by month.

We have completed our work in this area and there are currently no issues to report.

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Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (58%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention:

Auditor commentary

We have:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls
- documented the accruals process and the controls management has put in place, challenging key underlying assumptions, the appropriateness of the source of data used and the basis of calculations
- obtained a listing from the cashbook of non pay payments made in April and tested to ensure that they have been charged to the appropriate year, and
- obtained a listing of non pay expenditure and agreed a sample to supporting information and tested to ensure that the items have been charged to the correct year and to confirm accuracy, occurrence, classification, and cut off.

The policies to the accounts state that there is a de-minimus for accruing for expenses, although the value is not stated, officers informed us that it is £25k. We found that this policy was not strictly enforced as items are accrued under £25k. We have evaluated the likely impact of applying the policy and concluded that the maximum understatement of expenditure would be £1.7m. We therefore do not have any concerns with this accounting policy. We recommended that the value of the de-minimus should be referred to in the accounts.

We have completed our work in this area and there are currently no issues to report.

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.




Issue	Commentary	Auditor view
1 Group accounts	<p>Our audit plan did not reflect group accounts because decision to prepare them was made subsequently. The decision was made to better reflect the relationship with Hoople Ltd as the Council is the major customer and a shareholder. It makes the position on the pension fund more transparent. Hoople is not a financially material component.</p>	<p>We have completed our work on group accounts. As this is the first year of preparing group accounts we have discussed the presentation of the notes and steps that could be taken to make the disclosure more succinct, including reducing the number of associated disclosure notes. Some adjustments have been made to the disclosure although no significant concerns have been identified.</p>
2 Agency accounting	<p>The Council has become the accountable body for the proposed University. Funds are received by the Council and are passed on to the University following certain checks. The related income and expenditure is not material but is expected to be so in the future. The Council has accounted for the arrangement as an 'agent' so the associated income and expenditure is not reflected in the accounts. We asked the Council to confirm the basis of this accounting, in particular demonstrating that the Council was not exposed to risk.</p>	<p>Auditor view</p> <p>The Council has demonstrated its consideration that the significant risks lie with the University and agency accounting is deemed to be appropriate. We recommend that this is formally considered annually, as the relationship with the NMITE changes. When the amounts involved in the 'pass through' become material we would recommend that this judgement is highlighted as a critical judgement.</p>

Significant matters discussed with management




This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Concerns about management's consultations with other accountants on accounting or auditing matters	<p>Hoople pensions: In the prior year we raised concerns with the accounting treatment of Hoople pensions within the draft accounts. The position was subsequently adjusted for. We understand that there has been no further progress on this matter and the accounts are presentation is consistent to the final 2016/17 statements.</p> <p>Pension guarantees: where a Council has TUPE'd staff to another organisation, it is likely that there will be some form of pension guarantee in place. This may need to be reflected in the accounts. Officers have undertaken a review of the pension arrangements and are satisfied that in the main these represent derivative financial liabilities under IAS 39, to be accounted for at fair value through profit and loss. The amounts involved are assessed by the Council as not material and thus is not reflected in the accounts. One company has folded with outstanding pension fund liabilities, however the potential liability arising is not considered material.</p>	<p>The presentation of Hoople pension is appropriately reflected in the 2017/18 accounts. The Hoople liability is reflected on consolidation in the group accounts.</p> <p>The approach taken to identify guarantee is reasonable and we are not minded to challenge the accounting treatment.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue and capital transactions are accounted for on an accruals basis where above the de-minimus thresholds Government grants and other contributions are recognised where reasonable assurance has been gained that the Council will comply with relevant terms and conditions and it is likely the amounts will be received Income receivable from the sale of good and rendering of services is recognised in line with the relevant conditions Collection fund income is recognised on an accruals basis 	No matters arising	
Judgements and estimates	<ul style="list-style-type: none"> Useful life of PPE Revaluation Impairments Accruals Valuation of pension fund net liability Provision for NNDR appeals Other provisions 	<p>We have referred earlier in the report to the matters arising from our review of PPE. Changes in judgements and estimates that have substantial changes in the valuation of PPE should be highlighted in this section of the accounting policies. Footnotes should be added to notes to explain the reasons where there have been material year on year changes.</p> <p>Accounting for Schools land and buildings should be included in critical judgements as this relates to material judgements. Reference is made in other policies rather than as a critical judgement.</p> <p>Agency accounting should be included as a critical judgement, when material</p>	
Other critical policies		<p>During the financial year, the Council has changed the policy for MRP to provide a financial saving. We have considered the change and are not minded to challenge the approach adopted. The accounting policies refer to the change and the impact and the savings of £5m reflected in earmarked reserves. Note 30 shows a year on year reduction of £4m</p> <p>No other matters identified in relation to other accounting policies. Our substantive testing has not highlighted any other material departures from accounting policies.</p>	

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> Some changes have been made to disclosures, including removing details of non material relationships. We also noted that the register of interests was not current when we reviewed at interim, however we have seen that this is now an on line process.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A letter of representation will be requested from the Council, and we have requested specific representations.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the holders of investments, loans and the Council bankers. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation,
⑥ Disclosures	<ul style="list-style-type: none"> We have suggested additional notes and disclosures be made to the accounts. No material omissions.
⑧ Significant difficulties	<ul style="list-style-type: none"> As referred to earlier in the report, there were a number of matters arising and corrections required as a result of the work on PPE. This work took longer to complete than planned. Group accounts is also a new area of review this year and the notes are fairly extensive. This is the first year of group accounts and we had not reflected this in the audit plan presented to members, as the decision to prepare group accounts was taken subsequent to the publication of our plan.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect (refer to Appendix E). Based on our review of disclosures against the code and good practice examples we identified areas where the presentation could be enhanced. For example reference to capital outturn, non financial performance measures and further context against strategic priorities.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • if we have applied any of our statutory powers or duties <p>We have suggested minor improvements to the AGS but have judged that it is compliant with the Code and there are no material omissions.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. The Council does not exceed the threshold and so no procedures are required.</p>
④ Certification of the closure of the audit	<p>We will be unable to certify the completion of the 2017/18 audit of Herefordshire Council in our auditor's report, as detailed in Appendix E as there remain unresolved matters from the prior year.</p>

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Value for Money

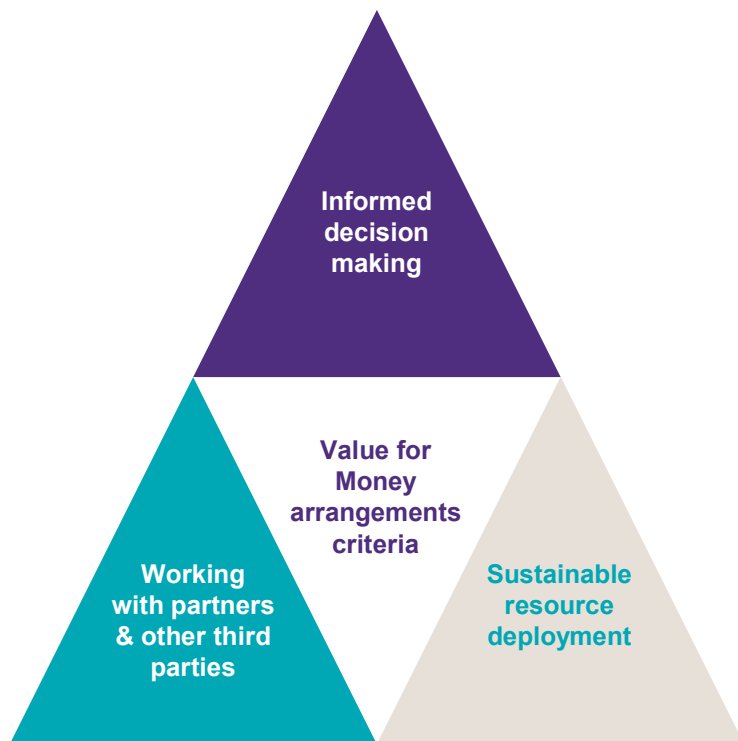
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2018.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan:

- Local Government Association Corporate Peer Challenge
- Children Act 1989, section 20 legal finding in relation to the application of the Act.
- Ofsted inspection of Children’s Services

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Responses to the recommendations made by Internal audit on Blue school house
- The assumptions in the MTFP with particular focus on adults and children's services.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on the following pages.

Overall conclusion

We have yet to fully conclude on this area, and are unable to do so until .

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

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Significant risk	Findings	Conclusion
<p>Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>If the key assumptions within the medium-term financial plan are not reasonably based then the future financial position of the Council could be at risk.</p>	<p>We considered the key assumptions in the medium term financial plan focussing on the assumptions around children's services and adult social care as the areas having most risk.</p> <p>The MFTFP is reporting savings of over £96m for the period 2010 to 2020, £19.2m is the target level of savings for the next three years with almost £13m to be delivered in 2018/19. The Council therefore has a good track record for delivering savings. In 2010, the need to make savings was considered crucial to making the Council more financially sustainable. More recently the financial pressure on councils has grown through reductions in central government grants and increasing costs particularly through demand in social care. Future risks include the impact of changes to the business rates regime. The Council has focussed on delivering recurring savings but also disposing of assets which do not meet strategic priorities, providing capital receipts to be invested in corporate priority areas. In Herefordshire we have not seen a particular focus on income generation which we are seeing in some other councils..</p> <p>Publically available benchmarking information suggests that the level of balances are about midpoint for other unitary councils when considered in relation to expenditure. Whilst some use of balances has been made in the year there has been a net addition of £13.1m to revenue reserves (earmarked) and £38.4m to capital balances, through the sale of assets which generally did not provide a significant revenue stream. Overall good progress has been made towards improving the financial stability of the Council through its focus on increasing balances. Additions to reserves included £4m as a consequence of a change in MRP policy and there are other balances remaining which could potentially be released to general reserves or revenue. The level of balances are to be reviewed in the 2018/19 financial year, partly in response to the LGA Peer view recommendations.</p> <p>In 2017/18 the Council reported a breakeven out-turn. At quarter three overspends in both adults and children's were anticipated, however at out-turn an improved position was reported for adults.</p> <p>The overspend in children's services was c£2m in 2017/18 and this was partly due to slippage in delivering savings plans. The level of savings to be achieved by the children's directorate are lower both in value and proportion to net budget However clearly this is a key risk area. At the year end there were 305 looked after children compared with a target of 180. There was no notable change in total number during the financial year. Discussion with officers and review of the savings reports indicate that reducing the existing cohort of looked after children is a key focus.</p>	<p>We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people.</p>

	Significant risk	Findings	Conclusion
1	<p>Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>If the key assumptions within the medium-term financial plan are not reasonably based then the future financial position of the Council could be at risk.</p>	<p>The intention is to manage the children presenting limited risk out of local authority care. New demand is difficult to predict and manage, whilst this is considered to be less of a concern, it was a factor in the overspend at the year end.</p> <p>The area of the Council to deliver most of the savings over the remaining two years of the MTFP is ECC with a target of almost £6m. Review of accommodation and the accommodation strategy are particular focus areas.</p> <p>Adults' Services has a comparatively large level of savings to be delivered and is highlighting risk in relation to the delivery; with over 50% of the target savings assessed as amber or red for 2018/19 according to the out-turn report. Quarter one reports make a slightly improved forecast. Some of the savings to be achieved are through developing new service pathways. Service redesign, particularly when working with partner organisations, will take time to implement and frequently results in slippage in implementation impacting on the associated savings. Most of the savings for the three year plan are targeted for 2018/19, reflecting the increased anticipated budget pressures.</p> <p>Officers have explained that there was a more robust challenge process around budget setting for 2018/19 than in previous years with a more of a zero based budget approach and the budgets for 2018/19 are considered more robust as a result. There was also a 'check and challenge' process on the savings plans providing some additional reassurance over the realism of savings plans. Reporting of the position and risks is clear through the quarterly score card reports. Clearly there is ongoing risk to delivery of the savings targets in 2018/19.</p> <p>We have considered the significant risks identified in our planning, and now consider we have sufficient evidence to conclude that the risk is sufficiently mitigated and there is no impact on our VfM conclusion.</p>	<p>We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people.</p>
2	<p>Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>Informed decision making: reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>We have considered the actions that the Council is taking to respond to concerns raised around the governance of the capital programme.</p> <p>Overall we consider that officers are taking appropriate steps to respond to the matters raised in the Internal audit report on Blue School House. Officers have sought to establish whether weaknesses exist in wider project management arrangements and are taking steps to improve monitoring and management of the capital programme and capital schemes.</p> <p>Most of the agreed actions arising from the internal audit report are to be implemented by 31 March 2018 and so we are not able to assess the effectiveness of any new arrangements, although proposals for improving the monitoring and control of capital expenditure are reasonable. Internal audit are to report on progress to the September Audit and Governance Committee.</p>	<p>We concluded that the Council had adequate arrangements to ensure to achieve planned and sustainable outcomes for taxpayers and local people.</p>

Significant risk (continued)	Findings	Conclusion
<p>2 Sustainable resource deployment :Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p> <p>Informed decision making: reliable and timely financial reporting that supports the delivery of strategic priorities.</p>	<p>For the 2017/18 financial year recording, reporting and profiling of capital programme has not been consistent throughout the Council. A capital accountant has now been appointed and she is planning to better utilise existing financial systems and implement tighter controls to ensure more integrated, consistent and accurate recording and profiling of expenditure.</p> <p>The 2017/18 capital out-turn is showing significant slippage against the projected outturn (47% on a £90m base), demonstrating that capital expenditure is not being properly profiled. Quarter three reporting was not accurate.</p> <p>There is insufficient reference in the narrative foreword of the 2017/18 financial statements to the capital programme delivery, linkages with strategic priorities or informative narrative on projects being delivered or invested in. There is little mention of the involvement of LEP in financing and delivering schemes. This is indicative of the importance given to public reporting in this area.</p> <p>Members have expressed concerns around the capital programme and the consistency and transparency of reporting around individual schemes. This is understandable as it remains difficult to track expenditure from approved budget to out-turn on some schemes, including where there are partnership arrangements involved such as the LEP. We have made recommendation on these matters in previous years but they have not all been implemented.</p> <p>The capital programme continues to grow over the next few years with several large schemes on the horizon, including over £40m within the capital programme allocated to the development partnership.</p> <p>Work needs to continue to ensure that there are fully embedded controls and procedures operating throughout the Council around capital expenditure and that the importance of accurate recording and profiling of spend is understood.</p> <p>The Council should further consider the governance arrangements around capital monitoring so that there is greater opportunity for members to be engaged and to understand the financial position on some of the more high profile capital schemes. It is now more important than ever to ensure there is transparency and consistency of public reporting supported by clear narrative, to ensure that there is trust and confidence in what is being reported in the public domain.</p> <p>We have considered the significant risks identified at the IRA stage, and now consider we have sufficient evidence to conclude that the risk is sufficiently mitigated and there is no impact on our VfM conclusion.</p>	(cont)

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Other considerations	Findings	Conclusion
Consideration of new information which emerged since we issued our Audit Plan:		
Local Government Association Corporate Peer Challenge	<p>The Council had a Local Government Association Corporate Peer Challenge in February 2018. The findings from this review were available on the Council's website shortly after the review was completed although it was not formally reported to members until June 2018.</p> <p>The findings are appropriately reflected in the year-end Annual Governance Statement. A specific action plan is not going to be produced but recommendations reflected in plans going forward.</p> <p>Overall the report did not raise significant concerns about the Council and contained a number of positive observations and comments. The report did note that the Council strategic planning and management was overly focussed on directorates rather than there being clear leadership and planning across the Council. There were also observations about the culture of the Council. Discussion with the Chief Executive indicates that the conclusions have been taken seriously and will be reflected in changes to the Council structures currently being considered.</p> <p>From a financial perspective, the report provided some assurance around the level of balances, but highlighted the challenges in the savings programme, particularly around children and adults services where overspends were forecast.</p>	<p>We did not highlight the Local Government Association Corporate Peer Challenge as a significant risk at our initial risk assessment as the review had not been completed. We have now considered the content of the report and we do not consider that the findings from the Local Government Association Corporate Peer Challenge present a significant risk to our VfM conclusion.</p>
Children Act 1989, section 20	<p>In March a judgement was made in the Family Court around children accommodated by the Council under the act. The wording of the judgment was strong and highlighted failures in procedures operated at the Council.</p> <p>We have not seen a formal report made to members on the judgement but we have discussed with senior officers of the Council.</p> <p>Discussion with the monitoring officer indicates that there may be litigation going forward and reserves have been set up to cover these costs - but the final position is not yet known.</p> <p>The view of the judge and officers was that this reflected historic practices by the Council. Leadership and approaches have changed since then. The ruling reflected common practice at the time and the expectation is that there will be further similar rulings.</p>	<p>We have now considered the content of the report and discussed with officers and we do not consider that the findings from the report present a significant risk to our VfM conclusion.</p>
Ofsted Inspection Children's Services	<p>The findings from the June Ofsted were published on 23 July 2018. The overall conclusion was that the services 'required improvement'. The overall conclusion is consistent with that in the last inspection in 2014.</p>	<p>Ofsted inspection resulted in overall rating of 'requires improvement' and, as a result, we have concluded that the risk has been mitigated and the Council has put in place adequate arrangements so support informed decision making.</p>

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements,

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	5,806 tbc	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the indicative fee for this work is £5,806 in comparison to the total fee for the audit of £124,405 and in particular relative to Grant Thornton UK LLP's turnover overall.
Audit of teacher pension	6,000 tbc		
Audit of SFA grant	4,000 tbc		
Audit of subsidiary – Hoople WME	£1k	n/a	The contract for supply of services was withdrawn and the opinion will be issued by another audit supplier. There is therefore no risk to mitigate. The fee relates to our costs incurred for the initial planning and early opinion testing.
Non-audit related			
support to procurement of a development partner	12,000 tbc	Management threat	The work was procured in 2016/17 and is an objective analysis and any decisions will be made by management. The work does not relate to any matters reflected within the financial statements.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year.

Action plan




We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	●	<p>Valuation of PPE: the balance sheet at 31/3/18 should reflect valuations at 31/3/18. For any assets not valued the Council must demonstrate that there has not been a material change in value.</p> <p>We noted that the revised asset register did not include information on impairments, which made the accounting for changes to valuations difficult and was a factor in the adjustments required on page 25. The asset register has now been updated and will be included going forward.</p>	<p>The Council will be appointing a new valuer in 2018/19 year. The Council should consider how best to ensure that the valuation of assets complies with the code. Valuations as at 31 December with a clear articulation by the valuer of movement in the last quarter should be considered as this would provide more up to date position and potentially reduce the number of subsequent valuations.</p> <p>If the current practice of 1st April valuations is to continue then officers should engage more closely with the valuers to agree an approach to reflect the in year changes in value in the financial statements. The use of indices is not acceptable unless these are agreed by the valuer as a reliable approach to inflate year-end values.</p> <p>Management response</p> <p>Agreed- consideration will be given to amending the valuation date to the 31st of December in future years. The appointment process of the new valuer will ensure that the latest best practice guidance for such services are incorporated in the specification for the work.</p>
2	●	<p>Quality Control and preparation of working papers: Market Forces Review. There were material inconsistencies between assets considered for market review, and those assets held on register. The consequence was the assumptions that officers made around whether a material difference existed on the carrying value of assets was materially incorrect and more valuations were instructed at a late stage of the audit.</p>	<p>As this is the second year that we have experienced issues in this area, the detailed working papers to support revaluations and in particular the market forces review should be reviewed by a senior officer.</p> <p>Challenge around the assumptions and outcomes of the valuations and reasonableness of the movement should be clearly evidenced and provided within working papers.</p> <p>Management response</p> <p>As part of the lessons to be learnt process following the audit there will be a review of how best to prepare for this part of the audit looking to learn from examples of best practice across the local government community.</p>




Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice


Action plan (cont)

Assessment	Issue and risk	Recommendations
3	 <p>Quality Control and preparation of working papers: We recognise that officers made considerable efforts to support the audit. All the samples were turned round quickly and there were relatively few queries arising from that work. Also additional resource was obtained to deal with group accounts and other technical queries raised and this helped.</p>	<p>Management should have a 'wash up' meeting following this years audit and plan how staff will support the audit next year, particularly in the higher risk areas of the accounts.</p> <p>Management response</p> <p>We have disclosed a greater level of detail this year due to this being the first year of preparing group accounts, we aim to implement the suggestions made in next years accounts.</p>
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4	 <p>Group accounts: The Council has for the first time prepared group accounts. We have worked with officers during the audit to refine the notes to ensure they fully code compliant.</p>	<p>Next year officers should look to further streamline the group accounts notes, so that the disclosure is clearer whilst ensuring sufficient prominence.</p> <p>Management response</p> <p>This was the first year of producing group accounts, and the lessons to be learnt process following the completion of the audit will consider how to improve and streamline the process of producing the group accounts and the subsequent notes.</p>
5	 <p>Elimination of school balances: from our debtors testing we identified that debtors control account contained balances with schools under local authority control, which should under the code be eliminated.</p>	<p>There should be an evidenced review of debtors and creditors control accounts to ensure that inter-authority transactions are eliminated.</p> <p>Management response</p> <p>This was a one off issue due to the bank holiday weekend falling over the year end resulting in a delay in the receipt of funds through a direct debit arrangement in place with schools. This will be reviewed at each year end going forward.</p>

Controls




-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

Assessment	Issue and risk	Recommendations
6	 <p>The statement of accounts is a relatively clear and concise statement of accounts. To further improve we consider that the content of the narrative report could be expanded to include the capital outturn, and non financial performance information around the Council and the group. Footnotes should be added to explain significant changes in numbers year on year and significant estimates and judgements should be reviewed to reflect matters within the accounts.</p>	<p>Officers should reflect on the purpose of the narrative foreword and how the overall presentation can be enhanced to more fully 'tell the story' of the Council's financial arrangements in the year.</p> <p>Management response</p> <p>The Council will review its approach to the compilation of the narrative section of the report and ensure that it learns from the best in the class.</p>

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Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan VfM

We have identified of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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Assessment	Issue and risk	Recommendations
●	Officers recognise that further progress is need to improve capital reporting, accuracy and transparency. This is even more important in view of the size of the capital programme going forward.	<p>Members of the audit committee should receive clear and specific assurance around the progress being taken to improve capital recording, monitoring and reporting.</p> <p>Further consideration should be given to the governance arrangements around capital programme and monitoring so that there is greater opportunity for members to be engaged and to understand the financial position on some of the more high profile capital schemes</p> <p>Management response</p> <p>The Audit and Governance Committee have been kept fully apprised of the ongoing process to improve the governance and transparency around the capital program.</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in [x] recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations as outlined below:

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Prior to the completion of the draft financial statements, senior officers should quality review the accounts including consideration of the Code of Practice and CIPFA LAAP bulletins. This will mitigate the risk of non-compliance with the disclosure requirements of the code. This should be built into the closedown timetable.	We received a completed disclosure checklist. Our initial review of the checklist indicates some areas of non-compliance with disclosure requirements. This is still work in progress and so there may be valid explanations for areas of non compliance.
2	✓	Officers should be more proactive in the commissioning of PPE valuations ensuring that all relevant information is considered and shared with the valuer as appropriate. Officers should review all changes for reasonableness prior to being reflected in the accounts. The cost of commissioning any valuations should not be a material consideration over ensuring compliance with code requirements	<p>Officers have carefully considered which assets to revalue this year and a significant proportion of PPE have been revalued in year. A new valuer was appointed in year. Some evidence has now been provided of the challenge process that officers went through to ensure their satisfaction with the reasonableness of valuations. Note 10 shows that there are significant movements in valuations on some assets, which following audit review are as a consequence of changed assumptions by the valuer compared to the prior year, for example yield percentages on investment assets.. Significant changes in such assumptions should be explained in the accounts either in footnotes or within significant estimates. Further detail on this matter is included in the findings section of the report.</p> <p>The Council undertakes valuations as 1/4/17 whereas accounting policies are that the accounts should reflected value as at 31/3/18. A significant exercise is then required to be completed to demonstrate that there has not been a material movement in valuations/ impairment/ classification etc. in year that would materially impact on the year end valuation. A valuation as at 31/12 plus unambiguous confirmation by the valuer of material changes in the last quarter would be a cleaner approach and may result in less audit challenge at the year end.</p>

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Assessment

- ✓ Action completed
- x Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in [x] recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations as outlined below:

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	partial	Officers should consider the good practice requirements of the code in relation to the narrative report. As a minimum there should be better reference to important and significant transactions within the accounts, both on the narrative reports and footnotes to specific notes.	<ul style="list-style-type: none"> The narrative report does not contain information which is inconsistent with the financial statements. The report meets minimum standards however there is further scope to enhance the content and presentation of the report. Suggestions for improvement were provided however no subsequent changes have been made: <ul style="list-style-type: none"> ➤ there is limited information on capital outturn ➤ No performance measure on non financial performance. ➤ Reference to the Local Government Association Corporate Peer Challenge in year which is good – however it only refers to the positive findings whereas the narrative report is supposed to be 'balanced'. ➤ No narrative provided on group performance (Hoople)..
4	✓	The accounts contain some material figures that are provided by third parties. This include the IA 19 disclosures and information around Public Finance Initiative (PFI) funded assets. Officers should be able to demonstrate that they have considered the reasonableness of all information provided by third parties.	<ul style="list-style-type: none"> A paper has been provided which articulates the challenge made to third party providers. We have yet to review this.
5	X	The 2016/17 AFR recommended that a note should be included on the LEP showing transactions. This was not included.	<ul style="list-style-type: none"> There have been no transactions with the LEP in 2017/18. There is clearly a key relationship with the LEP, for example they had a key role in approving the HCCTP business case. Council should consider the relationship with the LEP for example disclosure as a related party within the accounts.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year. As referred to in the introduction we are currently checking the impact of these amendments.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 A £9.6m revaluation entry had been put through the draft accounts (balance sheet & note 10) to uplift the valuation of DRC assets last revalued at 1.4.18. This is based on indices and not a true asset valuation performed by the expert and the approach is therefore not code compliant. A further instruction for valuations was made and the £9.6m valuation adjustment has been reduced by £7.76m.	Nil	(£7,764) land and buildings	Nil
2 3 When accounting for valuation increases in PPE, Councils should first consider reversing prior year impairments charged to income and expenditure before crediting the revaluation reserve. We found that there has been no reversal of impairments in 2017/18 (value £4.329m) or in the previous year 2016/17 (value £2.785m). The cumulative effect of these errors is material.	(£7,114) credit to Net Cost of Services £7,114 debit to Surplus in revaluation of non-current assets	(£7,114) credit to General Fund £7,114 debit to Revaluation Reserve	(£7,114) credit to Net Cost of Services
3 Transactions and balances with schools which are under the Council's control should be eliminated through accounting adjustments, as they represent intra-group operations. We found that £1.6m of school debtors were incorrectly included on the balance sheet in relation to schools under the Council's control.	n/a	(£1,585) credit to debtors £1,585 debit to cash	nil
Overall impact	TBC	TBC	TBC

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Grant Income	We found that £21.6m of grant and contributions income was not separately disclosed in the Grant Income note to the accounts (note 28)	The Grant Income note to the accounts should contain details of all income which falls under either of the following categories: grants, contributions and donations.	✓
Collection Fund ⌘	We found that a £0.5m contribution towards previous year's Business Rates Surplus on the face of the Collection Fund statement was incorrectly classified as West Mercia Police, where in fact it should be Central Government.	Amend the face of the Collection Fund.	✓
Termination Benefits	The payment for 1 redundancy had been missed and the number of exit packages increased from 5 to 6. Transposition error - total 1718 for 0-20k should be 172.8, not 178.2	Amend note 25	✓
A number of presentational changes	Various presentational changes, and additional footnotes throughout the statements to improve transparency and compliance with the CIPFA Code and various adjustments for rounding error.	Make amendments per schedule shared with officers.	✓
Audit fees	Grant Thornton have undertaken work in addition to the main audit and charged additional fees for the prior year. As the accounts are presented to only 1 decimal place – the fees for work not associated with the accounts are not evident..	Footnote to be added explaining the split	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 10	In Note 10, reclassifications are disclosed net of historical depreciation adjustments which doesn't allow for transparency of assets reclassified, £20.0m of assets were reclassified. Prior year is not presented on a consistent basis.	therefore we recommend this is split out in the note into two rows because reclassifications and historical depreciation adjustments are individually material,	✓
Group accounts	This is the first year of presenting group accounts so a number of disclosure changes are suggested. <ul style="list-style-type: none"> MiRS needs to reflect minority interest as unusable reserve, A number of amounts are cross referred to notes in the single entity accounts but the values do not trace through. Other LT Term liabilities on balance sheet should refer to note G9 The title of Note G9 Other Long Term Liabilities is not consistent with the disclosure involved. 	Rather than include as a separate note disclosure could be done on the face Each table should include a footnote saying notes are not prepared for the group unless they are materially different to the single entity. Suggest amending title to 'Group Financial Instruments'.	✓
Financial instruments	page 50 of the accounts states (first bullet point) that fair values of PWLB loans have been calculated based on premature repayment rates at the end of the year. This is not an acceptable approach per CIPFA. The Council have included both the premature repayment rate and the fair value using the new loan rate as fair values in financial instruments. Use of premature repayment rates as a means of measurement is not an acceptable approach to assessing fair values but this is not clear from the accounts.	Reference to be removed It should be clear in the accounts what the preferred method of valuation is to aid the reader	✓

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Accounting policies	<ul style="list-style-type: none"> Reference is not made in the accounts to the accounts being prepared on a going concern basis The value of 25k for the de-minimus under 'Accruals of Income and Expenditure' should be stated Assumptions made about estimation uncertainty: the valuation of PPE is by a new valuer and there have been new assumptions made which have impacted on the value of PPE, over and above the expected changes in market assumptions. Critical judgements: accounting judgements around schools property and agency have materially impacted on what is (or isn't) included in the accounts. These matters are referred to in other notes but not as 'critical judgments' 	<ul style="list-style-type: none"> inclusion of the Going Concern basis under 'Critical judgements' Value to be disclosed changes in approach should be made clear in the estimation uncertainty line accounting policy/ note Critical accounting judgements should be described in the accounts as such. 	✓

Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2017/18 audit which have not been made within the final set of financial statements. The matters we have raised in the audit and in the previous pages relate to estimates, and we do not consider that these should be adjusted for. No unadjusted misstatements.

Impact of prior year unadjusted misstatements

Prior year misstatements related to inconsistencies on specific assets to the asset register or valuation reports. These assets have been considered as part of the 2018/19 valuation exercise and adjustments made as part of that process and we have tied up the fixed asset register to this years valuations.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£124,405	tbc
Prior year audit overrun	£15,000	tbc
Audit of subsidiary company Hoople limited	£12,000	£1,000
Grant Certification - housing benefits	£5,806	tbc
Total audit fees (excluding VAT)	£157,211	£tbc

The proposed fees for the year, and prior year fee variations, have not yet been approved by PSAA. Additional time to plan has been spent when drafting the plan on group accounts and PPE in particular. We have yet to assess the impact.

Audit fees are reported in the accounts rounded to £0.1.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Audit of west Mercia energy	3 tbc
• Certification of teachers pension	6 tbc
• Skills funding agency audit	4 tbc
Non-audit services	12
Provision of advice to support procurement of a development partner (completion of 2016/17 agreed work)	
	25 (tbc)

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of Herefordshire Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Herefordshire Council (the 'Authority') for the year ended 31 March 2018. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Collection Fund and all notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 2 to 121 other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 12 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer.

The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Section 151 Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of other matters brought to our attention by the Authority. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

Jon Roberts
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Grant Thornton UK LLP
Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date to be added

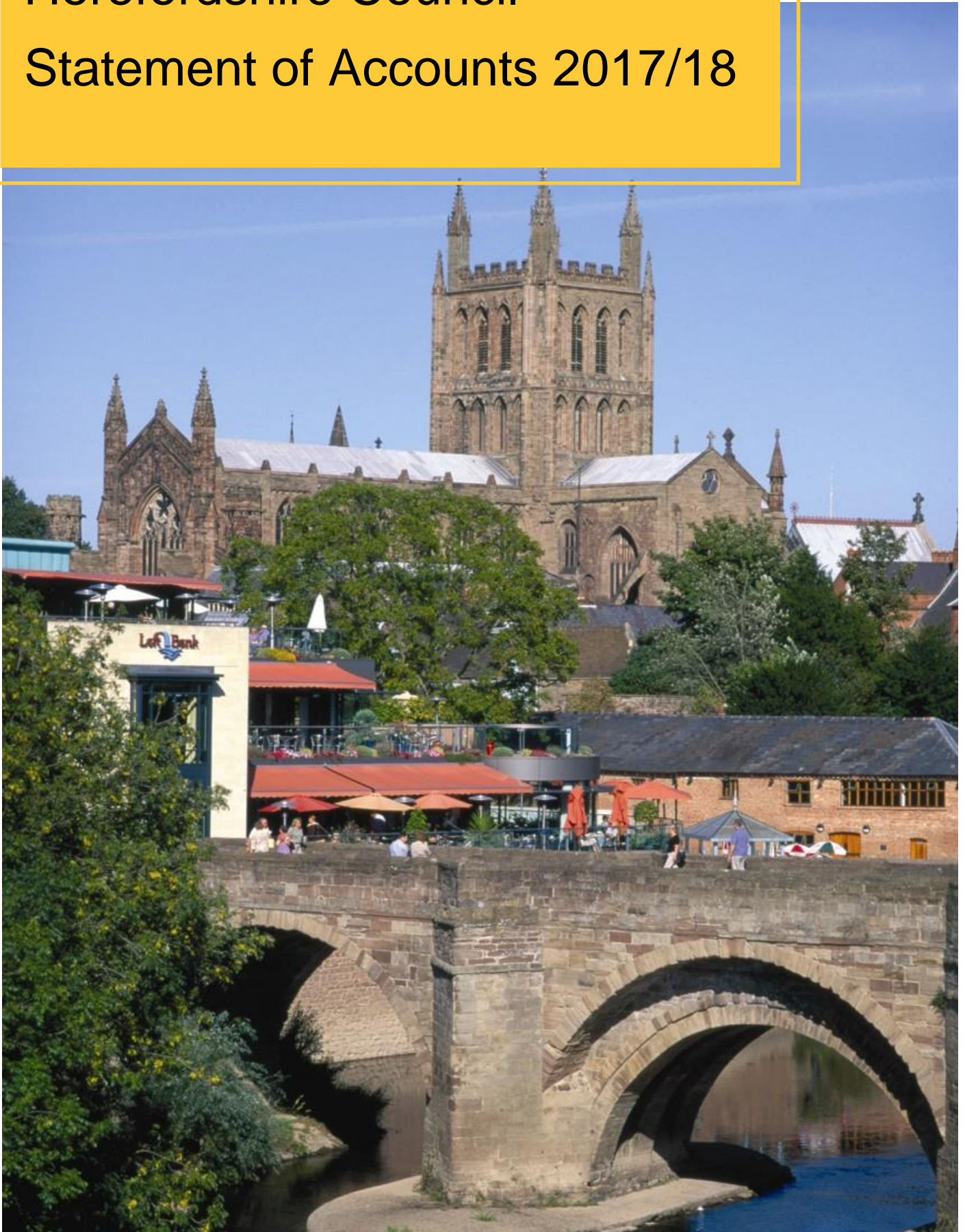


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Herefordshire Council Statement of Accounts 2017/18



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Further information about the council's finances is available from the Section 151 Officer, Herefordshire Council, Plough Lane, Hereford, HR4 0LE.

Narrative Report 2017/18

Introduction

Herefordshire Council's core statement of accounts for 2017/18 sets out the council's overall financial position and performance for the year. For the first time the council has prepared group accounts to report the position for the group, being Herefordshire Council and Hoople Limited. The group accounts combine the council's core financial statements with those of Hoople Limited. Hoople Limited is a subsidiary of the Council, due to the council holding a majority 85.54% shareholding in Hoople Limited. The council holds equal voting rights with the other shareholder, Wye Valley NHS Trust. Following the consideration of materiality the council has not prepared group accounts in previous years, the Council now considers that group accounts provide greater transparency of its overall activities to the county's residents.

Herefordshire is a rural county with an older demographic and, like other councils and the wider public sector, has faced significant financial challenges over recent years as central government funding has been reduced, while costs and demand increase. 2017/18 saw further significant budget reductions requiring the delivery of £7m of savings in addition to those achieved in previous years. The council delivered these savings whilst continuing to commit to providing priority services to the local community.

The council has approved a medium term financial strategy up to 2020/21 which identifies how savings will continue to be achieved. The need to work well with less continues to require adaption, change and re-prioritisation alongside the council's ambition to keep improving and delivering for and with Herefordshire residents.

2017/18 saw the council's general reserve balance remain at £7.9m. Herefordshire's medium term financial strategy includes a reserves policy and the reserve position is reviewed by Council on an annual basis. Specific earmarked reserves are set aside to deal with expenditure commitments in future years, these totalled £57.8m as at 31 March 2018.

This statement of accounts demonstrates the robust financial standing Herefordshire has and provides assurance in its ability to deliver the medium term financial strategy approved by Council in January 2018.

The statements have been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) and aims to provide information so that members of the public, Council members, partners, stakeholders and other interested parties can:

- **Understand the overarching financial position of the Council, its group undertakings and performance for 2017/18;**
- **Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and**
- **Be assured that the financial position of the Council is sound and secure.**

About Herefordshire

Herefordshire covers an area of 2,180 square kilometres (842 square miles), and is a predominantly rural county, with the fourth lowest population density in England. Herefordshire's population is around 189,300 (2016), with 53% of the population living in rural areas.

The county has an older age population profile than England & Wales, with 24% of the population aged 65 or older compared to 18% nationally. If recent trends were to continue, natural ageing of the population structure would see the total population of Herefordshire increase by 9% by 2034; however, the working age population would fall by 3% in the same period, with almost the entire population increase being in people over the age of 75.

Herefordshire is an entrepreneurial county, with 15% of the population being self-employed. Although the largest industry in Herefordshire is 'agriculture, forestry and fishing' which accounts for 24% of total businesses, numbers of employees in this sector are low.

Unemployment in the county is low, but average earnings in the county are significantly below both the regional and national averages. Average house prices are high compared with elsewhere in the region. In 2016, Herefordshire's affordable housing ratio was the worst in the West Midlands, with houses at the lower end of the market, costing around 8.6 times the annual wage of the lowest earners.

While life expectancy for both males and females is higher and mortality rates are lower than the national average, there are pockets of deprivation within the county and there are notable differences in life expectancy and mortality in these areas, much of which is attributable to lifestyle related conditions such as circulatory or respiratory diseases or cancers.

About Herefordshire Council

In the past two years we have agreed a number of key strategies which set out our vision and plans for the future. These include: an adults and wellbeing plan; a public health plan; an economic vision for the county; a local plan core strategy and the local transport plan. All of these underpin the council's key priorities as stated in the council's corporate plan 2016 to 2020, which are to:

- **Enable residents to live safe, healthy and independent lives**
- **Keep children and young people safe and give them a great start in life**
- **Support the growth of our economy**
- **Secure better services, quality of life and value for money**

Every day the council helps to protect around 2,500 vulnerable adults and 1,000 children and young people (including 300 children in our care), our recent achievements include:

- A three year improvement in pupil attainment in all key stages,
- Improving early years' outcomes from amongst the lowest in England to the top quartile of performance,
- Significantly improved adult social care client satisfaction to among the best in the country,
- Achieved the highest specific target for reducing delayed transfers of care in 2017 of any county in the country,
- Working with external partners to produce a business case which secured £23m of government funding to establish a new university in Hereford, of which the Council is the accountable body, and
- During the year the council realised the majority of the sale of its smallholding estate and the Council has approved that these funds (in excess of £40m) will be reinvested in regeneration projects throughout the county.
- In June 2018 the council appointed two new development partners to deliver an ambitious development and regeneration programme which will bring to life plans contained within the adopted Core Strategy (the document that sets out Herefordshire's planning priorities until 2031). The first new homes expected to be delivered by late summer 2019.

Medium Term Financial Strategy (MTFS)

The Council adopted its medium term financial strategy for the period to 2020/21 in January 2018 which sets out how we will continue to deliver valued services whilst continuing to deliver savings.

The council's medium term financial strategy focuses on:

- Delivering organisational efficiencies, such as workplace rationalisation;
- Disinvesting from services or assets which are either not contributing to corporate priorities or which could be better delivered by others;
- Investing in technology to support a shift from face to face to digital service delivery where appropriate;
- Investing in infrastructure to support economic growth in the county;
- Changing models of service delivery to focus on self-help and early help and intervention to reduce the demand for higher cost interventions;
- Maximising commercial opportunities and ensuring, where possible, fees are set at levels which secure full cost recovery.

The MTFS has been set with regard to known funding reductions, additional cost pressures and identified savings of £19.2m for the period 2018/19 to 2020/21 using the following funding assumptions:

Funding Assumptions	2018/19 £000s	2019/20 £000s	2020/21 £000s
Council Tax	98,445	101,927	104,620
Locally Retained Business Rates	33,256	33,945	47,146
Revenue Support Grant (RSG)	5,370	620	-
New Homes Bonus (NHB)	2,540	1,760	-

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Rural Services Delivery Grant (RSDG)	4,093	4,093	-
Collection Fund Surplus	420	-	-
Base Budget	144,124	142,345	151,766

Financial performance, economy, efficiency and effectiveness of use of resources in 2017/18

Each year the council agrees a corporate delivery plan that details the actions which will be taken in the coming year and how progress will be measured through a number of agreed performance measures. These have been selected because they demonstrate progress towards achievement of the council's priorities and also provide an overview of the council's performance from a resident's perspective.

Given the national picture of reducing public finances and increasing demand, particularly in adults and wellbeing, there has been a high degree of focus on delivering more for less. Although it has not been possible to maintain all services the council historically delivered, the vast majority of savings have been achieved through internal efficiencies, workforce reduction, contract renegotiation and changes to the way in which services are delivered.

We have adopted a new care 'blueprint' which aims to keep people within their local communities, retaining choice and control over their lives. Services are being redesigned to focus on the strengths that individuals and their networks possess, and how these can be maximised. Care services aim to return individuals back into their communities to the greatest extent possible following a crisis.

We have developed a new social care pathway and a redesigned in-house Home First service, which seeks to maximise the extent to which service users are re-abled.

We work with a wide range of partners locally and regionally to deliver our vision for the county and achieve our corporate plan priorities. In addition to the statutory or long established partnership forums such as the Health and Wellbeing Board, Safeguarding Boards, and Community Safety Partnership, there are a number of key local partnerships through which the council seeks to develop consensus, co-ordinate activities or facilitate negotiation and discussion, particularly in relation to alignment of resources to meet shared priorities.

Risks

The council maintains both corporate and directorate risk registers. The corporate risk register is published routinely as part of the regular corporate budget and performance reporting. In addition, areas for improvement are addressed in the accompanying annual governance statement.

We have more to do to achieve longer term financial sustainability in the face of planned changes to national funding of local government, our demographic pressures, particularly relating to adults and wellbeing and children with disabilities, and the need to address the barriers to growing our economy identified by our businesses.

We have continuing risks in delivering savings in both children's and adults and wellbeing services. Demand management will be key to ensure future financial resilience alongside increased integrated working with the health sector.

The Enterprise Zone, the improvements in the public realm, roll out of "FasterShire", the opportunities which will flow from working with our newly appointed development partner, delivery of the new university, and addressing the local housing demand are all examples of how we are working to build the economic base of the county which will help improve the financial sustainability of the council by growing council tax and business rates receipts.

Corporate Peer Challenge

During 2017/18 the council invited the Local Government Association (LGA) to complete a corporate peer challenge. A report into its findings has been provided and includes acknowledgement of Herefordshire Council's significant successes, alongside recommendations for improvement to maximise impact and help residents understand the good work being done. The council is recognised as being in a relatively secure financial position over the medium term which provides a platform to realise the county's ambitions. Herefordshire Council is described as having a good understanding of the county and strong ambitions for Herefordshire, alongside an appetite to learn, a desire to improve, and an awareness of key areas for change. It also recognises that there is an engaged workforce that is proud to work for Herefordshire. Work continues to be done to identify how the LGA recommendations can be best implemented.

Council Members

Herefordshire Council is a unitary council formed in 1998. There are 53 elected members, each representing a single ward. The political composition of the council is currently:

Party	Number of councillors
Conservative	28
Herefordshire Independents	8
It's our County!	9
Liberal Democrats	2
Green Party	4
Unaffiliated	2
Total	53

The council paid the following amounts to members of the council during the year:

Members Allowances	2017/18	2016/17
	£m	£m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	0.6	0.6

Financial Performance 2017/18

The council's financial performance for the year is summarised below.

Service	Outturn Budget	Outturn Actual	Outturn over/(under)
	£m	£m	£m
Adults and wellbeing	51.9	52.0	0.1
Children's wellbeing	20.4	22.4	2.0
Economy, communities and corporate (ECC)	49.9	48.9	(1.0)
Directorate outturn	122.2	123.3	1.1
Other budgets and reserves	22.8	21.7	(1.1)
Total	145.0	145.0	0

Although there were overspends in children's wellbeing services there were underspends elsewhere delivering a balanced outturn position.

The overspend related to meeting children's needs in relation to safeguarding, including complex disability cases. A workforce action plan has been devised to address the challenges being faced in recruiting experienced social workers and agency fostering placements are being actively managed to mitigate pressure on the budget in the new financial year.

The underspend in economy, communities and corporate relates to the early delivery of savings, providing reassurance of the delivery of future year savings targets as set in the MTFS.

In addition there was a treasury management underspend from lower borrowing costs due to a combination of interest charges on short term loans being lower than budgeted and utilised less than expected.

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Performance is reported to Cabinet on a quarterly basis and published on the council's website detailing information about performance specifically in relation to spending against budget. The 2017/18 detailed performance outcome was reported to Cabinet in June 2018.

The 2017/18 statements demonstrate financial robustness with reserves proportionately comparable to similar councils, providing resilience as we face the challenges ahead.

Revenue expenditure and income

The council's net revenue budget of £145m was matched with equivalent net spend, after transfers to and from specific reserves.

A reconciliation between the directorate totals and amounts included in the Comprehensive Income and Expenditure is shown in the Expenditure and Funding Analysis statement and reflects the amounts required to account for capital revaluation/impairment and pension funding costs.

Capital Programme

Capital investment set out in the capital programme will support the corporate plan priorities by:

- Improving schools
- Enhancing infrastructure
- Housing delivery and
- Creating job opportunities

Capital investment for 2017/18 totalled £49.2m. This was financed by capital grants £29.0m, prudential borrowing £15.7m, capital receipts £4.2m and revenue contributions of £0.3m. The investment included the following corporate priority schemes:

- Colwall Primary School which became operational in year - £4.1m
- Hereford enterprise zone site investment works - £1.8m
- Fattershire broadband rollout - £5.7m
- Hereford City Centre Transport Package - £6.1m
- Highway asset management & major infrastructure investment - £6.2m
- Local transport plan road improvement works - £13.7m

Future years' capital programme

The council maintains a rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is set out in the table below.

Scheme Name	2018/19 budget	2019/20 budget	2020/21 budget	Total Scheme Budget	Capital receipts	Grant & funding cont	Prudential borrowing	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Economy, Communities and Corporate								
Hereford City Centre Transport Package	7,060	1,270	-	8,330	-	-	8,330	8,330
Local Transport Plan (LTP)	13,539	10,341	-	23,880	-	23,880	-	23,880
Fattershire Broadband	12,957	-	-	12,957	-	4,798	8,159	12,957
Hereford Enterprise Zone	7,682	-	-	7,682	7,682	-	-	7,682
Solar Photovoltaic Panels	1,631	-	-	1,631	-	-	1,631	1,631
Corporate Accommodation	509	-	-	509	-	-	509	509
ECC's S106	756	-	-	756	-	756	-	756
South Wye Transport Package	15,505	6,200	8,317	30,022	-	30,022	-	30,022

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Marches business improvement grants	1,667	-	-	1,667	-	1,667	-	1,667
Property Estate Enhancement Works	1,414	500	-	1,914	-	-	1,914	1,914
Herefordshire Enterprise Zone Shell Store	6,816	500	-	7,316	-	4,494	2,822	7,316
Cyber Security Centre Project	3,500	-	-	3,500	1,500	-	2,000	3,500
Development Partnership activities	20,300	20,000	-	40,300	10,000	-	30,300	40,300
Highway asset management	12,835	7,000	-	19,835	-	16,590	3,245	19,835
Hereford Transport Package	2,960	-	-	2,960	-	-	2,960	2,960
Ross Enterprise Park (Model Farm)	6,770	300	-	7,070	3,535	-	3,535	7,070
Other ECC schemes below £500k	4,047	0	0	4,224	370	-	3,854	4,224
Total ECC Capital Projects	119,949	46,111	8,317	174,554	23,087	82,208	69,259	174,554
Children's wellbeing								
Schools Capital Maintenance Grant	1,716	-	-	1,716	-	1,664	52	1,716
Peterchurch Primary School	5,493	-	-	5,493	305	-	5,188	5,493
Expansion for Marlbrook school	4,988	1,000	-	5,988	-	1,000	4,988	5,988
SEN & DDA school improvements	710	-	-	710	-	-	710	710
Brookfield School Improvements	1,298	-	-	1,298	-	113	1,185	1,298
CYPD's S106	996	-	-	996	-	996	-	996
Preliminary works to inform key investment need throughout the county	2,015	-	-	2,015	-	-	2,015	2,015
Other CWB schemes below £500k	1,930	167	167	2,263	70	867	1,326	2,263
Total CWB Capital Projects	19,147	1,167	167	20,480	375	4,640	15,465	20,480
Adults and wellbeing								
Disabled facilities grant	1,853	-	-	1,853	-	1,853	-	1,853
Affordable Housing Grant	1,600	800	-	2,400	800	-	1,600	2,400
Hillside	1,500	-	-	1,500	-	-	1,500	1,500
Single Capital Pot	596	-	-	596	-	596	-	596
Other AWB schemes below £500k	493	-	-	493	493	-	-	493
Total AWB Capital Projects	6,042	800	-	6,842	1,293	2,449	3,100	6,842
Total	145,137	48,078	8,484	201,876	24,755	89,297	87,824	201,876

Funding the Council

Much of the council's investments are funded by grants however, when capital grants cannot fund a scheme in full, prudential borrowing can be used to fund the project and be repaid from future savings or repayments. In 2017/18 the council utilised £15.7m of prudential borrowing to fund the capital programme, including:

- Hereford City Centre Transport Package £6.1m
- Fastershire Broadband £4.9m

Council borrowing

The council's borrowing strategy is determined each year within the treasury management strategy, which is approved as part of the budget setting process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

In 2017/18 no new long term borrowing was undertaken. Principal debt repayments of £5.4m were paid to the Public Works Loan Board under existing maturity, annuity and EIP (equal instalments of principal) agreements. Total interest of £5.8m was paid on all council borrowing during the year.

During the year the council continued using short term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31 March 2018 £5.0m of short term loans from other local authorities were outstanding.

Total borrowing at the year end, including short term loans, was £148.1m (compared to £176.5m as at 31 March 2017).

The amounts noted above relate to principal loans outstanding at the end of the year. The borrowing figures in the balance sheet are higher due to the inclusion of accrued interest and other accounting adjustments up to 31 March.

Net borrowing (after offsetting investments) was £133.9m as at 31 March 2018, compared to £173.5m as at 31 March 2017.

Minimum revenue provision

The Minimum Revenue Provision (MRP) is the method by which councils charge their revenue accounts over time with the cost of their capital expenditure that was originally funded by borrowing regardless of whether that borrowing has actually been taken up. It is intended to provide a public demonstration of the costs of capital expenditure.

During 2017/18 Herefordshire revised its MRP Policy, this changed the notional debt repayment calculation basis to an annuity loan repayment method. This matches the flow of benefits generated by the assets funded from borrowing to the annual MRP charge in the revenue budget. Linking MRP to the average useful life of an asset reflects the economic benefit the council receives from using the asset to deliver services over its useful life, representing a fairer cost charge to current and future council tax payers. Council tax payers are being charged each year in line with asset usage and avoiding current council tax payers meeting the cost of future usage or future council tax payers being burdened with charges relating to assets that are no longer in use.

Property, plant and equipment

During 2017/18 the council instructed a substantial valuation of its asset base, the effects of this, and the underlying the assumptions used by the independent professional valuer can be seen in the accounts increasing asset values, the unusable revaluation reserve and capital entries disclosed in the comprehensive income and expenditure statement.

Council reserves

General reserves

As at 31 March 2018 the council held general reserves of £7.9m, this fund is held above its minimum level to provide resilience in facing future year budget challenges.

Earmarked reserves

As at 31 March 2018 the council held £57.8m of earmarked reserves, these are explained in more detail in the statements.

Significant provisions, contingencies and write-offs

The council held provisions of £6.1m at 31 March 2018.

The most significant provision is the business rates appeal provision of £3.2m based on an assessment of the council's liability in relation to business rate appeals at 31 March 2018. This assessment is made independently and considers the appeals both lodged with the Valuation Office Agency and those yet to be registered.

At 31 March 2018 the council also held a provision of £2.0m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £100 to £50k of most insurance claims (depending on the type or class of the claim), known as the excess.

There are no contingent liabilities set out in the Statements, although there is a risk reserve of £3.6m held as a general contingency against future spend.

There were no significant general fund income write-offs in the year.

Pensions

In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), the pension's note, note 34, sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund.

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2018 is £225.1m (2016/17 £247.0m). Whilst this deficit does not have to be met immediately it requires recovering over a period of future years. In addition the balance sheet deficit also includes £0.9m relating to ex Hereford and Worcester teachers' unfunded benefits (£1m at 31 March 2017).

The council has agreed with the Actuary contributions to recover the deficit over 18 years. The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to remain at 15.6% until 2019/20. The pension fund position is reviewed every three years and was last revalued as at 31 March 2016.

Core Financial Statements and Explanatory Notes

The council's financial statements are set out on the following pages and comprise:

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The (surplus) or deficit on the 'provision of services' line shows the true economic cost of providing the council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting.

The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the council. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Reserves are reported in two categories.

- The first category of reserves are usable reserves i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.
- The second category of reserves is those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement

The cash flow statement shows the changes in cash and cash equivalents of the council during the year. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows arising as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the council are funded by way of taxation and grant income or from the recipients of services provided by the council.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the council.

Other receipts and payments for operating activities are taken directly from the council's cash book records. Other receipts from investing activities represent the council's receipts from capital grants.

Notes to the Financial Statements

The notes to the core financial statements provide further information on the financial activities of the council.

Statement of Group Accounts

This section reports the performance of the Group, being Herefordshire Council and its subsidiary Hoople Limited.

The Collection Fund

This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes payments to the West Mercia Police and Hereford & Worcester Fire and Rescue Authority, representing income collected from council taxpayers on their behalf. Similarly the account distributes shares of the business rates collected between the council, central government and the fire authority.

Statement of Responsibilities

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 council, that officer is the Section 151 Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the statement of accounts

The Section 151 Officer - Responsibilities

The Section 151 Officer is responsible for the preparation of the council's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Section 151 Officer has:

- a. Selected suitable accounting policies and then applied them consistently
- b. Made judgements and estimates that were reasonable and prudent; and
- c. Complied with the local authority Code of Practice

The Section 151 Officer has also:

- a. Kept proper accounting records which were up to date; and
- b. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Chief Finance Officer (Section 151 Officer)

I confirm that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Andrew Lovegrove, Chief Finance Officer (section 151 officer)

Approval of Accounts

In accordance with the Accounts and Audit Regulations 2015, I confirm that the Statement of Accounts were approved on 30 July 2018.

Councillor Paul Newman, Chair of Audit Committee

Independent Auditors Report

This will follow the completion of the audit.

Core Financial Statements and Explanatory Notes



Movement in Reserves Statement

2017/18	Notes	General Fund Balance £m	Earmarked Reserves £m	Total General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)	(56.9)	(115.3)
(Surplus) / deficit on the provision of services		(13.5)	-	(13.5)	-	-	(13.5)	-	(13.5)
Other comprehensive income and expenditure		-	-	-	-	-	-	(121.8)	(121.8)
Total comprehensive income and expenditure		(13.5)	-	(13.5)	-	-	(13.5)	(121.8)	(135.3)
Adjustments between accounting basis and funding basis under regulations	3	0.4	-	0.4	(38.4)	(1.1)	(39.1)	39.1	-
Net (increase) /decrease before transfers to earmarked reserves		(13.1)	-	(13.1)	(38.4)	(1.1)	(52.6)	(82.7)	(135.3)
Transfers (to) or from earmarked reserves	5	13.1	(13.1)	-	-	-	-	-	-
(Increase) / decrease for the Year		-	(13.1)	(13.1)	(38.4)	(1.1)	(52.6)	(82.7)	(135.3)
Balance carried forward		(7.9)	(57.8)	(65.7)	(42.6)	(2.7)	(111.0)	(139.6)	(250.6)

Movement in Reserves Statement 2016/17 Comparative

2016/17 Comparative	Notes	General Fund Balance £m	Earmarked Reserves £m	Total General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Total Usable Reserves £m	Unusable Reserves £m	Total Reserves £m
Balance brought forward		(7.3)	(28.5)	(35.8)	(0.5)	(1.2)	(37.5)	(96.2)	(133.7)
(Surplus) / deficit on the provision of services		(11.3)	-	(11.3)	-	-	(11.3)	-	(11.3)
Other comprehensive income and expenditure		-	-	-	-	-	-	29.7	29.7
Total comprehensive income and expenditure		(11.3)		(11.3)	-	-	(11.3)	29.7	18.4
Adjustments between accounting basis and funding basis under regulations	3	(5.5)	-	(5.5)	(3.7)	(0.4)	(9.6)	9.6	-
Net (increase)/decrease before transfers to earmarked reserves		(16.8)	-	(16.8)	(3.7)	(0.4)	(20.9)	39.3	18.4
Transfers (to) or from earmarked reserves		16.2	(16.2)	-	-	-	-	-	-
(Increase) / decrease for the Year		(0.6)	(16.2)	(16.8)	(3.7)	(0.4)	(20.9)	39.3	18.4
Balance carried forward		(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)	(56.9)	(115.3)

Comprehensive Income and Expenditure Statement

2016/17				2017/18			
Expenditure £m	Income £m	Net £m		Notes	Expenditure £m	Income £m	Net £m
83.5	(31.5)	52.0	Adults and wellbeing		91.2	(37.0)	54.2
116.3	(93.0)	23.3	Children's wellbeing		121.8	(94.4)	27.4
127.9	(74.1)	53.8	Economy, communities and corporate		148.8	(70.5)	78.3
327.7	(198.6)	129.1	Net Cost of Services	2	361.8	(201.9)	159.9
6.4	-	6.4	Other Operating Expenditure	7	4.0	(1.1)	2.9
37.8	(5.0)	32.8	Financing, Investment Income and Expenditure	8	7.7	(4.9)	2.8
-	(179.6)	(179.6)	Taxation and Non-Specific Grant Income	9	-	(179.1)	(179.1)
371.9	(383.2)	(11.3)	(Surplus) / deficit on the provision of services		373.5	(387.0)	(13.5)
-	-	(10.5)	(Surplus) / deficit in revaluation of non-current assets	10	-	-	(93.3)
-	-	40.2	Re-measurement of net defined Benefit Liability		-	-	(28.4)
-	-	29.7	Other comprehensive (income) / expenditure		-	-	(121.7)
		18.4	Total comprehensive (income) / expenditure				(135.2)

Balance Sheet

31 March 2017 £m		Notes	31 March 2018 £m
547.6	Property, Plant and Equipment	10	596.9
21.5	Investment Property	10	34.6
0.8	Intangible Assets	10	0.1
3.2	Heritage Assets	10	3.2
40.7	Long Term Debtors	11	39.3
613.8	Long Term Assets		674.1
-	Short Term Investments	11	5.0
0.2	Inventories		0.1
21.7	Short Term Debtors	12	24.6
6.2	Cash & Cash equivalents	13	14.4
1.6	Assets held for Sale	10	8.2
29.7	Current Assets		52.3
(34.5)	Short Term Borrowing	11	(11.8)
(32.2)	Short Term Creditors	18	(33.2)
(2.1)	Short Term Provisions	19	(2.5)
(3.2)	Cash & Cash equivalents	13	(0.4)
(72.0)	Current Liabilities		(47.9)
(3.5)	Long Term provisions	19	(3.6)
(143.5)	Long Term borrowing	11	(138.0)
(3.4)	Capital Grants Receipts in Advance		(4.7)
(305.8)	Other Long Term Liabilities	11	(281.6)
(456.2)	Total Long Term Liabilities		(427.9)
115.3	Net Assets		250.6
(58.4)	Usable Reserves	3	(111.0)
(56.9)	Unusable Reserves	4	(139.6)
(115.3)	Total Reserves		(250.6)

The unaudited accounts were authorised for issue on 31 May 2018 and the audited accounts were authorised for issue on 30 July 2018.

Chief Finance Officer (section 151 officer)

Chair of Audit Committee

Cash Flow Statement

2016/17 £m		Notes	2017/18 £m
(11.3)	Net (surplus) or deficit on the provision of services		(13.5)
(43.6)	Adjust net (surplus) or deficit on the provision of services for non-cash movements	14	(71.5)
5.8	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	15	42.5
(49.1)	Net cash flows from operating activities		(42.5)
26.8	Net cash flows from investing activities	16	1.0
21.5	Net cash flows from financing activities	17	30.5
(0.8)	Net (increase) or decrease in cash and cash equivalents		(11.0)
(2.2)	Cash and cash equivalents at the beginning of the reporting period		(3.0)
(3.0)	Cash and cash equivalents at the end of the reporting period		(14.0)
(0.8)	Net (increase) or decrease in cash and cash equivalents		(11.0)

1. Notes to the Accounts Accounting Policies

1.1 General Principles

The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 supported by International Financial Reporting Standards. The core statements and the statement of group accounts have consistently applied the accounting policies below, where applicable, the statement of group accounts include additional accounting policies specific to the council's subsidiary undertaking, Hoople Limited.

The Accounts have been prepared on a going concern basis, under the assumption that the Council will continue in existence for the foreseeable future.

1.2 Accruals of Income and Expenditure

Revenue and capital transactions are accounted for on an accruals basis where above the de-minimis thresholds, currently £25k. This means that all revenue income is recorded when the debt has been established rather than when money has been received. Similarly, expenditure is recorded when it is owed rather than when the payment is made.

Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

1.3 Borrowing Costs

Borrowing costs that can be directly attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Qualifying assets are assets that take a substantial period of time to get ready, which is sufficiently long enough for a material balance of borrowing to accrue. This will be applied to schemes lasting more than 12 months and with at least £10k of annual interest cost associated with the project.

1.4 Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are deemed to be 'on-call' investments, where investments can be recalled immediately.

1.5 Contingent assets

A contingent asset arises when an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the council. Contingent assets are not recognised in the financial statements but disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable. If it becomes virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, then the debtor and related revenue are recognised in the financial statements in the year the change occurs.

1.6 Contingent liabilities

A contingent liability arises when an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the council. Contingent liabilities are not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits or service potential will be required then a provision

is recognised in the year in which the probability occurs.

Employee benefits

1.7 Benefits payable during employment

Employment benefits are accounted for according to the principles of accruals of expenditure. Short term compensated absences, such as annual leave, are recognised when employees render services that increase their entitlement to future compensated absences. These are measured as the additional amount that the council expects to pay as a result of unused entitlement at the balance sheet date, including employer's national insurance and pension contributions. The accumulated benefits are included in the balance sheet as a provision for accumulated absences. The amounts charged to the General Fund are reversed out through the Movement in Reserves Statement to the accumulated absences account in the balance sheet.

1.8 Termination benefits

Termination benefits are recognised in the surplus or deficit on the provision of services at the earlier of when the council can no longer withdraw an offer of benefits, or when the council recognises the costs of restructuring. Termination benefits are payable as a result of either:

- a) An employer's decision to terminate an employee's employment; or
- b) An employee's decision to accept voluntary redundancy.

Termination benefits are recognised immediately in the Surplus or Deficit on the Provision of Services.

1.9 Post-employment benefits

Employees of the council are members of three separate pension schemes;

- a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;
- b) The NHS pension scheme (for Public Health transferred staff); and
- c) The Local Government Pension Scheme administered by Worcestershire County Council

Pension schemes are classed as either defined contribution or defined benefit plans. The above schemes provide defined benefits to members, built up during the time employees work for the council.

However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.

Staff transferred with an NHS pension are accounted for as members of an unfunded defined benefit scheme. Therefore, it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for transferred staff.

The Local Government Pension Scheme is accounted for as a defined benefit scheme as follows:

- a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;
- b) Liabilities are discounted to their value at current prices using a discount rate of 2.6% (based on market yields and other factors);
- c) Assets are included in the Balance Sheet at their fair value determined through market or bid prices or using professional valuations;
- d) The change in the net pension's liability is analysed into six components;
 - i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income

- and Expenditure Statement
- ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.
 - iii. **Net interest on the defined benefit liability:** The change during the period that arises from the passage of time is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
 - iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure but excludes amounts included in net interest on defined benefit liability.
 - v. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.
 - vi. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

Statutory provisions limit the council to raising council tax to cover amounts payable by the council to the pension fund in the year. In the Movement in Reserves Statement there is an appropriation to or from the Pensions Reserve to replace the notional costs of retirement benefits with the amounts payable to the pension fund in the year.

Further information on accounting for the pension fund is set out in the Statements.

1.10 Events after the balance sheet date

Events after the Balance Sheet date are those that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

There are two types;

- a) Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and
- b) Those that relate to conditions after the reporting period, which are not adjusted in the accounts, rather disclosed in the notes to the statements.

1.11 Extraordinary items

Where items of income and expenditure are material, the nature and amount is disclosed separately in the Comprehensive Income and Expenditure Statement or in the notes to the statements.

1.12 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively.

Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.13 Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity. They are valued in line with the requirements of IFRS 13, the fair value policy below provides more detail.

1.14 Financial liabilities

A financial liability is an obligation to deliver cash (or another financial asset) to another entity.

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.

Annual charges for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument and are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement. The council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement in Reserves Statement.

1.15 Financial assets

A financial asset is a right to future economic benefits that is represented by cash, an equity instrument of another entity (e.g. shares held) or a contractual right to receive cash (or another financial asset) from another entity.

Financial assets are classified into two types:

- a) Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or
- b) Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are recognised in the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For all of the loans the council has made the amount presented in the balance sheet as the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

1.16 Government grants and other contributions

Grants and contributions are recognised in the accounts when there is reasonable assurance that;

- The council will comply with any conditions attached to them, and
- The grants or contributions will be received.

Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has conditions that the council has not satisfied.

Grants and contributions funding capital expenditure that have been credited to the Comprehensive Income and Expenditure Statement are not proper income to the General Fund according to the capital control regime. These amounts are accounted for as follows;

- Where conditions of the grant are outstanding at the balance sheet date, they are recognised as Capital Grants Receipts in Advance. Once the conditions have been met the grant or contribution is transferred to the Comprehensive Income and Expenditure Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, no conditions remain outstanding and the expenditure has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account. This reflects the application of capital resources to finance expenditure and is reported in the Movement in Reserves Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account. When the expenditure is incurred the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.

1.17 Investment property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. Rentals earned are recognised as income in the Comprehensive Income and Expenditure Statement on an accrued basis. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

Management aim for a minimum return of 4% on investment assets.

Investment property value is measured at fair value in compliance with IFRS 13, the fair value measurement policy is provided below.

Gains and losses on revaluation are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Gains or losses on disposal of an investment property are treated in the same way.

Gains or losses recognised in the Comprehensive Income and Expenditure Statement are not proper charges to the General Fund and are reversed out through the Movement in Reserves Statement as follows;

- a) On de-recognition of an investment property the disposal proceeds are credited to the Capital Receipts Reserve and the carrying amount of the property is debited to the Capital Adjustment Account.
- b) Gains or losses are reversed out to the Capital Adjustment Account.

1.18 Fair Value Measurement Policy

The Council measures some of its non-financial assets, such as investment properties and surplus assets, at fair value at each reporting date. IFRS 13 seeks to increase consistency and comparability in fair value measurements and related disclosure notes.

A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions.

A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The concept of highest and best use applies only when determining the fair value of non-financial assets, e.g. surplus assets or investment property. They do not apply to financial assets or to financial liabilities on the basis that financial assets or financial liabilities do not have alternative uses.

Financial liabilities and assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

There are three tier levels in measuring fair value, these are:-

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 inputs – unobservable inputs for the asset or liability.

Where Level 1 inputs are not available expert valuers use valuation techniques appropriate for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

Three widely used valuation techniques are: (i) market approach – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business); (ii) cost approach – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost); (iii) income approach – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts. There has been no change in the valuation techniques used during the year for investment properties.

For all investment properties where a fair value review is conducted, fair values are based on multiplying an estimated net income by an appropriate investment yield or having regard to the capital value of similar assets. The net income figure is based on market rent. All comparable evidence used for valuing this class of property has been ranked into three tier groups based upon the criteria below. All investment property fair value measurements have been assessed at tier level two and financial instruments have been assessed at tier level two or tier level three.

Criteria	Tier Level
Comparable evidence that is identical to the asset that is being measured in terms of: <ul style="list-style-type: none"> • Physical Location • Condition • Orientation • Levels of Natural Light • View • Access and visibility • Tenure and Covenants • Construction Type and Cost • Size and Layout • Facilities • Lease Options • Obsolescence 	1

Criteria	Tier Level
<ul style="list-style-type: none"> • Comparable evidence available within an active market of similar assets • Comparable evidence for similar assets or liabilities in markets that are not active • Non-value comparable evidence (e.g. yields) for similar asset types available • Comparable evidence corroborated by observable market evidence • Implied and non-implied covenants within the lease negating the need for comparable evidence • Transparency of Market Data • Minimal principal adjustment of comparable evidence, non-significant adjustment • Comparable analysis 	2
<ul style="list-style-type: none"> • No comparable evidence available • Unobservable inputs • Comparable evidence requires significant adjustment from the principal market 	3

1.19 Leases

Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of a leased asset lie with the lessor or the lessee.

1.20 Finance leases

- a) Where the council is lessee - finance leases are recognised as assets and liabilities at the fair value of the property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. Assets recognised under a finance lease are depreciated over the shorter of the lease term and the asset's useful economic life. Assets recognised under a finance lease are subject to revaluation in the same way as any other asset.
- b) Where the council is lessor - assets held under a finance lease are recognised as a debtor equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and interest. The only assets held under finance leases are Academy schools. These assets are transferred to the school under a peppercorn rent and treated as an asset disposal.

1.21 Operating leases

- a) Where the council is lessee – an operating lease is recognised as an expense on a straight line basis over the lease term.
- b) Where the council is lessor – the asset is recognised under the relevant category of assets. Costs, including depreciation, are recognised as an expense and income is recognised in the comprehensive income and expenditure statement on a straight-line basis over the lease term.

1.22 Arrangements containing a lease

Arrangements that do not take the legal form of a lease but convey the right to use an asset in return for payments, are assessed under IFRIC 4 to determine whether the arrangement contains a lease. This requires an assessment of whether;

- a) The arrangement depends on use of a specific asset
- b) The arrangement conveys the right to use the asset

If the arrangement contains a lease, that lease shall be reviewed and classified as a finance or operating lease.

1.23 Overheads and Support Services

Overheads and support services are represented in accordance with the council's arrangements for accountability and reporting of its financial performance.

1.24 PFI schemes

Private Finance Initiative (PFI) contracts are agreements to receive services where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the property, plant and equipment will pass to the council at the end of the contracts for no additional charge, the council carries the property, plant and equipment used under the contracts on its Balance Sheet.

The original recognition of these property, plant and equipment at their fair value is balanced by the recognition of a liability for amounts due to the PFI provider.

Property, plant and equipment recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

The amounts payable to the PFI contractors each year are analysed into five elements:

- a) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement under Financing, investment income & expenditure.
- c) Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.
- d) Payment towards liability – applied to write down the Balance Sheet liability, current and long term, towards the PFI operator.
- e) Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as property, plant and equipment when the contractor incurs the expenditure.

The council has two traditional PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross High School. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services. Under the Shaw Healthcare contract the rent and service charges paid to Shaw by residents for the council's extra care flats at Leadon Bank have been treated as a contribution to the revenue costs of the units.

1.25 Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use on the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used for more than a year.

1.26 Recognition

Property, plant and equipment is only recognised as an asset on the balance sheet if;

- a) it is probable that the future economic benefits or service potential will flow to the council, and
- b) the cost of the asset can be measured reliably.

Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise property, plant and equipment costing less than the de-minimis thresholds. Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component is reflected in the carrying amount on the assets valuation basis.

1.27 Schools

In line with accounting standards and the Code, schools are considered to be under the Council's control so the income, expenditure, current assets, liabilities and reserves are consolidated into the Council's accounts and included within the figures disclosed in the Statement of Accounts. Any reserves attributable to the school are earmarked and disclosed separately. If a school transfers to Academy, or Free School, status it is no longer under the control of the Council and, therefore, its income, expenditure, assets, liabilities and reserves are no longer consolidated into the Council's accounts.

The current value of schools is included using Depreciated Replacement Cost valuation method which comprises the market value of the land in its existing use plus the current replacement cost of the buildings less an allowance for physical deterioration.

1.28 Measurement

Assets are initially recognised at cost and accounted for on an accruals basis. The measurement of cost comprises:

- a) purchase price;
- b) any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management; and
- c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets are then carried in the Balance Sheet using the following measurement bases:

- a) Community assets and assets under construction – historical cost.
- b) Land and buildings – current value in accordance with Royal Institution of Chartered Surveyors guidelines. Where there is no market-based evidence of current value because of the specialist nature of the asset current value may need to be estimated using a depreciated replacement cost approach (DRC).
- c) Vehicles, plant and equipment – depreciated historical cost (as a proxy for current value)

1.29 Revaluations

Assets included in the Balance Sheet held at current value are revalued where there have been material changes in the value in addition to a rolling programme ensuring that revaluations occur at least every five years. In addition to this an annual review of assets not revalued is completed to ensure carrying amounts are not materially different to the current fair value. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve was created with a zero balance on 31 March 2007. Gains may be credited to the Provision of Services where they arise from the reversal of an impairment loss or revaluation decrease previously charged to a service revenue account.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation that is not specific to the asset the decrease is recognised in the Revaluation Reserve to eliminate the credit balance existing in respect of the asset and thereafter reflected in the Surplus or Deficit on the Provision of Services.

Revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges

to the General Fund and are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

When an asset is revalued, any accumulated depreciation and impairment is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

1.30 Depreciation

Depreciation is provided for on all assets classified as property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

The valuer makes a professional assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. New assets are not subject to a depreciation charge in the year of acquisition.

Each part of an asset with a cost significant in relation to the total cost is depreciated separately where the useful lives or depreciation methods of the components are different. The council reviews assets of £3m and over for componentisation and treats components of at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

Depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account. This is reported in the Movement in Reserves Statement. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

1.31 Impairments

Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year assets are assessed for any indications of impairment and if there are then the recoverable amount shall be estimated. Circumstances that indicate an impairment may have occurred include;

- a) A significant decline in an asset's value during the year, which is specific to the asset
- b) Evidence of obsolescence or physical damage of an asset
- c) A commitment by the council to undertake a significant re-organisation
- d) A significant adverse change in the statutory or other regulatory environment in which the council operates

General Fund service revenue accounts, central support services and trading accounts are charged with impairment losses (in excess of any balance on the revaluation reserve). An impairment on revalued assets is recognised in the Revaluation Reserve to the extent that the impairment does not exceed the amount held in the Revaluation Reserve for the same asset and thereafter in the Surplus or Deficit on the Provision of Services.

1.32 Asset held for sale

An asset is transferred to this category when the asset is available for immediate sale, an active programme to locate a buyer is initiated, the sale is highly probable within 12 months of classification as held for sale (subject to limited exceptions), the asset is being actively marketed for sale at a sales price reasonable in relation to its current value and actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

At the point of transfer the asset is immediately revalued to fair value and is included within current assets at the lower of this amount or fair value less cost to sell.

1.33 Disposals

The carrying amount of an asset is derecognised on disposal and the gain or loss on disposal of the asset is included in the Surplus or Deficit on the Provision of Services. This is not a proper charge to the General Fund and is reversed out by;

- a) Crediting the Capital Receipts Reserve with the disposal proceeds; and
- b) Debiting the Capital Adjustment Account with the carrying amount of the asset on disposal.

Any balance on the Revaluation Reserve is written off to the Capital Adjustment Account on disposal of the asset.

Where appropriate the costs of disposal are financed from the capital receipts generated up to a maximum of 4% of the capital receipt.

1.34 Revenue Expenditure Funded from Capital under Statute (REFCUS)

Revenue Expenditure Funded from Capital under Statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet. These are generally grants and expenditure on property not owned by the Council. Expenditure is charged to the Surplus or Deficit on the Provision of Services as it is incurred. This is reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

1.35 Agency arrangements

Where the council acts an agent, that is where it acts as an intermediary in the flow of funds to other parties, these transactions are included in an agency note to the accounts only, with any funds held at the year-end included in the balance sheet.

1.36 Pooled budgets

Pooled budgets exist where neither partner has sole control of the pooled fund. These arrangements meet the definition of a joint operation, where the partners have joint control over the arrangement, the rights to the arrangements assets and obligations for the arrangements liabilities.

1.37 Provisions

A provision is recognised when:

- a) An authority has a present obligation (legal or constructive) as a result of a past event;
- b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- c) A reliable estimate can be made of the amount of the obligation.

Provisions are charged to the cost of services when the council becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet.

1.38 Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the Cost of Services. The reserve is then appropriated back through the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

1.39 Unusable reserves

The council has a number of unusable reserves which are kept to manage the accounting processes for non-current assets, financial instruments, the collection fund, retirement and employee benefits. These are not usable resources.

1.40 Charges to revenue for non-current assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service

1.41 Minimum Revenue Provision (MRP)

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the general fund balance (minimum revenue provision), by way of an adjusting transaction with the capital adjustment account in the movement in reserves statement for the difference between the two.

During 2017/18 the Council changes its methodology for calculating MRP producing a saving of £5.1m that has been placed into a specific reserve. This change is to reflect a consistent overall annual borrowing cost, being:-

- Capital expenditure funded by historic supported borrowing previously written down on a 4% reducing balance basis is now repaid on a 2% annuity rate, and
- Capital expenditure funded by prudential borrowing previously written down on a straight line basis is now repaid on a 3% annuity loan repayment profile.

The appropriateness of this calculation of MRP is to be reviewed at least every five years to ensure it continues to reflect the loan repayment rates available.

1.42 Value added tax

Revenue included in the Comprehensive Income and Expenditure Statement is only the amount relating to the council on its own behalf and therefore excludes VAT that must be passed on to HM Revenue and Customs. VAT is only included in the accounts to the extent that it is irrecoverable. The net amount due to or from HM Revenue and Customs in respect of VAT is included as part of creditors or debtors.

1.43 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable

The sale of goods; revenue is recognised when all the following conditions have been satisfied:

- a) the significant risks and rewards of ownership have been transferred to the purchaser
- b) the council retains neither continuing managerial involvement nor effective control over the goods sold
- c) the amount of revenue can be measured reliably
- d) it is probable that the economic benefits or service potential associated with the transaction will flow to the purchaser, and
- e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The rendering of services; when the outcome of a transaction can be estimated reliably, associated revenue is recognised according to the percentage completed at the reporting date. The following conditions need to be satisfied;

- a. the amount of revenue can be measured reliably

- b. it is probable that the economic benefits or service potential associated with the transaction will flow to the entity
- c. the stage of completion at the balance sheet date can be measured reliably; and
- d. the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest; revenue is recognised when;

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the council; and
- b) the amount of the revenue can be measured reliably.

Non-exchange transactions; occur when the council receives or gives value from another without directly giving or receiving an approximate equal value in exchange, for example council tax and business rate income. This revenue is recognised when;

- a. it is probable that the economic benefits or service potential associated with the transaction will flow to the council; and
- b. the amount of the revenue can be measured reliably.

1.44 Interests in Companies and Other Entities

An assessment of the council's interests has been carried out in accordance with the CIPFA Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the councils control and significant influence over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors, and materiality. These accounts have been prepared on a single entity basis with the Statement of Group accounts representing the position for the council and its subsidiary undertaking Hoople Limited. Interests in other entities are recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The Joint Agreement states that each Member Authority takes an equal share, being 25%, of any liabilities of the Joint Committee, at £1.2m this is considered not material. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement.

Herefordshire Council has an internal audit function provided by the South West Audit Partnership (SWAP). SWAP is a not-for-profit organisation providing internal audit services to 19 local authorities' partner bodies. Upon joining SWAP each partner can nominate a director to the board, Herefordshire Council have done this. This represents the ability to work with other partners to provide feedback on services received. During 2017/18 Herefordshire Council paid SWAP £0.2m for their internal audit services.

1.45 Tax Income (Council Tax, Non Domestic Rates (NDR) and Rates) Non Domestic Rates (NDR)

Retained Business Rate and Top-up income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

1.46 Council Tax

Council Tax income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

NDR, Top-up and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a billing Authority, the difference between the NDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued NDR and Council Tax income is available from the information that is required to be produced in order to prepare the Collection Fund Statement.

NDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

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Revenue relating to Council Tax and general rates, is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

1.47 Accounting standards that have been issued but have not yet been adopted

IFRS 9 Financial Instruments. This standard will implement changes to the accounting for local authority investments which includes collective investment vehicles by introducing a new model for financial assets including new classifications. Due to the low level of investment balances held by Herefordshire the impact is expected to be limited.

IFRS 15 Revenue from Contracts with Customers. This standard will require local authorities to recognise revenue in such a way that it represents the transfer of promised goods or services to the service recipient (customer) in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services, due to the consistent nature of the councils income streams this should not have a substantial effect on Herefordshire.

IFRS 16 Leases. This standard introduces new presentation and disclosure requirements in relation to arrangements that convey the right to use an asset. The standard requirements will become applicable from 1 April 2019 and the council has started to gather and review its lease information to ensure the standard is correctly adopted and applied.

1.48 Critical judgements in applying accounting policies

In applying accounting policies the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in these Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement with the associated non-current assets included in the balance sheet with a corresponding finance liability.
- The council has relationships with a number of companies as detailed in the accounts and it has been determined that it will prepare group accounts to report its group position for the Council and its subsidiary, Hoople Limited.
- The council has determined that its accountable body status between the new Hereford university, NMiTE, and the Department of Education represents an agency arrangement and has disclosed this in note 22.
- The council accounts include all transactions made by schools, and the assets utilised by these schools unless the school is an academy or a free school, these entities are excluded.

1.49 Assumptions made about the future and major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates made.

This means that there is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2018.

Item	Uncertainties	Effect if actual results differ from assumptions
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Pensions liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Limited is employed by the pension fund to provide expert advice about the assumptions to be applied.</p>	<p>Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts.</p> <p>An increase in the discount rate used of 0.1% would decrease the liability stated by £10.6m.</p> <p>An increase of 0.1% in the inflation rate used would increase the stated liability by £10.8m.</p> <p>An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.1m.</p> <p>A one year increase in the assumed life expectancy would increase the stated liability by £11.9m.</p> <p>However, the assumptions interact in complex ways. During 2017/18 the council's actuaries advised that the net pension's liability had decreased by £28.4m as a result of the updating of assumptions.</p>
Non current assets - depreciation	<p>Non current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of our external valuers.</p>	<p>Depreciation is applied on a straight line basis over the useful life of the asset. Variations to the useful life will alter the amount of depreciation charged to the Comprehensive Income and Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.</p>
Provisions	<p>A reliable estimate of sums falling due in future years have been included as year-end provisions, the most significant being in relation to insurance claims and business rate appeals.</p>	<p>Actual settlements could differ from the independent, professionally valued estimate provided for. Where the actual settlement is less unused provisions are released to the Comprehensive Income and Expenditure Statement. Where settlements exceed the provision value earmarked reserve funding is released.</p>
Property, plant, equipment and investment properties	<p>A full valuation of assets held is completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors at least every 5 years.</p> <p>In addition an annual impairment and valuation review is carried out for properties not valued in the year.</p>	<p>There is a risk of an adjustment in the year when the property is revalued.</p> <p>The risk of value misstatement of a fair value to its carrying value is reviewed annually and amended where considered significant.</p> <p>The majority of assets held were independently professionally valued in 2017/18 resulting in fluctuations partly due to changes in underlying assumptions in relation to investment property yields being applied</p>

2. Expenditure and Funding Analysis 2017/18

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the Council for the year (i.e. government grants, rents, council tax and business rates) has been applied in providing services in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision-making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement

2017/18	Net expenditure chargeable to the General Fund	Adjustments between the funding and accounting basis			Total	Net Expenditure in CIES
		Adjustments for capital purposes (1)	Net change for pension adjustments	Other adjustments (2)		
	£m	£m	£m	£m	£m	£m
Adults and wellbeing	52.0	1.0	1.2	-	2.2	54.2
Children's wellbeing	22.4	6.4	1.1	(2.5)	5.0	27.4
Economy, communities and corporate	70.6	21.6	2.0	(15.9)	7.7	78.3
Net cost of services	145.0	29.0	4.3	(18.4)	14.9	159.9
Other income and expenditure	(158.1)	(36.1)	2.1	18.7	(15.3)	(173.4)
Total (surplus) / deficit	(13.1)	(7.1)	6.4	0.3	(0.4)	(13.5)
Opening general fund balance as at 1 April 2017	(52.6)					
(Surplus) / deficit on general fund	(13.1)					
Closing general fund balance as at 31 March 2018	(65.7)					

Comparative EFA 2016/17

Herefordshire Council Statement of Accounts 2017/18

2016/17	Net expenditure chargeable to the General Fund £m	Adjustments between the funding and accounting basis				Total £m	Net Expenditure in CIES £m
		Adjustments for capital purposes (1) £m	Net change for pension adjustments £m	Other adjustments (2) £m			
Adults and wellbeing	52.2	0.3	0.5	(1.0)	(0.2)	52.0	
Children's wellbeing	21.9	3.6	(0.4)	(1.8)	1.4	23.3	
Economy, communities and corporate	43.5	23.9	(4.8)	(8.8)	10.3	53.8	
Net cost of services	117.6	27.8	(4.7)	(11.6)	11.5	129.1	
Other income and expenditure	(134.4)	(23.1)	7.1	10.0	(6.0)	(140.4)	
Total (surplus) or deficit	(16.8)	4.7	2.4	(1.6)	5.5	(11.3)	
Opening general fund balance as at 1 April 2017	(35.8)						
(Surplus)/deficit on general fund	(16.8)						
Closing general fund balance as at 31 March 2018	(52.6)						

Note (1) to EFA

Adjustments between the funding and accounting basis for capital purposes

2017/18	Depreciation / impairment £m	REFCUS £m	MRP £m	RCCO £m	Profit/loss on sale £m	Revaluation of investment assets £m	Capital grants £m	Total £m
Adults and wellbeing	1.0	-	-	-	-	-	-	1.0
Children's wellbeing	6.3	0.1	-	-	-	-	-	6.4
Economy, communities and corporate	16.0	5.6	-	-	-	-	-	21.6
Net cost of services	23.3	5.7	-	-	-	-	-	29.0
Other operating expenditure	0.4	-	(8.2)	(0.5)	(1.0)	(0.3)	(26.5)	(36.1)
Total	23.7	5.7	(8.2)	(0.5)	(1.0)	(0.3)	(26.5)	(7.1)

Comparative Note (1) to EFA Adjustments between the funding and accounting basis for capital purposes

Herefordshire Council Statement of Accounts 2017/18

2016/17	Depreciation / impairment £m	REFCUS £m	MRP £m	RCCO £m	Profit/loss on sale £m	Revaluation of investment assets £m	Capital grants £m	Total £m
Adults and wellbeing	0.1	0.2	-	-	-	-	-	0.3
Children's wellbeing	3.6	-	-	-	-	-	-	3.6
Economy, communities and corporate	22.9	1.0	-	-	-	-	-	23.9
Net cost of services	26.6	1.2	-	-	-	-	-	27.8
Other operating expenditure	-	-	(12.0)	(0.8)	2.6	13.5	(26.4)	(23.1)
Total	26.6	1.2	(12.0)	(0.8)	2.6	13.5	(26.4)	4.7

Note (2) to EFA Adjustments between the funding and accounting basis for other purposes

2016/17					2017/18				
Total £m	PFI £m	Other £m	Collection fund £m	Short term leave £m		Collection fund £m	Other £m	PFI £m	Total £m
(1.0)	(1.0)	-	-	-	Adults and wellbeing	-	0.9	(0.9)	-
(1.8)	(1.8)	-	-	-	Children's wellbeing	-	(0.7)	(1.8)	(2.5)
(8.8)	(0.7)	(8.1)	-	-	Economy, communities and corporate	-	(12.3)	(3.6)	(15.9)
(11.6)	(3.5)	(8.1)	-	-	Net cost of services	-	(12.1)	(6.3)	(18.4)
10.0	3.5	8.1	(1.9)	0.3	Other operating expenditure	0.3	12.1	6.3	18.7
(1.6)	-	-	(1.9)	0.3	Total	0.3	-	-	0.3

Material Items of Income and Expense

There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2017/18.

Events after the Balance Sheet Date

The audited Statement of Accounts was authorised for issue on 30 July 2018 by the Section 151 Officer. Events taking place after this date are not reflected in the financial statements or notes.

3. Movement in Usable Reserves Analysis

Herefordshire Council Statement of Accounts 2017/18

2017/18 Movements	General Fund Revenue	Earmarked Reserves	Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£m	£m	£m	£m	£m	£m
Opening balance	(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)
(Surplus)/deficit on provision of services	(13.5)	-	(13.5)	-	-	(13.5)
Depreciation	(18.8)	-	(18.8)	-	-	(18.8)
Impairment / downwards revaluation	(4.9)	-	(4.9)	-	-	(4.9)
Net revenue expenditure funded by capital under statute	(5.7)	-	(5.7)	-	-	(5.7)
Net book value of assets sold	(41.5)	-	(41.5)	-	-	(41.5)
Capital receipts from assets sold	42.5	-	42.5	(42.5)	-	-
Net Gains/Losses on Value of Investment Assets	0.3	-	0.3	-	-	0.3
Adjustments for Council Tax and NDR Receivable	(0.3)	-	(0.3)	-	-	(0.3)
Capital Financed by Receipts	-	-	-	4.1	-	4.1
Minimum Revenue Provision (MRP)	8.2	-	8.2	-	-	8.2
Revenue Contribution to Capital Outlay	0.5	-	0.5	-	-	0.5
Reversal of IAS19 Pension Charges	(6.4)	-	(6.4)	-	-	(6.4)
Capital grants unapplied	2.6	-	2.6	-	(2.6)	-
Capital Financed by Grants and Contributions	23.9	-	23.9	-	1.5	25.4
Transfer to/from reserves	13.1	(13.1)	-	-	-	-
Total movement	-	(13.1)	(13.1)	(38.4)	(1.1)	(52.6)
Closing balance	(7.9)	(57.8)	(65.7)	(42.6)	(2.7)	(111.0)

The substantial increase in the capital receipts reserve follows the sale of the council's smallholding estate.

Movement in Usable Reserves 2016/17 Comparative Movements

Comparative 2016/17 Movements	General Fund Revenue	Earmarked reserves	Revenue Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves
	£m	£m	£m	£m	£m	£m
Opening balance	(7.3)	(28.5)	(35.8)	(0.5)	(1.2)	(37.5)
(Surplus)/deficit on provision of services	(11.3)	-	(11.3)	-	-	(11.3)
Depreciation	(15.9)	-	(15.9)	-	-	(15.9)
Impairment	(10.7)	-	(10.7)	-	-	(10.7)
Net revenue expenditure funded by capital under statute	(1.2)	-	(1.2)	-	-	(1.2)
Net book value of assets sold	(8.4)	-	(8.4)	-	-	(8.4)
Capital receipts from assets sold	5.8	-	5.8	(5.8)	-	-
Net Gains/Losses on Value of Investment Assets	(13.5)	-	(13.5)	-	-	(13.5)
Adjustments for Council Tax and NDR Receivable	1.9	-	1.9	-	-	1.9
Short Term Leave Adjustment	(0.3)	-	(0.3)	-	-	(0.3)
Capital Financed by Receipts	-	-	-	2.1	-	2.1
Provision for the Redemption of Debt	12.0	-	12.0	-	-	12.0
Revenue Contribution to Capital Outlay	0.8	-	0.8	-	-	0.8
Reversal of IAS19 Pension Charges	(2.4)	-	(2.4)	-	-	(2.4)
Capital grants unapplied	0.8	-	0.8	-	(0.8)	-
Capital Financed by Grants and Contributions	25.6	-	25.6	-	0.4	26.0
Transfer to/from reserves	16.2	(16.2)	-	-	-	-
Total movement	(0.6)	(16.2)	(16.8)	(3.7)	(0.4)	(20.9)
Closing balance	(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)

4. Movement in Unusable Reserves Analysis

2017/18 Movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred Capital Receipts Reserve	Total Unusable Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	2.5	(236.7)	(0.8)	0.4	248.0	(70.0)	(0.3)	(56.9)
Depreciation	-	18.8	-	-	-	-	-	18.8
Impairment	-	4.9	-	-	-	-	-	4.9
Net revenue expenditure funded by capital under statute	-	5.7	-	-	-	-	-	5.7
Net book value of assets sold	-	4.9	-	-	-	36.6	-	41.5
Net Gains/Losses on Value of investment assets	-	(0.3)	-	-	-	-	-	(0.3)
Adjustments for Council tax and NDR receivable	-	-	0.3	-	-	-	-	0.3
Capital Financed by Receipts	-	(4.1)	-	-	-	-	-	(4.1)
Provision for the Redemption of Debt	-	(8.2)	-	-	-	-	-	(8.2)
Revenue Contribution to Capital Outlay	-	(0.5)	-	-	-	-	-	(0.5)
Reversal of IAS 19 Pensions Charges	-	-	-	-	6.4	-	-	6.4
Net movement on Revaluation Reserve	-	-	-	-	-	(93.3)	-	(93.3)
Actuarial Gain/Loss on Pensions	-	-	-	-	(28.4)	-	-	(28.4)
Capital Financed by Grants and Contributions	-	(25.4)	-	-	-	-	-	(25.4)
Depreciation Revaluation Adjustment	-	(2.5)	-	-	-	2.4	-	(0.1)
Total movement	-	(6.7)	0.3	-	(22.0)	(54.3)	-	(82.7)
Total Reserves	2.5	(243.4)	(0.5)	0.4	226.0	(124.3)	(0.3)	(139.6)

Movement in unusable reserves analysis 2016/17 comparative movements

2016/17 comparative Movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred Capital Receipts Reserve	Total Unusable Reserves
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	2.2	(241.9)	1.1	0.4	205.4	(63.1)	(0.3)	(96.2)
Depreciation	-	15.9	-	-	-	-	-	15.9
Impairment	-	10.7	-	-	-	-	-	10.7
Net revenue expenditure funded by capital under statute	-	1.2	-	-	-	-	-	1.2
Net book value of assets sold	-	6.0	-	-	-	2.4	-	8.4
Net Gains/Losses on Value of investment assets	-	13.5	-	-	-	-	-	13.5
Adjustments for Council tax and NDR receivable	-	-	(1.9)	-	-	-	-	(1.9)
Short Term Leave Adjustment	0.3	-	-	-	-	-	-	0.3
Capital Financed by Receipts	-	(2.1)	-	-	-	-	-	(2.1)
Provision for the Redemption of Debt	-	(12.0)	-	-	-	-	-	(12.0)
Revenue Contribution to Capital Outlay	-	(0.8)	-	-	-	-	-	(0.8)
Reversal of IAS 19 Pensions Charges	-	-	-	-	2.4	-	-	2.4
Net movement on Revaluation Reserve	-	-	-	-	-	(10.5)	-	(10.5)
Actuarial Gain/Loss on Pensions	-	-	-	-	40.2	-	-	40.2
Capital Financed by Grants and Contributions	-	(26.0)	-	-	-	-	-	(26.0)
Depreciation Revaluation Adjustment	-	(1.2)	-	-	-	1.2	-	-
Total movement	0.3	5.2	(1.9)	-	42.6	(6.9)	-	39.3
Total Reserves	2.5	(236.7)	(0.8)	0.4	248.0	(70.0)	(0.3)	(56.9)

5. Transfers (to)/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2017/18.

Reserve	1/04/17 £m	Transfer out £m	Transfer in £m	31/03/18 £m
Business Rate smoothing	(3.2)	-	(2.8)	(6.0)
Collection Fund Surplus	-	-	(1.5)	(1.5)
Hereford Enterprise Zone	(0.3)	-	(0.1)	(0.4)
ECC	(0.6)	0.6	-	-
Education Redundancy	-	-	(0.6)	(0.6)
Three Elms Trading Estate	(0.3)	-	(0.1)	(0.4)
Herefordshire Relief Road	(0.3)	0.3	-	-
ICT	(0.8)	-	-	(0.8)
Industrial Estates	(0.4)	-	-	(0.4)
Insurance	(0.3)	-	-	(0.3)
Library Services	(0.4)	0.1	-	(0.3)
Minimum Revenue Provision	-	-	(5.1)	(5.1)
Pensions Risk	-	-	(0.9)	(0.9)
Risk mitigation	(3.6)	-	-	(3.6)
School balances	(7.4)	-	(0.7)	(8.1)
Schools' sickness	(0.4)	-	(0.1)	(0.5)
Settlement monies	(8.0)	-	-	(8.0)
Severe Weather Fund	(1.3)	1.3	-	-
Short Breaks	(0.3)	-	(0.2)	(0.5)
Sparsity Reserve	(4.5)	-	(1.9)	(6.4)
Waste Disposal	(5.8)	0.1	-	(5.7)
Whitecross School PFI	(0.8)	-	(0.2)	(1.0)
Other small reserves	(1.0)	0.3	(0.9)	(1.6)
Unused grants carried forward	(5.0)	0.5	(1.2)	(5.7)
Total	(44.7)	3.2	(16.3)	(57.8)

An annual review of the earmarked reserves shown above was reported to Cabinet in June 2018.

6. Nature of Expenses Disclosure

An analysis of the authority's expenditure and income included in the Comprehensive Income and Expenditure Account is as follows;

2016/17 £m		2017/18 £m
	Income	
(52.7)	Fees, charges and other service income	(53.9)
(2.6)	Trading and investment income	(2.3)
(2.4)	Interest and investment income	(2.6)
(123.3)	Income from council tax and non-domestic rates	(129.7)
(202.2)	Government grants and contributions	(197.5)
-	Gains on disposal of non-current assets	(1.0)
(383.2)	Total Income	(387.0)
	Expenditure	
96.7	Employee benefits expenses	100.0
203.6	Other service expenses	216.1
4.9	Support service recharges (net)	4.7
2.6	Loss on disposal of non-current assets	-
25.8	REFCUS, depreciation, amortisation and impairment	41.0
26.4	Trading and investment expenditure	(8.0)
8.1	Interest Expenditure	15.7
3.8	Precepts and levies	4.0
371.9	Total Expenditure	373.5
(11.3)	(Surplus) or Deficit on the Provision of Services	(13.5)

Following the reporting requirements stipulated by the Code on accounting for schools, the local authority single entity financial statements include an analysis of the income and expenditure of the authority's maintained schools as if it were the expenditure of the authority. Voluntary aided (VA) and Trust school employees are not the employees of the authority but, as indicated above, are required to be consolidated into the single entity financial statements of the local authority (i.e. as employee expenditure). The total of employee expenses in respect of VA and Trust schools was £17.6m in 2017/18 (£17.7m in 2016/17)

7. Other Operating Expenditure

2016/17 £m		2017/18 £m
3.6	Parish Council precepts	3.8
0.2	Levies	0.2
2.6	(Gains)/losses on the disposal of non-current assets	(1.1)
6.4	Total	2.9

8. Financing and Investment Income and Expenditure

2016/17 £m		2017/18 £m
8.1	Interest payable and similar charges	9.7
7.1	Pensions net interest and admin charge	6.1
(2.3)	Interest receivable	(2.3)
20.0	Income and expenditure in relation to trading accounts/investment properties and changes to their fair value	(10.4)
(0.1)	Other investment income	(0.3)
32.8		2.8

The significant movement in financing and investment income and expenditure is due to the impact of the revaluation of investment assets, following a valuation decrease in 2016/17, a valuation increase in 2017/18.

9. Taxation and Non Specific Grant Income

2016/17 £m		2017/18 £m
(92.8)	Council tax income	(97.5)
(30.5)	Non domestic rates	(32.2)
(29.9)	Non-ring fenced government grants	(22.9)
(26.4)	Capital grants and contribution	(26.5)
(179.6)		(179.1)

10. Property, Plant and Equipment

Cost 2017/18	Land & Buildings	Intangibles & Other Assets	Vehicles, Plant, Furniture & Equipment	Investment Assets	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2017	332.9	2.9	8.7	21.5	285.3	2.6	0.6	8.7	3.2	1.6	668.0	48.7
Additions	8.6	-	0.8	1.8	27.6	-	0.1	-	-	1.2	40.1	0.2
Disposals	(1.4)	-	-	(0.5)	-	-	(0.2)	(0.1)	-	(39.4)	(41.6)	-
Impairment losses	-	-	-	-	-	-	-	-	-	-	-	-
Revaluation	39.8	-	(0.3)	8.3	-	-	(1.3)	-	-	42.1	88.6	(4.8)
Reverse Acc dep'n	(15.7)	-	(0.1)	-	-	-	-	-	-	-	(15.8)	-
Asset Transfers	(1.8)	-	-	3.5	-	(0.2)	4.4	(8.6)	-	2.7	-	-
At 31 March 2018	362.4	2.9	9.1	34.6	312.9	2.4	3.6	-	3.2	8.2	739.3	44.1
Depreciation/ Amortisation												
Opening balance at 1 April 2017	(27.9)	(2.1)	(2.6)	-	(60.7)	-	-	-	-	-	(93.3)	(2.6)
Adjustment	-	-	-	-	-	-	-	-	-	-	-	-
Charge for the year	(6.6)	(0.7)	(1.7)	-	(9.7)	-	-	-	-	-	(18.7)	(1.5)
Disposals Reversal	1.2	-	-	-	-	-	-	-	-	-	1.2	-
Impairment depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Reverse Acc dep'n	14.5	-	-	-	-	-	-	-	-	-	14.5	-
At 31 March 2018	(18.8)	(2.8)	(4.3)	-	(70.4)	-	-	-	-	-	(96.3)	(4.1)
Carrying amount at March 2018	343.6	0.1	4.8	34.6	242.5	2.4	3.6	-	3.2	8.2	643.0	40.0
Opening carrying amount at 1 April 2017	305.0	0.8	6.1	21.5	224.6	2.6	0.6	8.7	3.2	1.6	574.7	46.1

Cost 2016/17	Land & Buildings	Intangibles	Vehicles, Plant, Furniture & Equipment	Investment Assets	Infrastructure Assets	Community Assets	Surplus assets	Assets Under Construction & WIP	Heritage Assets	Assets Held for Sale	Total Property, Plant & Equipment	PFI assets included in PPE
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance at 1 April 2016	301.2	2.9	6.8	40.6	261.5	2.6	0.7	5.0	2.8	6.3	630.4	15.2
Additions	38.9	-	1.9	0.1	23.8	-	-	3.7	-	-	68.4	33.5
Disposals	(4.8)	-	-	(0.5)	-	-	(0.3)	-	-	(4.2)	(9.8)	-
Impairment losses	(4.2)	-	-	(18.7)	-	-	(0.2)	-	-	(0.5)	(23.6)	-
Revaluation	10.1	-	-	-	-	-	0.3	-	0.4	-	10.8	-
Other movements	(8.3)	-	-	-	-	-	0.1	-	-	-	(8.2)	-
At 31 March 2017	332.9	2.9	8.7	21.5	285.3	2.6	0.6	8.7	3.2	1.6	668.0	48.7
Depreciation/ Amortisation												
Opening balance at 1 April 2016	(30.5)	(2.1)	(2.4)	-	(51.4)	-	-	-	-	-	(86.4)	(2.6)
Adjustment	(0.2)	0.1	0.1	-	-	-	-	-	-	-	-	-
Charge for the year	(6.2)	(0.1)	(0.3)	-	(9.3)	-	-	-	-	-	(15.9)	-
Disposals	0.3	-	-	-	-	-	-	-	-	-	0.3	-
Impairment depreciation	0.1	-	-	-	-	-	-	-	-	-	0.1	-
Other movements	8.6	-	-	-	-	-	-	-	-	-	8.6	-
At 31 March 2017	(27.9)	(2.1)	(2.6)	-	(60.7)	-	-	-	-	-	(93.3)	(2.6)
Carrying amount at March 2017	305.0	0.8	6.1	21.5	224.6	2.6	0.6	8.7	3.2	1.6	574.7	46.1
Opening carrying amount at 1 April 2016	270.7	0.8	4.4	40.6	210.1	2.6	0.7	5.0	2.8	6.3	544.0	12.6

Depreciation

Depreciation is provided for on a straight line basis over an asset's economic useful life. Where assets' lives are not known, they are estimated as follows:

- Buildings - estimated useful life up to 100 years
- Vehicles, plant, furniture and equipment - 5 years
- Infrastructure - 15 to 50 years

Analysis of Capital Charges to Directorates

Capital charges included in the Comprehensive Income and Expenditure Statement relating to tangible property, plant and equipment are analysed by directorate below.

	Depreciation	Impairments & downwards revaluations	Total 2017/18
	£m	£m	£m
Adults and Wellbeing	0.2	0.8	1.0
Children's Wellbeing	4.4	2.0	6.4
Economy, Communities and Corporate	14.2	1.8	16.0
Total	18.8	4.6	23.4

Capital Commitments

At 31 March 2018 the council did not have major capital commitments (31 March 2017 £0).

Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. Wilkes, Head and Eve LLP completed all valuations in 17/18. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation as set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment are based on depreciated costs as a proxy for fair value.

Of the land and buildings held at 31 March, £395.6m (includes community assets not valued), the effective date of revaluations are as follows:

	Land and Buildings
Valued as at:	£m
31 March 2018	339.1
31 March 2017	14.4
31 March 2016	14.7
31 March 2015	23.0
31 March 2014	2.0
Total	393.2

Schools

Where a school is under the council’s control (i.e. under the responsibility of the Council’s Section 151 Officer) its income, expenditure, current assets, liabilities and reserves are consolidated into the council’s accounts and included within the figures disclosed in the Statement of Accounts. Any reserves attributable to the school are earmarked and disclosed separately. If a school transfers to Academy status it is no longer under the control of the council and therefore its income, expenditure, assets, liabilities and reserves are no longer consolidated into the council’s accounts.

In respect of any Property, Plant and Equipment associated with schools the council has determined that community schools, voluntary aided and voluntary controlled schools are included in the balance sheet. Voluntary aided schools’ long term assets are owned by the school trustees however under these assets have been recognised due to the probability that the future economic benefits associated with the asset will flow to the council and the cost of the asset can be measured reliably in accordance with IAS16.

The fair value of schools is included using a depreciated replacement cost valuation method which comprises the market value of the land in its existing use plus the current replacement cost of the buildings less an allowance for physical deterioration.

Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. It comprises the trading areas of markets, industrial estates and retail. The direct operating expenses exclude recharged support services, capital charges and changes in the fair value of the assets.

2016/17 £m		2017/18 £m
(2.5)	Rental income from investment property	(2.3)
0.5	Direct operating expenses arising from investment property	0.2
(2.0)	Total	(2.1)

Details of the council’s investment properties and information about the fair value hierarchy as at March 2017 and March 2018 are as follows (fair value method disclosed in accounting policies note 1):

Recurring fair value measurements using:	Other significant observable inputs Level2 £m
Investment properties as at 31 March 2017	21.6
Investment properties as at 31 March 2018	34.6

11. Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. Amounts relating to statutory debts, such as council tax, non-domestic rates and general rates are not classed as financial instruments as they do not arise from contracts. Also excluded from the above analysis are accounting adjustments relating to accruals and payments in advance.

Categories of Financial Instruments: The following categories of financial instrument are carried in the Balance Sheet.

Financial Assets

All the financial assets in the balance sheet which are financial instruments are classed as loans and receivables.

2016/17			2017/18	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
		Long term debtors		
36.7	36.7	Loans	37.0	37.0
1.9	1.9	Sales invoices and contractual rights	-	-
2.1	-	PFI lifecycle costs	2.3	-
40.7	38.6	Total	39.3	37.0
		Investments		
-	-	Short term investments	5.0	5.0
6.2	6.2	Cash and cash equivalents	12.8	12.8
6.2	6.2	Total	17.8	17.8
		Short term debtors		
16.0	16.0	Sales invoices and contractual rights	21.0	21.0
7.0	-	Statutory debts (council tax, VAT etc.)	8.5	-
2.3	-	Prepayments	1.4	-
(3.6)	-	Bad debt provisions	(4.7)	-
-	-	Loans	-	-
21.7	16.0	Total	26.2	21.0

Financial Liabilities

All the financial liabilities in the balance sheet which are financial instruments are classed as financial liabilities at amortised cost.

2016/17			2017/18	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
3.2	3.2	Cash and cash equivalents	0.4	0.4
3.2	3.2	Total	0.4	0.4
		Short term borrowing		
0.1	0.1	Bank loans	0.2	0.2
6.4	6.4	Public Works Loan Board	6.6	6.6
28.0	28.0	Borrowing from other local authorities	5.0	5.0
34.5	34.5	Total	11.8	11.8
		Short term creditors		
15.9	15.9	Invoiced amounts and other contractual liabilities	16.3	16.3
7.0	-	Statutory liabilities (PAYE etc.)	7.3	-
9.0	2.5	Accruals and receipts in advance	9.4	2.4
0.3	-	Funds and deposits held	0.2	-
32.2	18.4	Total	33.2	18.7
		Long term borrowing		
12.5	12.5	Bank loans	12.5	12.5
131.0	131.0	Public Works Loan Board	125.5	125.5
143.5	143.5	Total	138.0	138.0
		Other long term liabilities		
57.7	57.7	PFI liabilities and finance leases	55.6	55.6
248.1	-	Pensions liability	226.0	-
305.8	57.7		281.6	55.6

Income, Expense, Gains and Losses

The following amounts relating to financial instruments are included in the Comprehensive Income and Expenditure Statement

2016/17				2017/18		
Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m		Financial Liabilities at amortised cost £m	Financial assets: Loans and receivables £m	Total £m
			Interest payable and similar charges			
			Interest expense relating to:			
6.1	-	6.1	Loans	5.8	-	5.8
-	-	-	Finance Leases	0.1	-	0.1
2.0	-	2.0	PFI liabilities	3.8	-	3.8
8.1	-	8.1	Total expense in surplus on the provision of services	9.7	-	9.7
			Interest receivable:			
-	(2.3)	(2.3)	On loans	-	(2.1)	(2.1)
-	(2.3)	(2.3)	Total income in surplus on the provision of services	-	(2.1)	(2.1)
8.1	(2.3)	5.8	Net loss/(gain) for the year	9.7	(2.1)	7.6

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value is determined depending on whether an active market exists. If an active market exists then the fair value is obtained from reference to published price quotations. Where no active market exists a valuation technique is used. The fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- The fair values of PWLB loans have been calculated based on new loan rates at the year end
- The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity
- No early repayment or impairment is recognised
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of the council's borrowing (which is carried at amortised cost in the Balance Sheet) is as follows:

31 March 2017				31 March 2018		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
177.9	242.8	215.4	Total borrowing	149.7	210.1	183.7

The fair value is higher than the carrying amount because the council's portfolio of longer-term loans are all fixed rate and the interest rates payable on these loans are generally higher than the relatively low rates prevailing at the Balance Sheet date. Therefore the fair value includes a premium that the council would have to pay if the lender agreed to early repayment of the loans. None of the council's investments are for a period exceeding 364 days and so the fair value of investments will not be significantly different to the carrying amount.

The carrying amounts of other long term financial assets and liabilities in the balance sheet include commitments falling due under PFI schemes. The fair value of these commitments exceeds the carrying amount and represents the additional cost that could fall due if we were to terminate the PFI schemes as at the balance sheet date. The total PFI carrying amount is £55.3m and the fair value as at 31 March 2017 totals £76.1m. The statements have not been adjusted for this as the PFI schemes are set to continue until expiry.

31 March 2017				31 March 2018		
Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m		Carrying Amount £m	Fair Value (using premature repayment rate) £m	Fair Value (using new loan rate) £m
			Financial Assets			
40.7	40.7	40.7	Long term debtors	39.3	39.3	39.3
-	-	-	Short term investments	5.0	5.0	5.0
6.2	6.2	6.2	Cash and cash equivalents	14.4	14.4	14.4
21.7	21.7	21.7	Short term debtors	24.6	24.6	24.6
68.6	68.6	68.6	Total Financial Assets	83.3	83.3	83.3
			Financial Liabilities			
137.4	192.3	168.7	Public Works Loan Board	132.1	182.8	160.6
12.5	22.4	18.6	Bank loans (LOBOs)	12.5	22.2	18.1
28.0	28.0	28.0	Loans from other local authorities	5.0	5.0	5.0
32.2	32.2	32.2	Short term creditors	33.2	33.2	33.2
57.7	63.4	63.4	PFI liabilities and finance leases	55.6	77.1	77.1
267.8	338.3	310.9	Total Financial Liabilities	238.4	320.3	294.0

31 March 2017 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2018 £m
	Assets			
35.8	Long term debtor - Mercia Waste Management Loan	2	Discount contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing	36.0
2.9	Long term debtor - Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	1.0
2.0	PFI lifecycle costs	2	Discount contractual cash flows of the remaining term	2.3
40.7	Subtotal long-term debtors			39.3
27.8	Other – short term	N/A	Fair value disclosure is not required for short term investments, short-term debtors or cash	44.0
68.5	Total Assets			83.3
	Liabilities			
168.7	PWLB and other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	160.6
18.6	LOBO	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	18.1
63.4	PFI Scheme Liabilities and Finance Lease Payables	2	Discount contractual cash flows of the remaining term	77.1
60.2	Other including Short Term Loans	N/A	Fair value disclosure is not required for short term liabilities that are held on the balance sheet at amortised cost	38.2
310.9	Total Liabilities			294.0

Other including short term loans comparative updated to reflect all other balances.

Where the carrying amount is the same as the fair value the figures reported are not based on valuation due to being not significantly different.

12. Debtors

31 March 2017 £m		31 March 2018 £m
4.4	Central government bodies	6.0
0.8	Other local authorities	2.3
1.4	NHS bodies	1.6
15.1	Other entities and individuals	14.7
21.7	Total	24.6

13. Cash and Cash Equivalents

31 March 2017 £m		31 March 2018 £m
3.2	Cash held by the council	5.3
3.0	Short term deposits	9.1
6.2	Total	14.4
(3.2)	Bank current accounts	(0.4)
3.0	Total Cash and Cash Equivalents	14.0

14. The cash flows for operating activities include the following adjustment for non-cash movements

2016/17 £m		2017/18 £m
-	Net movement in Inventories	(0.1)
10.2	Net movement in Debtors	1.5
(2.9)	Net movement in Creditors	(1.1)
(26.6)	Depreciation, amortisation and impairment of non-current assets	(23.7)
(8.4)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(41.5)
(2.4)	Net charges made for retirement benefits in accordance with IAS19	(6.4)
(13.5)	Movement in the market value of Investment Properties	0.3
-	Net movement in Provisions	(0.5)
(43.6)	Total	(71.5)

15. Adjustment for investing and financing activities included in the net surplus on provision of services:

2016/17 £m		2017/18 £m
5.8	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	42.5
5.8	Total	42.5

16. Investing Activities

2016/17 £m		2017/18 £m
34.8	Purchase of property, plant and equipment, investment property and intangible assets	39.8
(5.8)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(42.5)
(2.2)	Other receipts from investing activities	3.7
26.8	Total	1.0

The substantial increase in the capital receipts reserve follows the sale of the council's smallholding estate.

17. Financing Activities

2016/17 £m		2017/18 £m
(58.0)	Cash receipts of short term and long term borrowing	(10.0)
1.3	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	2.2
78.2	Repayments of short and long term borrowing	38.3
21.5	Total	30.5

18. Creditors

31 March 2017 £m		31 March 2018 £m
(7.7)	Central government bodies	(7.7)
(1.3)	Other local authorities	(2.2)
(0.6)	NHS bodies	(1.2)
(22.6)	Other entities and individuals	(22.1)
(32.2)	Total	(33.2)

19. Provisions

The movement on provisions from 1 April 2016 to 31 March 2018 is set out below:

	Long term £m	Short term £m	Total £m
Balance at 1 April 2016	(4.9)	(0.8)	(5.7)
Additional provisions made in 2016/17	-	(1.9)	(1.9)
Amounts used in 2016/17	0.4	0.6	1.0
Unused amounts reversed in 2016/17	1.0	-	1.0
Balance at 31 March 2017	(3.5)	(2.1)	(5.6)
Additional provisions made in 2017/18	(0.1)	(1.0)	(1.1)
Amounts used in 2017/18	-	0.6	0.6
Unused amounts reversed in 2017/18	-	-	-
Balance at 31 March 2018	(3.6)	(2.5)	(6.1)

The provisions held at 31 March 2018 are:

31/03/17 £m	Provision Name	Description	Additional Provisions £m	Amounts Used £m	Unused Amounts Reversed £m	31/03/18 £m
(0.1)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 March 2018	-	-	-	(0.1)
(2.0)	Insurance	For potential future insurance claims based on external professional assessment	-	-	-	(2.0)
(0.1)	Special Schools	For high needs top-up funding from special schools, PRUs and home hospital service	-	0.1	-	-
-	Provisions for children's services	Expected payments relating to children for schools, high needs and early years funding	(0.8)	-	-	(0.8)
(3.4)	NNDR Appeals	For future lodged and unlogged appeals against rating valuations.	(0.3)	0.5	-	(3.2)
(5.6)		Total	(1.1)	0.6	-	(6.1)

20. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the council makes employer's contributions to pension funds or eventually pay any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2016/17 £m		2017/18 £m
205.4	Balance at 1 April	248.0
40.2	Re-measurement of the net defined benefit liability	(28.4)
16.7	Reversal of items relating to retirement benefits debited or credited to the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	20.1
(14.3)	Employer's pension contributions and direct payments to pensioners payable in the year	(13.7)
248.0	Balance at 31 March	226.0
247.0	Local Government pension scheme	225.1
1.0	Teachers	0.9
248.0	Balance at 31 March	226.0

21. Trading Operations

The council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from external customers.

2016/17 £m		2017/18 £m
	Markets The council owns and manages open and closed markets, generating income from letting of premises and market stalls	
(0.6)	Turnover	(0.5)
0.1	Asset revaluation movement	(1.0)
0.2	Expenditure	0.2
(0.3)	(Surplus)/deficit	(1.3)
	Industrial Estates The council owns and manages a number of industrial estates in the county	
(1.4)	Turnover	(1.3)
1.4	Asset revaluation movement	(5.4)
0.3	Expenditure	-
0.3	(Surplus)/deficit	(6.7)
	Retail Properties The council owns retail premises in Hereford city centre from which it receives commercial rents	
(0.5)	Turnover	(0.5)
3.8	Asset revaluation movement	(2.3)
-	Expenditure	-
3.3	(Surplus)/deficit	(2.8)
3.3	Total	(10.8)

The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing, investment income and expenditure'.

22. Agency Services

During 2017/18 the council incurred spend in relation to the Golden Valley Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire and Gloucestershire. In 2017/18 spend included £2.2m (2016/17 £2.6m) in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

During 2017/18 Herefordshire Council acted as an intermediary in the pass through of Department of Education grant funding towards the establishment of a new Hereford University – the new model in technology & engineering, NMiTE. This totalled £4.8m and is not included in the council's accounts as the council is acting as an agent only.

23. Pooled Budgets

The council has three pooled budgets for 2017/18, the pooled budget arrangement for the Better Care Fund, the pooled budget for services for children, and the pooled budget for the Integrated Community Equipment Store. All of the pooled budgets are covered by a section 75 agreement.

Better Care Fund

The Better Care Fund (BCF) is a pooled budget which has been nationally mandated to further the integration of health and social care. Herefordshire's BCF has two partners, Herefordshire Council and Herefordshire CCG.

In accordance with IFRS 10 it has been confirmed that neither partner has sole control. Using IFRS 11 definitions this arrangement is a joint operation. Herefordshire Council is the host partner.

The Department of Health sets national minimum contributions to the pool for both revenue and capital and specifies that certain funding streams must be included within the minimum fund. Partners are permitted, and encouraged, to pool more than the minimum requirement. The Better Care Fund in Herefordshire has four components as additional funds from each partner were included in the pool, as well as the Improved Better Care Fund.

Minimum Revenue Pool

The council expenditure in the minimum revenue pool relates to the council services previously supported by NHS funding for the protection of social care, including social work staff, support to carers and helping meet demographic pressures.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
	- Herefordshire Council	-
(11.7)	Herefordshire CCG	(12.0)
(11.7)	Total funding	(12.0)
	Expenditure met from the pooled budget	
5.0	Herefordshire Council	4.4
6.7	Herefordshire CCG	6.7
11.7	Total expenditure	11.1
	- Net (surplus) arising	(0.9)
	- Herefordshire Council share of (surplus)	(0.9)

Capital Pool

The capital pool contains expenditure on the disabled facilities grant, which enables people to continue to live at home, and capital investment in social care systems.

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2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(1.6)	Herefordshire Council	(1.9)
-	Herefordshire CCG	-
(1.6)	Total funding	(1.9)
	Expenditure met from the pooled budget	
1.6	Herefordshire Council	1.9
-	Herefordshire CCG	-
1.6	Total expenditure	1.9
	- Net (surplus) / deficit arising	-
	- Herefordshire Council share of (surplus) / deficit	-

Additional Revenue Pool

The additional pool of expenditure groups, council and clinical commissioning group expenditure on residential, nursing and continuing health care placements within the county.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(19.4)	Herefordshire Council	(20.1)
(9.3)	Herefordshire CCG	(8.6)
(28.7)	Total funding	(28.7)
	Expenditure met from the pooled budget	
20.7	Herefordshire Council	21.1
9.6	Herefordshire CCG	8.9
30.3	Total expenditure	30.0
1.6	Net deficit arising	1.3
1.3	Herefordshire Council share of deficit	1.0

Improved Better Care Fund

The Government's Spending Review in 2015 announced new money for the BCF; and the Spring Budget 2017 subsequently increased this funding. 2017/18 represents the first year in which the new funding has been received. The Government requires that this additional Improved Better Care Fund funding for adult social care in 2017-19 is pooled into the local BCF.

The funding is paid directly to Local Authorities as a direct grant under Section 31 of the Local Government Act 2003 for adult social care. Grants paid to a local authority under this determination may be used only for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

A recipient local authority must:

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- pool the grant funding into the local Better Care Fund, unless an area has written Ministerial exemption;
- work with the relevant Clinical Commissioning Group and providers to meet national condition four (Managing Transfers of Care) in the Integration and Better Care Fund Policy Framework and Planning Requirements 2017-19; and
- provide quarterly reports as required by the Secretary of State.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
	- Herefordshire Council	(3.6)
	- Herefordshire CCG	-
	- Total funding	(3.6)
	Expenditure met from the pooled budget	
	- Herefordshire Council	3.6
	- Herefordshire CCG	-
	- Total expenditure	3.6
	- Net (surplus) / deficit arising	-
	- Herefordshire Council share of (surplus) / deficit	-

Children's Services

Herefordshire Council has entered into a pooled budget agreement with Herefordshire Clinical Commissioning Group to provide provision for children and young people with complex educational, social and medical needs. The agreement pools spending in agreed proportion. The pool comprises funding for the Joint Children's Commissioning Manger, joint funding of support for children with complex health, care, or educational needs, joint contributions for Children's safeguarding and funding for short breaks for respite.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(3.6)	Herefordshire Council	(3.6)
(0.6)	Herefordshire CCG	(0.6)
(4.2)	Total funding	(4.2)
	Expenditure met from the pooled budget	
3.1	Herefordshire Council	3.3
0.5	Herefordshire CCG	0.5
3.6	Total expenditure	3.8
(0.6)	Net (surplus) / deficit on the pooled budget during the year	(0.4)
(0.5)	Herefordshire Council share of net (surplus) / deficit	(0.3)

Integrated Community Equipment Store

Herefordshire Council and Herefordshire Clinical Commissioning Group are required to provide an integrated service

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for provision of community equipment. Both partners have entered into a joint contract for provision of community equipment with an agreed split of the costs of equipment.

2016/17 £m		2017/18 £m
	Funding provided to the pooled budget	
(0.7)	Herefordshire Council	(0.4)
(0.5)	Herefordshire CCG	(0.7)
(1.2)	Total funding	(1.1)
	Expenditure met from the pooled budget	
0.4	Herefordshire Council	0.4
0.6	Herefordshire CCG	0.7
1.0	Total expenditure	1.1
(0.2)	Net (surplus) / deficit on the pooled budget during the year	-
(0.3)	Council share of net (surplus) / deficit	-

24. Officers' Remuneration

Officers' remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of

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expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash (e.g. benefits in kind). Benefits in kind are salary sacrificed amounts for the provision of car parking and bicycles.

The 2017/18 salary banding information is set out below. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note. Where no employees fell within a particular band the band is not shown in the table.

2016/17			Remuneration Band	2017/18		
Non-school	School	Total		Non-school	School	Total
12	24	36	£50,000 - £55,000	14	21	35
7	17	24	£55,001 - £60,000	8	20	28
6	9	15	£60,001 - £65,000	4	6	10
2	5	7	£65,001 - £70,000	2	6	8
3	3	6	£70,001 - £75,000	3	4	7
2	3	5	£75,001 - £80,000	2	2	4
2	1	3	£80,001 - £85,000	3	2	5
1	1	2	£85,001 - £90,000	2	-	2
-	-	-	£90,001 - £95,000	-	-	-
-	1	1	£95,001 - £100,000	1	-	1
1	-	1	£100,001 - £105,000	-	-	-
1	-	1	£105,001 - £110,000	-	-	-
-	-	-	£110,001 - £115,000	2	1	3
1	-	1	£115,001 - £120,000	-	-	-
1	-	1	£120,001 - £125,000	1	-	1
-	-	-	£125,001 - £130,000	1	1	2
-	-	-	£140,001 - £145,000	-	-	-
1	-	1	£145,001 - £150,000	1	-	1
40	64	104		44	63	107

The total number of employees at 31 March 2018 was 1,220 non-school staff (1,437 at March 2017) and 2,239 schools' staff (2,302 at March 2017).

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Post		Salary, Fees & Allowances	Compensation for loss of office	Benefits in kind	Pension contributions	Total
		£000s	£000s	£000s	£000s	£000s
Chief Executive	2017/18	147	-	-	23	170
	2016/17	145	-	-	24	169
Director for Economy, Communities and Corporate	2017/18	121	-	-	19	140
	2016/17	120	-	1	20	141
Director for Children's Wellbeing	2017/18	113	-	-	18	131
	2016/17	109	-	-	18	127
Chief Finance Officer/ Section 151 Officer	2017/18	99	-	-	16	115
	2016/17	46	-	-	8	54
Director for Adults and Wellbeing	2017/18	121	-	-	19	140
	2016/17	120	-	-	20	140
Solicitor for the Council (Monitoring Officer)	2017/18	70	-	-	11	81
	2016/17	66	-	-	11	77

The Chief Finance Officer / Section 151 Officer post was vacant from 1st September 2016 to 13th March 2017. The post was filled by a temporary contract during the period 31st October 2016 to 9th March 2017.

During 2017/18 the Director of Public Health statutory responsibilities were delivered by Shropshire Council through an interim shared services arrangement.

The Director for Economy, Communities and Corporate is also an unpaid Director of Hoople Limited.

25. Termination Benefits

The number and total cost per band of exit packages analysed between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end. The table does not include actuarial strain paid to the pension fund.

In addition, the total cost of actuarial strain relating to 2017/18 terminations was £0.2m (£0.4m in 2016/17). The total amount of actuarial strain paid to Worcestershire County Council in 2017/18 was £0.2m (£0.5m in 2016/17).

Exit package cost band (including special payments)	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
							£000s	£000s
£0 - £20,000	10	7	28	31	38	38	232.7	172.8
£20,001 - £40,000	-	1	3	5	3	6	103.2	153.4
Total	10	8	32	36	41	44	335.9	326.2

26. External Audit Costs

The council incurred the following fees relating to external audit.

2016/17 £m		2017/18 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	Total	0.1

In addition to the audit fee payable grant certification fees (£6k) and non-audit service fees (£12k) have been incurred, these are disclosed in the audit findings report.

27. Dedicated Schools Grant

The council's expenditure on schools is funded by the Dedicated Schools Grant provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a council-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of Dedicated Schools Grant (DSG) receivable for 2017/18 are as follows:

Total 2016/17 £m		Central Expenditure 2017/18 £m	Individual Schools Budget 2017/18 £m	Total 2017/18 £m
116.6	Final DSG allocation before academy recoupment	-	-	120.0
(42.5)	Less academy figure recouped	-	-	(43.3)
74.1	Total DSG after academy recoupment for the year	-	-	76.7
1.6	Brought forward from previous year	-	-	1.8
(1.6)	Less carry forward to following year agreed in advance	-	-	(1.8)
74.1	Agreed budgeted distribution in the year	10.7	66.0	76.7
(9.9)	Less: Actual central expenditure	(10.8)	-	(10.8)
(64.0)	Less: Actual Individual Schools Budget deployed to schools	-	(65.6)	(65.6)
0.2	Add: Surplus 2017/18	(0.1)	0.4	0.3
1.8	Carried forward to following year			2.1

A total DSG carry forward of £2.1m existed at 31 March 2018 being the carry forward to the following year agreed in advance of £1.8m plus the in-year under/overspend of £0.3m shown above.

28. Grant Income

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

2016/17 £m		2017/18 £m
	Credited to Taxation and Non Specific Grant Income	
17.5	Revenue Support Grant	10.1
12.4	Other non-ring fenced grants	12.8
92.8	Council Tax income	97.5
30.5	Business rates income	32.2
26.4	Capital grants	26.5
179.6	Credited to Taxation and Non Specific Grant Income	179.1
	Credited to Services	
79.9	Department for Education	81.5
4.6	Ministry for Housing, Communities and Local Government	8.4
48.4	Department for Work and Pensions	45.9
1.2	Department for Transport	0.3
0.7	Department for Culture, Media and Sport	0.8
0.1	Department for Environment, Food and Rural Affairs	0.1
10.3	Department of Health	10.2
30.3	Other grants and contributions	22.6
175.5	Credited to Services	169.8
355.1	Total	348.9

29. Related Parties

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. 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

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 and provides the majority of its funding in the form of grants.

Members

Members of the Council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2017/18 are not material. One member was the employee of a care service provider to which the council made payments in the year of £0.6m.

Officers

A number of senior officers are members of professional bodies, governors at local schools and colleges, and are involved in local organisations and partnerships.

Other Public Bodies

During the year the council made payments of £27.6m to Worcestershire County Council (£26.7m in 2016/17), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2017/18 totalled £0.8m (£1.2m in 2016/17). A total of £3.0m was paid to Wye Valley NHS Trust (£4.0m in 2016/17) and £0.8m to 2Gether (£1.0m in 2016/17).

Significant long term contracts

The council awarded the public realm services contract to Balfour Beatty Living Places on 1 September 2013. The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £31.5m to Balfour Beatty in 2017/18 (£25.9m in 2016/17).

FOCSA Services (UK) Limited

In 2009 the council entered into a 7 year contract with FOCSA for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5m. Payments to FOCSA Services (UK) Limited totalled £3.9m in 2017/18 (£3.8m in 2016/17).

Other organisations

The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2017/18 the council paid £0.2m to Halo Leisure Trust (£0.4m in 2016/17).

During the year the council made payments totalling £0.2m to Herefordshire Housing Limited (£0.5m in 2016/17).

West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils. Payments of £1.3m were made in 2017/18 to WME (£1.3m in 2016/17).

Subsidiary group undertaking

Hoople Limited is a company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Limited was wholly owned by Herefordshire Council and Wye Valley NHS Trust. Herefordshire Council is the majority shareholder and included in this statement of accounts is a statement of group accounts section that reports the performance of the group for 2017/18.

30. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance and PFI contracts) together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

2016/17 £m		2017/18 £m
264.9	Opening capital financing requirement	305.8
	Capital investment	
68.3	Property, Plant and Equipment	38.0
0.1	Investment Properties	1.8
5.7	Revenue expenditure funded from capital under statute	9.3
0.1	Assets acquired under PFI contracts	0.3
11.4	Long term debtors (including loans and PFI prepayments)	-
	Sources of finance	
(2.1)	Capital receipts	(4.2)
(30.1)	Government grants and other contributions	(29.0)
	Sums set aside from revenue	
(0.5)	Direct revenue contributions	(0.2)
(12.0)	Minimum Revenue Provision (MRP)	(8.2)
305.8	Closing capital financing requirement	313.6
	Explanation of movements in year	
19.6	Increase in underlying need to borrow	15.7
0.1	Assets acquired under PFI contracts	0.3
(12.0)	Minimum Revenue Provision (MRP)	(8.2)
7.7	Credited to Services	7.8

31. Leases

Council as Lessee

Finance Leases

The council holds one car park under a finance lease arrangement. The asset acquired under this lease is carried as Other Land and Buildings in the balance sheet.

The council is committed to making minimum payments under this lease comprising settlement of the long term liability for the interest in the property and finance costs that will be payable by the council in future years while the liability remains outstanding, shown in the note below.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 £0.1m contingent rents were payable by the council (£0.1m in 2016/17).

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Council as Lessor

Finance Leases

When a school changes status to become a Foundation School or an Academy the land and buildings are transferred to the school by granting a lease for 125 years at a peppercorn rent. Other than these long leasehold transfers to schools, the council does not have any other finance leases where the council is lessor.

Operating leases

The council leases out property under operating leases for the following purposes:

- Retail
- Industrial Use
- Farming
- Other Commercial Use

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

	Amounts Payable						Amounts Receivable	
	Minimum Lease Payments		Finance Lease Liabilities		Operating Leases		Operating Leases	
	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m
Payable/receivable in the year	-	-	-	-	0.7	0.7	-	-
Not later than one year	-	-	-	-	0.5	0.6	1.4	1.4
Later than one year and not later than five years	0.1	0.1	-	-	0.9	1.3	4.5	4.1
Later than five years	1.7	1.7	0.3	0.3	0.3	0.5	36.0	34.0
Total due in future years	1.8	1.8	0.3	0.3	2.4	3.1	41.9	39.5

32. Private Finance Initiatives and Similar Contracts

The council has two formal PFIs, Whitecross School and Waste Disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract.

Mercia Waste Management Limited – Waste Management PFI contract

In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Limited for the provision of an integrated waste management system using the Private Finance Initiative.

Under the contract the authorities are required to ensure that all waste for disposal is delivered to the contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total the estimated cost over the life of the contract is approximately £500m of which approximately 25% relates to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years.

A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Construction was completed in 2017 with a funding requirement of £195m and an uplift to the annual unitary charge for both councils of £2.7m.

Both councils will be providing circa 82% of the project finance requirement from their own planned borrowing from the Public Works Loan Board with the remaining 18% being provided by the equity shareholders of Mercia Waste Management Limited. The loan is shown under long term debtors on the balance sheet and the effective interest rate is shown under financial investments on the Comprehensive Income and Expenditure Statement.

Stepnell Limited – School PFI Contract

The Whitecross School PFI project has delivered a fully equipped 900 place secondary school with full facilities management services. The contract with Stepnell Limited has an overall value of £74m and lasts for 25 years. During the 2012/13 financial year the school transferred to Academy status but the obligations under the PFI contract remain with the council.

Shaw Homes

The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare’s performance in providing services. The payments in respect of this contract were £3.7m in 2017/18 (£3.8m in 2016/17).

Assets

The property, plant and equipment used to provide the PFI services are recognised on the council’s balance sheet, with the exception of Whitecross School, which was written out of the balance sheet when it became an Academy in 2012/13. Movements in asset values over the year are summarised below.

	Land & Buildings £m	Equipment £m	Total £m
Balance at 1 April 2017	44.8	1.3	46.1
Additions	0.2	0.1	0.3
Revaluations	(4.8)	-	(4.8)
Depreciation	(0.9)	(0.6)	(1.5)
Balance at 31 March 2018	39.2	0.8	40.0

Liabilities

The payments to the contractors compensate them for the fair value of the services they provide, capital expenditure incurred and interest payable. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

2016/17		2017/18			
		Shaw Healthcare	Whitecross School	Waste Disposal	Total
Total		£m	£m	£m	£m
25.3	Balance outstanding at start of year	7.6	13.3	36.5	57.4
(1.3)	Payments during the year	(0.3)	(0.5)	(1.5)	(2.3)
33.4	Capital expenditure in the year	-	-	0.2	0.2
57.4	Balance outstanding at year end	7.3	12.8	35.2	55.3

Payments

The table below shows an estimate of the payments to be made under the PFI and similar contracts.

	Service Charges	Lifecycle Costs	Finance Liability	Interest & Similar	Total
	£m	£m	£m	£m	£m
Within 1 year	10.6	0.3	2.6	3.8	17.3
Within 2 to 5 years	45.3	1.5	12.8	13.6	73.2
Within 6 to 10 years	20.7	2.1	33.0	7.6	63.4
Within 11 to 15 years	24.9	1.9	7.7	3.1	37.6
Within 16 to 20 years	5.5	0.1	0.9	0.9	7.4
Balance outstanding at year end	107.0	5.9	57.0	29.0	198.9

The PFI future year commitments total of £198.9m shown above includes inflation assumptions, without inflation the future year commitments would be £50.4m lower.

33. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10k of interest associated with the project. In 2017/18 no borrowing costs were capitalised (2016/17 £-).

34. Pension Schemes accounted for as Defined Contribution Schemes

Teachers employed by the council are members of the Teachers’ Pension Scheme, which is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers’ contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

In 2017/18 the council paid employer contributions of £4.5m (2016/17 £4.5m) in respect of teachers' pension costs. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority has awarded, together with the related increases. This cost £0.2m in 2017/18 (2016/17 £0.1m). The liability to former Hereford and Worcester teachers' unfunded added years' benefits of £0.9m is included in the pension fund liability in the balance sheet in 2017/18 (£1.0m in 2016/17).

Under the arrangements for Public Health, a number of staff performing public health functions transferred from the former PCT to the council. Those who had access to the NHS pension scheme on 31 March 2013 retained access to the scheme on transfer at 1 April 2013. The NHS scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. However, in the NHS it is accounted for as if it were a defined contribution scheme. As the NHS bodies account for the scheme as a defined contribution plan it is being accounted for in the same way for transferred public health staff as local authorities are unable to identify the underlying scheme assets and liabilities for those employees. In 2017/18 the council paid employer contributions of £0.1m (2016/17 £0.1m) in respect of NHS pension costs for public health staff.

35. Defined Benefit Pension Schemes

Participation in Pension Schemes

Employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. This is a funded scheme, which means that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement.

Transactions Relating to Post-employment Benefits

Under IAS 19 the cost of retirement benefits is included in the Cost of Services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Local Government Pension Scheme

2016/17 £m		2017/18 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
9.1	Current service cost	13.7
0.5	(Gain)/loss from settlements and curtailments	0.3
	Financing and Investment Income and Expenditure:	
7.0	Net interest expense	5.9
0.1	Administration expenses	0.2
16.7	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	20.1
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
40.2	Actuarial (gains) and losses arising on changes in financial assumptions	(28.4)
40.2	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(28.4)
	Movement in Reserves Statement	
(16.7)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits	(20.1)
	Amount charged to the General Fund balance for pensions in the year	
14.2	Employer's contribution payable to the scheme	13.6

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2018 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £84.3m.

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefits plans is as follows

Local Government Pension Scheme

2016/17 £m		2017/18 £m
602.1	Present value of the defined benefit obligation	594.6
(355.1)	Fair value of plan assets	(369.5)
247.0	Net liability arising from defined benefit obligation	225.1

Reconciliation of the present value of the scheme liabilities (defined benefit obligation)

The table below shows the movement on the pension liability

2016/17 £m		2017/18 £m
486.0	Opening balance	602.1
9.1	Current Service Cost	13.7
17.3	Interest Cost	14.9
2.5	Contributions by Scheme Participants	2.6
	Re-measurement (gains) and losses	
101.3	Actuarial (gains)/losses arising from changes in assumptions	(24.0)
0.6	Losses/(gains) on curtailments	0.3
(14.0)	Benefits/transfers paid	(15.0)
(0.7)	Liabilities extinguished on settlements	-
602.1	Closing balance	594.6

Reconciliation of the Movements in the Fair Value of the Scheme Assets

The table below shows the movement on the pension assets

2016/17 £m		2017/18 £m
281.7	Opening fair value of scheme assets	355.1
10.3	Interest income	9.0
61.1	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	4.4
(0.5)	Gains/(losses) on settlements	-
(0.2)	Administration expenses	(0.2)
14.2	Contribution from employer	13.6
2.5	Contributions from employees into the scheme	2.6
(14.0)	Benefits/transfers paid	(15.0)
355.1	Closing fair value of scheme assets	369.5

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The actual return on scheme assets in the year was £13.4m, 3.6% of the period end assets (2016/17 £73.2m, 20.8%).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2017 £m		Quoted (Y/N)	31 March 2018 £m
	Cash		
1.0	Cash instruments	Y	1.1
2.1	Cash accounts	Y	2.2
5.1	Net current assets	N	1.1
	Equity instruments		
1.8	UK quoted	Y	1.5
99.2	Overseas quoted	Y	105.7
95.7	Pooled investment vehicle - UK managed funds	N	90.5
106.2	Pooled investment vehicle - UK managed funds (overseas equities)	N	121.5
	Property		
10.0	European property funds	N	9.2
3.3	UK property debt	N	3.0
1.8	Overseas property debt	N	1.8
-	UK property funds	N	1.5
	Alternatives		
9.6	UK infrastructure	N	12.6
	Bonds		
1.2	UK Corporate	Y	1.5
18.1	Overseas Corporate	Y	16.3
355.1	Closing fair value of scheme assets		369.5

Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The liabilities have been estimated by Mercer Limited, an independent firm of actuaries based on the latest full valuation of the scheme as at 31st March 2016. The principal assumptions used by the actuary have been:

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.6	Men	22.7
25.6	Women	25.7
	Longevity at 65 for future pensioners (years)	
24.8	Men	24.9
27.9	Women	28.0
	Financial Assumption	
2.3%	Rate of CPI inflation	2.1%
3.8%	Rate of increase in salaries	3.6%
2.3%	Rate of increase in pensions	2.2%
2.5%	Rate for discounting scheme liabilities	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. In practice this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

	Increase / (decrease) in assumption £m
0.1% increase in real discount rate	(10.6)
1 year increase in member life expectancy	11.9
0.1% increase in the salary increase rate	1.1
0.1% increase in the inflation increase rate	10.8

Impact on the Councils Cash Flows

At the last tri-annual valuation the council agreed a strategy with the actuary to recover the pension deficit over 18 years, resulting in the employer's deficit contribution being agreed at £6.7m in 2017/18, £6.9m in 2018/19 and £7.2m in 2019/20. The actuary also confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is 15.6%.

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2019 is £13.0m.

Scheme History

Scheme History	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£m	£m	£m	£m	£m	£m	£m
Present value of liabilities	(367.6)	(422.8)	(419.6)	(500.0)	(486.0)	(602.1)	(594.6)
Value of Scheme assets	208.3	235.4	260.2	288.6	281.7	355.1	369.5
(Deficit) in scheme	(159.3)	(187.4)	(159.4)	(211.4)	(204.3)	(247.0)	(225.1)

36. Contingent Liabilities

There is a risk of incurring costs in relation to settling disputed items following the cessation of the Amey contract. Work is ongoing to resolve these disputes which will determine the appropriate outcome.

The council has commissioned a number of services that are provided by third parties. For a number of these external organisations a number of staff were transferred in prior years and in order for those employees transferred to continue with their membership of the Local Government Pension Scheme an admission agreement would have been approved. The Admission Agreements were agreed on an individual basis and the council considers that the crystallisation of any material liabilities falling due under these arrangements to be unlikely at the balance sheet date. Therefore no contingent liability has been identified however the council has set aside a pension risk reserve in the unlikely event that unforeseen costs become payable in future years.

37. Contingent Assets

The council has received a payment from Amey in relation to settling disputed items following the cessation of the Amey contract, which is included in earmarked reserves at £8m. There continues to be a possibility of receiving additional funds, work is currently ongoing to resolve these disputes which will determine the appropriate outcome.

38. Nature and Extent of Risks Arising from Financial Instruments

The council's activities expose it to a variety of financial risks:

- Credit risk:** the possibility that other parties may fail to pay amounts owing to the council
- Liquidity risk:** the possibility that the council may have insufficient funds available to meet its financial commitments
- Market risk:** the possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.

The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments. During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years, during the year investment maturity limits were reduced reducing the council's exposure to risk.

Credit Risk

Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by the council's treasury adviser through combined credit ratings, credit watches and credit outlooks. Typically the minimum credit ratings criteria the council use will be short term rating (Fitch or equivalents) of F1 and a long term rating of A- and with countries with a minimum sovereign credit rating of AA- (Fitch or equivalents).

During 2017/18 the council continued to restrict investments to only the largest and strongest of the banks, building society, other local authorities and instant access Money Market Funds.

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The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31 March 2018 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2018 %	Estimated maximum exposure to default and uncollectability 31 March 2017 £m	Estimated maximum exposure to default and uncollectability 31 March 2018 £m
Deposits with banks and financial institutions	9.1	-	-	-	-
Customers	9.5	0.5	0.5	-	-

Analysis of the amount outstanding for council debtors at 31 March by age

31 March 2017 £m		31 March 2018 £m
4.2	Less than 3 months	5.5
0.4	3 to 6 months	0.5
1.3	6 months to 1 year	1.4
0.1	More than 1 year	2.1
6.0	Total	9.5

Liquidity Risk

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Therefore the strategy is to spread the maturity of the council's loans so that a significant proportion does not require repayment or refinancing at the same time. The maturity analysis of the loan debt is as follows:

31 March 2017 £m		31 March 2018 £m
34.5	Less than 1 year	11.7
	More than 1 year	
5.5	Between 1 and 2 years	7.2
13.1	Between 2 and 5 years	12.4
27.8	Between 5 and 10 years	26.2
97.1	More than 10 years	92.2
178.0	Total borrowing per balance sheet	149.7

Market Risk

The council is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates could have a significant impact on the council. For instance, a rise in interest rates would have the following effects:

- a) Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase
- b) Borrowings at fixed rates – the fair value of borrowings would fall
- c) Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise
- d) Investments at fixed rates – the fair value of the assets would fall

Borrowings and investments are not carried at fair value in the Balance Sheet and so nominal gains and losses on fixed rate financial instruments would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. The impact is made by changes in interest payable and receivable.

The council's loans are all fixed rate which means that when the Bank Base Rate is low the interest rate paid on borrowing is relatively high compared to the rate received on investments.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council's treasury advisors. The council sets an annual Treasury Management Strategy which includes analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

	1% increase in interest rates £m
Increase in interest payable on borrowing	0.2
Increase in interest receivable on investment balances	(0.2)

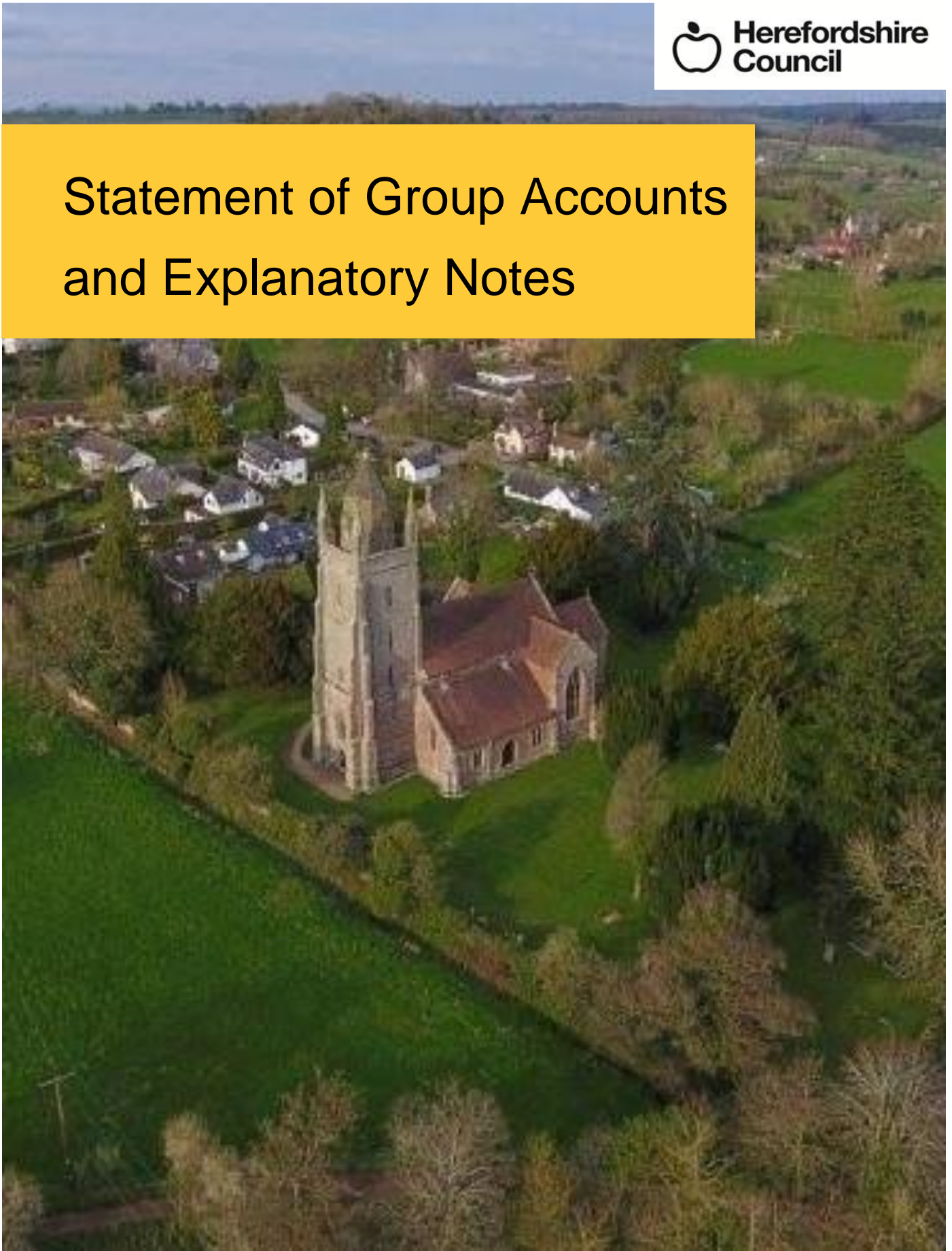
39. Trust Funds

The council acts as trustee for a number of Trust Funds, which have been established for the benefit of different sections of the community. The following summarises the movement on Trust Funds balances which the council administers during the year:

	Balance at 31 March 2017 £m	Repayment of Trust Fund Balances £m	Balance at 31 March 2018 £m
Other Funds	0.1	-	0.1

Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits.

Statement of Group Accounts and Explanatory Notes



40. Statement of Group Accounts

Introduction

As described in the Introduction to the Core financial statements on page 2, Herefordshire Council have consolidated the Core accounts and the unaudited Hoople Limited 2017/18 accounts for the first time. The Hoople Limited accounts are not audited at the date these accounts were issued, due to the deadline for filing private company accounts being nine months after the year-end; longer than that of the Council. This section of the Statement of Accounts sets out those combined 'Herefordshire Council Group' accounts - the 'Statement of Group Accounts'.

Hoople Limited specialises in providing support services to the public sector: IT, Training and recruitment, HR, Finance, Revenues and Benefits and Reablement. Its primary objectives are to reduce costs for its clients by creating scale from joining up services, improved service delivery, creating new job and growth opportunities and for its shareholders to support their local agenda. Since it was established, in 2011, Hoople Limited has been largely co-located at the Plough Lane Head Office of Herefordshire Council.

Herefordshire Council is a majority shareholder of Hoople Limited and considers the business to be a subsidiary undertaking due to the controlling influence it can and does exercise. Group accounts have not been prepared previously due to the immaterial impact of doing so. 2017/18 group accounts have been prepared to provide greater transparency of the consolidated group performance.

Hoople Limited had revenue of £13.5m in 2017/18 (2016/17: £13.5m). This included revenue from services provided to Herefordshire Council of £7.8m in 2017/18 (2016/17: £7.0m). The council provided services to Hoople Limited of £0.8m in 2017/18 (2016/17: £0.8m). These transactions were all made on an arms-length basis. Further details on the performance of Hoople Limited may be found later in these group accounts.

This section presents the statutory financial statements for Herefordshire Council Group for the period from 1 April 2017 to 31 March 2018. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the statement of group accounts is to provide the reader with an overall view of the material economic activities of the Group.

In common with many other local authorities, the council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies and trusts means that the council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. These group accounts more fully reflect the overall financial picture of the council's activities.

The statement of group accounts has been prepared using uniform accounting policies. All of the accounting policies of Hoople Limited were considered and compared to those of Herefordshire Council. The policies adopted by Hoople Limited were closely aligned to those of Herefordshire Council and there were no material differences to restate.

In preparing the statement of group accounts for the first year, in respect of 2017/18, the Council has restated the accounts of 2016/17 in order to present a more comparable view of the current year.

The statement of group accounts provides a summary of the group's financial position and details of material items that have impacted on the accounts during the year.

Within the notes to the Group accounts, the Council reports the group balance sheet headings where the difference between the core and group totals is considered material, exceeding £1m. Other balance sheet accounts have insignificant differences between the core and group figures as at 31 March 2018.

Basis of Consolidation

Over the two financial years reported in these accounts, Herefordshire Council held 85.54% of the ordinary share capital of Hoople Limited. The council effectively controlled and controls Hoople Limited and as such, it is accounted for as a subsidiary undertaking. It holds equal voting rights with the other shareholder, Wye Valley Trust NHS Limited. In accordance with IAS 27 and IFRS 10, income and expenditure and assets and liabilities have been consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions over the years and balances at the year-end dates.

The council has not consolidated any other organisations as either Associated Companies or as Joint Ventures within the group accounts, as it does not consider any other investments held to have a material effect on the Statement of Accounts, nor does it consider that consolidating would better provide the reader with an improved overall view of the material economic activities of the council.

The Group Financial Statements

The group financial statements consolidate the accounts of the council with those of its subsidiary undertaking, Hoople Limited.

Group Comprehensive Income & Expenditure Statement

The Group Comprehensive Income and Expenditure Statement provides the accounting income and costs recognised by the Group, in a specific format which reconciles accountancy practice and public sector reporting requirements. This is shown in accordance with generally accepted accounting practices (GAAP).

There were no acquisitions or discontinued operations in the two years. As stated earlier in this report, the Hoople Limited business results are consolidated into the Group CIES for the two accounting periods.

2016/17					2017/18			
Net Core £m	Group entities £m	Adjs £m	Group £m		Net Core £m	Group entities £m	Adjs £m	Group £m
52.0	-	(0.9)	51.1	Adults and wellbeing	54.2	-	(0.8)	53.4
23.3	-	(0.2)	23.1	Children's wellbeing	27.4	-	(0.4)	27.0
53.8	0.2	1.1	55.1	Economy, communities and corporate	78.3	0.2	1.2	79.7
129.1	0.2	-	129.3	Net Cost of Services	159.9	0.2	-	160.1
6.4	-	-	6.4	Other Operating Expenditure	2.9	-	-	2.9
32.8	0.1	-	32.9	Financing, Investment Income and Expenditure	2.8	0.2	-	3.0
(179.6)	0.0	-	(179.6)	Taxation and Non-Specific Grant Income	(179.1)	0.0	-	(179.1)
(11.3)	0.3	-	(11.0)	(Surplus) or deficit on the provision of services	(13.5)	0.4	-	(13.1)
(10.5)	-	-	(10.5)	(Surplus) / deficit in revaluation of non-current assets	(93.3)	-	-	(93.3)
40.2	2.4	-	42.6	Re-measurement of net Defined Benefit Liability	(28.4)	(0.6)	-	(29.0)
29.7	2.4	-	32.1	Other comprehensive (income) / expenditure	(121.7)	(0.6)	-	(122.3)
18.4	2.7	-	21.1	Total comprehensive (income) / expenditure	(135.2)	(0.2)	-	(135.4)

The Surplus on the Provision of Services of £13.1m includes a Deficit of £0.1m attributable to the Minority Interest (16/17: Deficit £0.0m)

The Total comprehensive (income) / expenditure attributable to the Minority Interest is (£0.1m) (16/17: £0.4m Expenditure)

These Minority Interests represent 14.46% of the Income and Expenditure of Hoople Limited, the subsidiary undertaking.

Group Movement in Reserves Statement

Herefordshire Council Statement of Accounts 2017/18

The Group Movement in Reserves Statement provides the reconciliation of the movement in year on the different reserves held and how the resources generated or used in the year reconcile to the council's usable and unusable reserves.

2017/18	General Fund Balance	Earmarked Reserves	Revenue Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves	Unusable Reserves	Total Council Reserves	Council's share of Reserves of subsidiary	Total Group Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance brought forward	(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)	(56.9)	(115.3)	3.8	(111.5)
(Surplus) or deficit on the provision of services	(6.5)	-	(6.5)	-	-	(6.5)	(0.0)	(6.5)	(6.6)	(13.1)
Other comprehensive income and expenditure	-	-	-	-	-	-	(121.8)	(121.8)	(0.6)	(122.4)
Total comprehensive income and expenditure	(6.5)	-	(6.5)	-	-	(6.5)	(121.8)	(128.3)	(7.2)	(135.5)
Adjustments between Group accounts and authority accounts	(7.0)	-	(7.0)	-	-	(7.0)	-	(7.0)	7.0	-
Net (increase)/decrease before transfers	(13.5)	-	(13.5)	-	-	(13.5)	(121.8)	(135.3)	(0.2)	(135.5)
Adjustments between accounting basis and funding basis under regulations	0.4	-	0.4	(38.4)	(1.1)	(39.1)	39.1	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	(13.1)	-	(13.1)	(38.4)	(1.1)	(52.6)	(82.7)	(135.3)	(0.2)	(135.5)
Transfers to or from earmarked reserves	13.1	(13.1)	-	-	-	-	-	-	-	-
Decrease/(Increase) for the Year	-	(13.1)	(13.1)	(38.4)	(1.1)	(52.6)	(82.7)	(135.3)	(0.2)	(135.5)
Balance Carried Forward	(7.9)	(57.8)	(65.7)	(42.6)	(2.7)	(111.0)	(139.6)	(250.6)	3.6	(247.0)

Total Group Reserves at 31 March 2018 includes Minority Interest in the subsidiary undertaking of £0.5m.

Group Movement in Reserves Statement 2016/17 Comparative

2016/17	General Fund Balance	Earmarked Reserves	Revenue Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Usable Reserves	Unusable Reserves	Total Council Reserves	Council's share of Reserves of subsidiaries	Total Group Reserves
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance brought forward	(7.3)	(28.5)	(35.8)	(0.5)	(1.2)	(37.5)	(96.2)	(133.7)	1.1	(132.6)
(Surplus) or deficit on the provision of services	(5.1)	-	(5.1)	-	-	(5.1)	-	(5.1)	(5.9)	(11.0)
Other comprehensive income and expenditure	-	-	-	-	-	-	29.7	29.7	2.4	32.1
Total comprehensive income and expenditure	(5.1)	-	(5.1)	-	-	(5.1)	29.7	24.6	(3.5)	21.1
Adjustments between Group accounts and authority accounts	(6.2)	-	(6.2)	-	-	(6.2)	-	(6.2)	6.2	-
Net (increase)/decrease before transfers	(11.3)	-	(11.3)	-	-	(11.3)	29.7	18.4	2.7	21.1
Adjustments between accounting basis and funding basis under regulations	(5.5)	-	(5.5)	(3.7)	(0.4)	(9.6)	9.6	-	-	-
Net (increase)/decrease before transfers to earmarked reserves	(16.8)	-	(16.8)	(3.7)	(0.4)	(20.9)	39.3	18.4	2.7	21.1
Transfers to or from earmarked reserves	16.2	(16.2)	-	-	-	-	-	-	-	-
Decrease/(Increase) for the Year	(0.6)	(16.2)	(16.8)	(3.7)	(0.4)	(20.9)	39.3	18.4	2.7	21.1
Balance Carried Forward	(7.9)	(44.7)	(52.6)	(4.2)	(1.6)	(58.4)	(56.9)	(115.3)	3.8	(111.5)

Total Group Reserves at 31 March 2017 includes Minority Interest in the subsidiary undertaking of £0.5m. The opening Minority interest as at 1 April 2016 was £0.2m.

Group Balance Sheet

Summarised

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2018 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements. A detailed balance sheet may be found on the next page.

2015/16		2016/17			2017/18	
Core £m	Group £m	Core £m	Group £m		Core £m	Group £m
564.8	564.8	613.8	613.8	Long term assets	674.1	674.1
41.8	43.8	29.7	32.6	Current assets	52.3	56.4
(83.2)	(84.2)	(72.0)	(73.8)	Current liabilities	(47.9)	(50.5)
(389.7)	(391.8)	(456.2)	(461.1)	Long term liabilities	(427.9)	(433.0)
133.7	132.6	115.3	111.5	Net Assets	250.6	247.0
				Represented by:		
(37.5)	(36.4)	(58.4)	(54.6)	Usable reserves	(111.0)	(107.3)
(96.2)	(96.2)	(56.9)	(56.9)	Unusable reserves	(139.6)	(139.6)
(133.7)	(132.6)	(115.3)	(111.5)	Total Group Reserves	(250.6)	(247.0)

Net liabilities in respect of Group undertakings (reducing the Core Net Assets from £250.6m to £247.0m for the Group in 2017/18) are principally as a consequence of the cumulative pension deficit provided for in the accounts of Hoople Limited of £5.1m in 2017/18 (2016/17: £4.9m).

The Minority Interest share of subsidiary reserves represents an Unusable reserve to the Council in 2017/18 of £0.5m (2016/17: £0.5m).

The audited 2017/18 financial statements of Hoople Limited will be filed with Companies House before the statutory due date of 31 December 2018. Further details of the financial performance of that company will be contained therein. The financial performance of Hoople Limited, as consolidated into these group accounts may be found within note G2 to these accounts.

The unaudited accounts were authorised for issue on 31 May 2018 and the audited accounts were authorised for issue on 30 July 2018.

Chief Finance Officer (section 151 officer)

Chair of Audit Committee

Group Balance Sheet

Detailed

The Group Balance Sheet shows the assets and liabilities recognised by the Group at 31 March 2018 and the reserves the company holds which are split into usable and unusable in accordance with CIPFA requirements.

The 31 March 2016 Group balance sheet is included in addition to the two subsequent years to reflect the financial position of the Group at the start of the comparative year, from which point Group accounts are now reported.

31 March 2016 £m	31 March 2017 £m		Notes	31 March 2018 £m
493.5	547.6	Property, Plant and Equipment		596.9
40.6	21.5	Investment Property		34.6
0.8	0.8	Intangible Assets		0.1
2.8	3.2	Heritage Assets		3.2
27.1	40.7	Long Term Debtors		39.3
564.8	613.8	Long Term Assets		674.1
2.5	-	Short term Investments		5.0
0.2	0.2	Inventories		0.1
25.1	22.2	Short Term Debtors		25.4
7.9	8.7	Cash & Cash equivalents	G5	17.7
8.1	1.6	Assets held for Sale		8.2
43.8	32.6	Current Assets		56.4
(46.2)	(34.5)	Short Term Borrowing	G7	(11.8)
(30.3)	(34.0)	Short Term Creditors	G6	(35.8)
(0.8)	(2.1)	Short Term Provisions		(2.5)
(5.5)	(3.2)	Cash & Cash equivalents	G5/G7	(0.4)
(1.4)	-	Capital Receipts in Advance		-
(84.2)	(73.8)	Current Liabilities		(50.5)
(4.9)	(3.5)	Long term provisions		(3.6)
(152.0)	(143.5)	Long term borrowing	G7	(138.0)
(2.2)	(3.4)	Capital Grants Receipts in Advance		(4.7)
(232.7)	(310.7)	Other Long Term Liabilities	G7	(286.7)
(391.8)	(461.1)	Total Long Term Liabilities		(433.0)
132.6	111.5	Net Assets		247.0
(36.4)	(54.6)	Usable Reserves		(107.4)
(96.2)	(56.9)	Unusable Reserves		(139.6)
(132.6)	(111.5)	Total Reserves		(247.0)

Group Cash Flow Statement

The Group Cash Flow Statement shows the changes in cash and cash equivalents of the Group for the reporting period.

2016/17 £m		Core Notes	2017/18 £m
(11.0)	Net (surplus) or deficit on the provision of services		(13.1)
(44.6)	Adjust net (surplus) or deficit on the provision of services for non-cash movements		(72.7)
5.8	Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		42.5
(49.8)	Net cash flows from operating activities		(43.3)
26.8	Net cash flows from investing activities		1.0
21.5	Net cash flows from financing activities		30.5
(1.5)	Net (increase) or decrease in cash and cash equivalents		(11.8)
(4.0)	Cash and cash equivalents at the beginning of the reporting period		(5.5)
(5.5)	Cash and cash equivalents at the end of the reporting period		(17.3)
(1.5)	Net (increase) or decrease in cash and cash equivalents	G6	(11.8)

In the year, £16k of Corporation tax was paid by Hoople Limited (2016/17: £5k).

Notes to the statement of group accounts

G1. Group Accounting Policies

General Principles

The council is required to produce an annual statement of group accounts in accordance with the Accounts and Audit Regulations 2015, which requires the accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 "The Code", supported by International Financial Reporting Standards.

The Code sets out the requirement to prepare Group accounts where the authority has interests in subsidiaries, associated and/or joint ventures, subject to consideration of materiality.

Consolidation of subsidiaries, associate companies and joint operations

In preparing the statement of group accounts, members within the Group are classified as either subsidiaries, associates or joint ventures. Subsidiaries (where the council has a controlling interest) are accounted for in accordance with IAS 27 and IFRS 10. Income and expenditure and assets and liabilities are consolidated with the Council's accounts on a line-by-line basis, eliminating inter-organisational transactions over the two years reported. Balances are also eliminated at the year-end dates.

The statement of group accounts has been prepared using uniform accounting policies. All of the accounting policies of Hoople Limited were considered and compared to those of Herefordshire Council. Since Hoople Limited commenced trading in 2011, the accounting policies it adopted have been closely aligned to those of Herefordshire Council and there were no material differences requiring restatements within the Group accounts.

The accounting policies applied to the statement of group accounts are therefore consistent with those set out in Note 1 to the core Herefordshire Council notes to the accounts on page 18.

Taxation

Corporation tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the statement of comprehensive income, profit and loss, except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax for the prior period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting nor taxable profit or loss.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

G2. Financial performance of group undertaking

Herefordshire Council Statement of Accounts 2017/18

The financial results of Hoople Limited are set out below. These results include transactions with the council, which have been eliminated in these group accounts. These intercompany transactions are set out within the Introduction section to these group accounts above.

	2016/17	2017/18
Statement of comprehensive income	£m	£m
Turnover	(13.5)	(13.5)
(Profit) / Loss on ordinary activities before taxation	0.3	0.4
Tax on profit on ordinary activities	-	-
(Profit) / Loss for the financial year after taxation	0.3	0.4
Other comprehensive (income) / expenditure	2.4	(0.6)
Total comprehensive (income) / expenditure for the year	2.7	(0.2)

	2016/17	2017/18
Statement of financial position	£m	£m
Non-current assets	-	-
Current assets	3.6	5.0
Liabilities due within one year	(2.5)	(3.5)
Liabilities due after one year	(4.9)	(5.1)
Net Liabilities and Reserves	(3.8)	(3.6)

Other comprehensive (income) / expenditure relates to the revaluation of the LPGA pension.
Liabilities due after one year relate to the pension deficit (see note G4 below).

G3. Group Nature of Expenses Disclosure

The Group's expenditure and income is included in the Group Comprehensive Income and Expenditure Statement as follows;

2016/17 £m		2017/18 £m
	Income	
(58.3)	Fees, charges and other service income	(37.2)
(2.6)	Trading and investment income	(2.3)
(2.6)	Interest and investment income	(2.8)
(123.3)	Income from council tax and non-domestic rates	(129.7)
(202.3)	Government grants and contributions	(219.1)
-	Gains on disposal of non-current assets	(1.0)
(389.1)	Total Income	(392.1)
	Expenditure	
106.2	Employee benefits expenses	110.4
200.3	Other service expenses	211.2
4.9	Support service recharges (net)	4.7
2.6	Loss on disposal of non-current assets	-
25.8	Depreciation, amortisation and impairment	41.0
26.4	Trading and investment expenditure	(8.0)
8.1	Interest expenditure	15.7
3.8	Precepts and levies	4.0
378.1	Total Expenditure	379.0
(11.0)	(Surplus) / Deficit on the Provision of Services	(13.1)

G4. Pensions

The Herefordshire Council core pension notes 34 and 35 may be found from page 71 onwards.

The following note relates solely to the pensions of Hoople Limited and is disclosed fully, due to the materiality of pensions to that company.

Hoople Limited staff are members one of the following pensions:

- NHS pension scheme (Defined Benefit)
- Local Government pension scheme (Defined Benefit)
- Standard Life pension scheme (Defined Contribution)

Hoople Limited Defined Benefit pensions scheme

Retirement benefits to employees of the company are provided by the NHS Pensions Agency and the Local Government Pension Scheme ("LGPS"). These are defined benefit schemes and the assets are held separately from those of the company.

The LGPS pension charge is based on an actuarial valuation dated 31 March 2018, which was performed by Mercer Limited.

The LGPS pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis, using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent term and currency to the liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the statement of comprehensive income, profit and loss if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The expected return on assets and the interest costs are shown as a net finance amount of other finance costs or credits adjacent to interest.

The liabilities on the pension fund predominantly relate to ex-Herefordshire Council staff and their defined benefit obligations. In order for those employees to continue with their membership of the LGPS, Hoople Limited became an admission body to the Worcestershire County Council Pension Fund and an Admission Agreement was entered into with Herefordshire Council on 30 March 2011. Under the terms of the Admission Agreement, the Council provided a guarantee in relation to Hoople Limited.

NHS Pension Scheme

The company also participates in a defined benefit scheme administered by the NHS Pension Agency. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The cost of the defined benefit scheme is charged to the statement of comprehensive income, profit and loss so as to spread the cost of pensions over the service lives of participating employees. Pension costs are assessed in accordance with advice from Department of Health actuaries. It is not possible for the company to separately identify assets and liabilities relating to the company within the NHS scheme for the purposes of IAS 19 disclosure therefore, the scheme is accounted for as a defined contribution scheme.

Employer's pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time the trust commits itself to the retirement, regardless of the method of payment.

The NHS Pension Scheme is subject to a full valuation every four years by the Government Actuary. The latest published valuation relates to the year ended 31 March 2012 and was published in June 2014 and is available on the NHS Pensions Agency website.

Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. The most recent valuation recommended that employer contribution rates is 14.3%.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds.

The total contribution made for the year ended 31 March 2018 was £0.9m of which employer's contributions totalled £0.6m and employees' contributions totalled £0.3m. The agreed contribution rates for the year ended 31 March 2018 were 15.2% for employers.

For accounting purposes, the liabilities are calculated using the principles set out in IAS 19. As at 1 April 2018 the liabilities were valued at £14.2m under IAS 19. There has been a re-measurement in year which has resulted in an accounting adjustment of £0.6m being recorded as a profit. This amount has been disclosed through other comprehensive income, which is part of the Unusable reserves in the statement of group accounts.

The following table summarises the components of the net benefit expense recognised in the income statement and the funded status and amounts recognised in the statement of financial position for the respective plans.

The liability recognised in the statement of financial position for retirement benefit obligations is:

Local Government Pension Scheme

2016/17 £m		2017/18 £m
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
0.9	Current service cost	1.2
-	(Gain)/loss from settlements and curtailments	-
	Financing and Investment Income and Expenditure:	
0.1	Net interest expense	0.1
-	Administration expenses	-
1.0	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	1.3
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
(2.4)	Actuarial (losses) / gains arising on changes in financial assumptions	0.6
(2.4)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	0.6
	Amount charged to the Comprehensive Income and Expenditure Statement for pensions in the year	
0.6	Employer's contribution payable to the scheme	0.6

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the balance sheet arising from the council's obligation in respect of its defined benefits plans is as follows:

Local Government Pension Scheme

2016/17 £m		2017/18 £m
12.9	Present value of the defined benefit obligation	14.2
(8.0)	Fair value of plan assets	(9.1)
4.9	Net liability arising from defined benefit obligation	5.1

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Reconciliation of the present value of the scheme liabilities (defined benefit obligation)

The table below shows the movement on the pension liability

2016/17 £m		2017/18 £m
7.7	Opening balance	12.9
0.9	Current Service Cost	1.2
0.3	Interest Cost	0.3
0.3	Contributions by Scheme Participants	0.3
	Re-measurement (gains) and losses	
3.7	Actuarial (gains)/losses arising from changes in assumptions	(0.5)
0.0	Losses/(gains) on curtailments	0.0
0.0	Benefits/transfers paid	0.0
0.0	Liabilities extinguished on settlements	0.0
12.9	Closing balance	14.2

Reconciliation of the Movements in the Fair Value of the Scheme Assets

The table below shows the movement on the pension assets

2016/17 £m		2017/18 £m
5.6	Opening fair value of scheme assets	8.0
-	Interest income	0.2
1.5	Re-measurement gain/(loss): the return on plan assets, excluding amount included in the net interest expense	0.1
-	Gains/(losses) on settlements	-
-	Administration expenses	-
0.6	Contribution from employer	0.6
0.3	Contributions from employees into the scheme	0.2
-	Benefits/transfers paid	
8.0	Closing fair value of scheme assets	9.1

The actual return on scheme assets in the year was £0.2m of the period end assets (2016/17 £0.2m).

Local Government Pension Scheme assets (at fair value) comprised

31 March 2017 £m		Quoted (Y/N)	31 March 2018 £m
	Cash		
-	Cash instruments	Y	-
0.1	Cash accounts	Y	0.1
0.1	Net current assets	N	-
	Equity instruments		

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0.1	UK quoted	Y	-
2.2	Overseas quoted	Y	2.6
2.2	Pooled investment vehicle - UK managed funds	N	2.2
2.4	Pooled investment vehicle - UK managed funds (overseas equities)	N	3.0
	Property		
0.2	European property funds	N	0.2
0.1	UK property debt	N	0.1
-	Overseas property debt	N	0.1
-	UK property funds	N	0.1
	Alternatives		
0.2	UK infrastructure	N	0.3
	Bonds		
-	UK Corporate	Y	-
0.4	Overseas Corporate	Y	0.4
8.0	Closing fair value of scheme assets		9.1

Basis for estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The liabilities have been estimated by Mercer Limited, an independent firm of actuaries based on the latest full valuation of the scheme as at 31st March 2016. The principal assumptions used by the actuary have been:

Beginning of the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners (years)	
22.6	Men	22.7
25.6	Women	25.7
	Longevity at 65 for future pensioners (years)	
24.8	Men	24.9
27.9	Women	28.0
	Financial Assumption	
2.2%	Rate of CPI inflation	2.1%
2.2%	Rate of increase in salaries	2.1%
2.2%	Rate of increase in pensions	2.2%
2.6%	Rate for discounting scheme liabilities	2.7%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. In practice this is unlikely to occur and changes in some of the

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assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

	Increase / (decrease) in assumption £m
0.1% increase in real discount rate	(0.4)
1 year increase in member life expectancy	0.3
0.1% increase in the salary increase rate	0.1
0.1% increase in the inflation increase rate	0.4

Hoople Limited Defined Contribution pensions scheme

Hoople Ltd have closed the public sector pension schemes to new entrants. All new employees having access to a Standard Life Pension Scheme, which is a defined contribution scheme.

2016/17 £m		2017/18 £m
0.1	Employees' contributions	0.1
0.1	Employers' contributions	0.1
0.2	Total	0.2

G5. Group Cash and Cash Equivalents

31 March 2017 £m		31 March 2018 £m
5.7	Cash held by the Group	8.6
3.0	Short term deposits	9.1
8.7	Total	17.7
(3.2)	Bank current accounts	(0.4)
5.5	Total Cash and Cash Equivalents	17.3

Hoople Limited held £3.3m of short term cash balances as at 31 March 2018 (31 March 2017: £2.5m)

G6. Group Short Term Creditors

31 March 2017 £m		31 March 2018 £m
(8.0)	Central government bodies	(8.3)
(1.4)	Other local authorities	(2.4)
(1.0)	NHS bodies	(2.1)
(23.6)	Other entities and individuals	(23.0)
(34.0)	Total	(35.8)

Hoople Limited had short term liabilities totalling £2.7m as at 31 March 2018 (31 March 2017: £1.8m). These included Trade creditors, Accruals and VAT liability in line with normal business activities.

G7. Group Other Long Term Liabilities / Financial Instruments

2016/17			2017/18	
Per Balance Sheet £m	Financial Instruments £m		Per Balance Sheet £m	Financial Instruments £m
3.2	3.2	Cash and cash equivalents	0.4	0.4
3.2	3.2	Total	0.4	0.4
		Short term borrowing		
0.1	0.1	Bank loans	0.2	0.2
6.4	6.4	Public Works Loan Board	6.6	6.6
28.0	28.0	Borrowing from other local authorities	5.0	5.0
34.5	34.5	Total	11.8	11.8
		Short term creditors		
16.5	16.5	Invoiced amounts and other contractual liabilities	17.4	17.4
7.3	-	Statutory liabilities (PAYE etc.)	7.9	-
9.9	2.5	Accruals and receipts in advance	10.3	2.4
0.3	-	Funds and deposits held	0.2	-
34.0	19.0	Total	35.8	18.7
		Long term borrowing		
12.5	12.5	Bank loans	12.5	12.5
131.0	131.0	Public Works Loan Board	125.5	125.5
143.5	143.5	Total	138.0	138.0
		Other long term liabilities		
57.7	57.7	PFI liabilities and finance leases	55.6	55.6
253.0	-	Pensions liability	231.1	-
310.7	57.7		286.7	55.6

Hoople Limited had a pension liability of £5.1m as at 31 March 2018 (31 March 2017: £4.9m). Further details may be found in note G4 above.

G8. External audit costs

2016/17 £m		2017/18 £m
0.1	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.1	Total	0.1

The above fees included £15k in respect of Hoople Limited (16/17: £14k).

Supplementary Accounts- Collection Fund



41. Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and business rates. From April 2013 the system of funding local authorities changed allowing council to retain a percentage of business rates.

2016/17		2017/18		
		Council Tax	Business Rates	Total
Total		£m	£m	£m
	Amounts required to be credited to the Collection Fund			
111.2	Council Tax	116.1	-	116.1
49.0	Business Rates Income	-	46.9	46.9
	Contribution towards previous year's Deficit			
2.6	Central Government	-	-	-
2.5	Hereford and Worcester Fire Authority	-	-	-
0.1	Herefordshire Council	-	-	-
165.4	Total	116.1	46.9	163.0
	Amounts required to be debited from the Collection Fund			
	Precepts, Demands and Shares			
23.8	Central Government	-	22.4	22.4
5.7	Hereford and Worcester Fire Authority	5.4	0.4	5.8
111.9	Herefordshire Council	93.1	22.0	115.1
3.5	Parishes	3.8	-	3.8
12.7	West Mercia Police	12.8	-	12.8
-	Transitional Protection Payments Payable	-	0.2	0.2
	Contribution towards previous year's Surplus			
-	Central Government	-	0.5	0.5
0.1	Hereford and Worcester Fire Authority	0.1	-	0.1
1.2	Herefordshire Council	1.0	0.5	1.5
0.2	West Mercia Police	0.1	-	0.1
	Charges to Collection Fund			
0.3	Cost of collection Allowance	-	0.3	0.3
0.4	Write offs of uncollectable debt	0.2	0.2	0.4
0.3	Increase/(decrease) of Bad Debt Provision	0.1	-	0.1
1.0	Increase/(decrease) of Appeals Provision	-	(0.3)	(0.3)
0.2	Other transfers to General Fund	-	0.2	0.2
161.3	Total	116.6	46.4	163.0
4.1	Surplus/(Deficit) for the Year	(0.5)	0.5	-
(3.3)	Balance brought forward	1.1	(0.3)	0.8
0.8	Balance carried forward	0.6	0.2	0.8

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £134.1m and the national non-domestic rate multiplier for 2017/18 was 47.9p

Non - Domestic Rates Income	2017/18 £m
Annual Debit	(65.6)
Less	
Empty Allowances	1.7
Transitional Relief	2.9
Discretionary Relief	0.5
Mandatory Relief	4.7
Small Business Rate Relief	8.4
Funded Reliefs	0.2
Enterprise Zone	0.3
Total	(46.9)

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1 April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2017/18 was £1,702.24 including fire, police and parish precepts, with a range of between £1,645.63 and £1,802.43. The council tax base used for setting the council tax in 2017/18 was 67,598.21. The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	5,218.47
B	£40,001 to £52,000	7/9	11,220.01
C	£52,001 to £68,000	8/9	11,972.02
D	£68,001 to £88,000	9/9	11,383.40
E	£88,001 to £120,000	11/9	12,654.24
F	£120,001 to £160,000	13/9	9,062.15
G	£160,001 to £320,000	15/9	5,482.41
H	Over £320,000	18/9	318.61
Crown			286.90
Total			67,598.21

Council Taxpayer Income	2017/18 £m
Council Tax debit at 1 April	(139.3)
Banding change	(1.6)
Less	
Discounts	10.9
Exemptions	3.0
Council Tax Reduction	10.7
Disablement Relief	0.2
Total	(116.1)

The Collection Fund (surplus) or deficit at 31 March 2018 is split as follows:

	Council Tax £m	Business Rates £m	Total £m
Central Government	-	0.1	0.1
Hereford and Worcester Fire Authority	-	-	-
Herefordshire Council	0.5	0.1	0.6
West Mercia Police	0.1	-	0.1
Total	0.6	0.2	0.8

42. Annual governance statement 2017/18

What is governance?

1. Governance determines who has authority, who makes the decisions and how the council is kept accountable. It is how the council ensures we provide the right services, to the right people in a timely, open, and accountable way. Good corporate governance encourages better informed longer-term decision making using resources efficiently, and being open to scrutiny with a view to improving performance and managing risk.

What is the annual governance statement?

2. The council is required by the Accounts and Audit Regulations 2015 to prepare and publish an annual governance statement, in order to report publicly on the extent to which we comply with our own code of corporate governance , including how we have monitored the effectiveness of our arrangements in year and on any planned changes to our governance arrangements in the coming year.
3. In this document the council:
 - acknowledges its responsibility for ensuring that there is a sound system of governance;
 - summarises the key elements of the governance framework and the roles of those responsible for the development and maintenance of the governance environment;
 - describes how the council has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period;
 - provides details of how the council has responded to any issue(s) identified in last year's governance statement; and
 - reports on any key governance matters identified from this review and provides a commitment to addressing them.
4. The annual governance statement reports on the governance framework that has been in place for the year ended 31st March 2018.
5. It should be noted however, that any system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Scope of responsibility

6. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to continually review and improve the way we work, while at the same time offering value for money and efficient and effective services.
7. To meet these responsibilities the council has put in place proper arrangements for overseeing what we do. These arrangements are intended to make sure that we have the right people, doing the right things, at the right time, for the right reasons, and in the right way, in an open, inclusive and accountable manner.

8. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government (2016).

The purpose of the governance framework

9. The governance framework comprises the systems, processes, culture and values by which the council is controlled, and also sets out how the council accounts to, engages with and leads the community.
10. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.
11. The system of internal control is a significant part of that framework and is based on an ongoing process designed to:
- identify and prioritise the risks to the achievement of the council’s policies, aims and objectives;
 - assess the likelihood and impact of the risks should they be realised; and
 - manage the risks efficiently, effectively and economically.
12. The framework operates at three levels:
- Level 1 - Business and operational management.* Operational management and staff delivering objectives, Identifying risks and improvement actions, implementing controls, reporting progress, providing management assurance, and ensuring compliance: supported by
- Level 2 - Oversight and support.* Portfolio holders, scrutiny and audit and governance committees, senior managers and statutory officers provide strategic, policy and direction setting, decision-making, and assurance oversight; validated by
- Level 3 - Independent assurance.* Internal and external audit, inspection and review agencies, and regulators provide independent challenge and audit, reporting assurance, and audit opinion in relation to assurance levels.

How has the annual governance statement been prepared?

13. The process, jointly led by the section 151 officer and the monitoring officer, has:
- a) reviewed our existing governance arrangements against the guidance included in CIPFA/SOLACE ‘Delivering Good Governance in Local Government’ framework - 2016;
 - b) reviewed our code of corporate governance to ensure it reflects this guidance and includes the recommended seven principles of good governance; and
 - c) assessed the effectiveness of our governance arrangements against the code of corporate governance. The key sources of assurance that inform this review are set out in the following table.

What we are seeking assurances on	What sources of assurance we will use
<ul style="list-style-type: none"> ○ Delivery against corporate and service delivery plans whilst observing the principles of good governance ○ Delivery of sustainable economic, social and environmental benefits ○ Design and effectiveness of internal controls, risk management and counter fraud measures ○ Strong commitment to ethical values ○ Compliance with laws, regulations, and the council's constitution, strategies, policies and procedures ○ Key governance tools (e.g. financial, performance and risk management and reporting) are fit for purpose ○ Direction of travel of previously identified governance issues 	<ul style="list-style-type: none"> ○ Management assurances re compliance with laws and regulations, corporate strategies, policies, plans and arrangements e.g. constitution, financial and performance monitoring and reporting, and risk management ○ Statutory officers' declarations ○ Significant partnerships' governance risk assessments ○ Internal audit reports and opinions ○ Findings from Audit & Governance and scrutiny committees ○ External bodies and inspectorates reports ○ Views of the council's appointed Independent Person(s)

Review of effectiveness

14. The tables below set out the findings of the review.

Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
<ul style="list-style-type: none"> ➤ In May 2017 the council agreed a new <u>constitution</u> which sets out the council's <u>values</u>, how the council operates, how decisions are made and the procedures to be followed to ensure adherence to these principles. The constitution is regularly reviewed by the council's Audit and Governance Committee. ➤ Councillors are expected to follow the council's adopted <u>code of conduct</u> . The Monitoring Officer provides advice to members on the code and reports on its effectiveness to the Audit and Governance Committee who regularly review the code. The council has an Independent Person to assist the council in promoting high standards of conduct by elected and co-opted members of Herefordshire Council and town and parish councils. During 2017/18 a second Independent Person retired and it has proved difficult to recruit eligible volunteers; consideration is being given to alternative collaborative arrangements with neighbouring councils to ensure the resilience of this independent support is maintained. Registers of interest are maintained and regularly reviewed and declarations of interest are routinely sought and recorded at the start of meetings. The Independent Person has expressed the view that the <u>standards procedure</u> supporting the code of conduct would be strengthened by greater clarity on the sanctions which may be applied and how they may be enforced, inclusion of an appeal process, and clarification of the basis on which a breach of the code relating to declaration of a schedule 1 interest may be referred to the police. The annual constitution review took account of these issues a revised procedure was approved by the Audit and Governance Committee on 8 May which included provisions for an appeals process and clarity regarding the steps to be taken by the Monitoring Officer regarding referral to the police. Although a formal protocol between the Monitoring Officer and the police is not in place this will continue to be explored and there is ongoing dialogue between the two parties to ensure that there is a clear and shared understanding of the issues. ➤ Employees are expected to follow the council's <u>Employee Code of Conduct</u>. A review of this code was undertaken in 2017 and a revised code was consulted on. Approval of a new code was expected in 2017/18 but has been delayed to allow for further consideration of the consultation responses and is now expected to be approved in August 2018. Once approved the revised code will provide greater clarity about the standards of behaviour expected of

employees, and will be supported by improved processes for maintaining a register of employees' interests and a programme of communication and training for all employees.

- The required leadership employee behaviours and values are embedded into the council's employee Personal Performance and Development Plan process.
- A member and officer relations code is in place which provides guidance so that relationships are maintained in such a way as to ensure the smooth running of the council, that members receive impartial and objective advice, and officers are protected from accusations of bias or undue influence from councillors.
- During 2017, the council has reviewed its Anti-Fraud, Bribery and Corruption Policy to ensure it remains fit for purpose.
- The council has processes in place to make a complaint, and to ensure complaints are investigated appropriately. All council members and employees are expected to deal with members of the public with dignity and respect at all times. This is embedded in the council's values, and codes of conduct. We also expect all members of the public to behave in a reasonable manner when dealing with representatives of the council, and has reviewed its unreasonable behaviour policy to ensure it remains proportionate and fit for purpose.
- The council has a Whistleblowing Policy in place. During the year an increase in its use highlighted the need to review the policy and supporting procedures to ensure it is working effectively and promoted consistently. For a revised policy and procedure was approved by the Audit and Governance Committee in May 2018.
- The constitution sets out clearly who fulfils the various roles and responsibilities of the council including decision making authority. The council ensures that advice is provided to decision makers to ensure compliance with the law and that the council can demonstrate how our decisions can support fulfilment of our public sector equality duty.
- There are processes in place to ensure that policies and procedures comply with the statutory requirements, and a programme of periodic review has been established to ensure that they remain compliant and fit for purpose.
- During 2017/18 a high court judgement found that some historic children's social care practice in relation to the application of s20 of the Children's Act 1989 had not been in compliance with the current application of law. Whilst the findings noted that improvements in practice had already been made it was also acknowledged that a number of further cases relating to the same period were likely. The Children and Young People Scrutiny Committee is undertaking some task and finish work during 2018/19 to assure themselves of the robustness of current practice.
- Following a high profile legal ruling against another council relating to deprivation of liberty (DoL) a significant rise in DoL assessments nationally was reflected in Herefordshire. Although resource for this service was increased demand remains at a high level and assessments are being prioritised on a risk basis.

Summary

The council complies with this principle by ensuring its members and officers behave in ways that exemplify high standards of conduct and effective governance and that its organisational values are put into practice. The following improvements are planned:

- Adopt and implement a revised employee code of conduct
- Implement a revised whistleblowing policy and procedure
- Promote the member and officer relations code through development sessions with members and employees
- Implement a revised standards procedure for complaints against councillors

Principle B: Ensuring openness and comprehensive stakeholder engagement

- The council has adopted openness as one of the values on which our culture is shaped and which underpin our work.
- As part of the new constitution the council produced a guide to public participation and extended the opportunities for members of the public to ask questions at a meeting of the council.

- The council’s planning and decision-making processes are designed to include consultation with stakeholders, and we have adopted government’s consultation principles within our communications protocols
- In order to achieve our vision for the county, the council works with a range of partners and has adopted a partnerships' governance framework which sets out how we promote high governance standards in the partnerships we enter into and how we monitor the effectiveness of partnership governance arrangements.
- The recent corporate peer challenge identified that whilst the council recognised the importance of developing effective working relationships with key partners and communities, it would benefit from supporting this work in a more strategic and co-ordinated way. The recommendations of the peer challenge team were considered by Cabinet on 28 June 2018 and a response to the recommendations was agreed which ensures that the recommendations inform future planning and improvement.

Summary
 The council complies with this principle by engaging with local people, stakeholders and partners. Although engagement could be strengthened further through the development of a more strategic and co-ordinated approach, no significant governance weaknesses are identified.

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits

- Herefordshire Council has agreed a four year Corporate Plan that sets out our priorities and the outcomes we expect to achieve.
- In addition, a register is maintained of council strategies, policies and procedures. A programme of review is in place to ensure that all strategies and plans on the register are fit for purpose, and are clear about their intended outcome.
- The council’s planning and decision making processes are designed to ensure that expected outcomes and impacts are clear and that there are processes in place to measure how well they are achieved.
- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance to ensure we deliver the best service we can. It supports members and officers across the council to take responsibility for their own performance and lead the delivery of improved outcomes for residents.
- Social value is evaluated as part of our procurement arrangements.

Summary
 The council complies with this principle by developing and communicating its intended outcomes. Although some older strategies and plans have less clearly defined outcomes there is a process in place for reviewing these. No significant governance weaknesses are apparent.

Principle D: Determining the interventions necessary to optimise the achievement of the intended outcomes

- An annual corporate delivery plan sets out the key activities we will undertake to achieve the corporate plan priorities.
- The medium term financial strategy and annual budget demonstrate how the council’s financial resources will be deployed to deliver the intended outcomes.

- The council's decision making processes, including input from the scrutiny committees, ensure that decision makers receive objective and robust analysis of a variety of options indicating how intended outcomes will be achieved.
- The council's framework for partnerships' governance prompts consideration of the added value to be gained from working in partnership.
- The recent corporate peer challenge identified that a strategic review of resources, and a more cross-council rather than directorate-led approach, may be beneficial to ensure that the potential to resource achievement of the council's vision and priorities over the medium term could be maximised.

Summary

The council complies with this principle by ensuring that decision makers are informed of alternative options and have objective and professional advice on the implications of those options. No significant governance weaknesses are apparent. At its meeting on 28 June Cabinet agreed its approach to taking forward the findings from the corporate peer challenge to ensure achievement of intended outcomes is optimised.

Principle E: Developing the organisation's capacity including the capability of its leadership and the individuals within it

- Herefordshire Council works with a wide range of partners to deliver our vision for the county and our corporate plan priorities. Partnership arrangements are entered into where appropriate and when they have the potential to deliver the desired outcomes.
- In light of the significant reduction in council resources over recent years there has been little investment in formal training and development either for members or employees, although in house training has been provided for mandatory areas and limited external training and development has been accessed.
- A programme for manager development is being developed for introduction during 2018/19 and a draft member development programme has been developed for adoption in 2018/19
- Member induction arrangements have been reviewed and a revised programme agreed and implemented. Staff induction has been reviewed and a new programme is being introduced for 2018/19.
- A Local Government Association peer review of children's safeguarding noted some improvement required to children's social work capacity, and the corporate peer challenge drew attention to the advantages of adopting a corporate transformation plan to ensure that the workforce resource was appropriately aligned to deliver the council's priorities.
- There is a continuous performance improvement programme in place which enables employees to put forward ideas, and embed continuous improvement as a culture in all our services.
- The council's personal performance and development plan process ensures that development needs are identified including those relating to leadership, and behaviours.

Summary

The council complies with this principle by ensuring that members and officers receive a basic level of mandatory training. The following improvements are planned:

- Adopt and implement a member development strategy and plan
- Adopt and implement a manager development programme
- Adopt and implement a corporate workforce strategy

Principle F: Managing risks and performance through robust internal control and strong public financial management

- The council has adopted a performance risk and opportunity management framework that provides the basis for the council to plan, monitor, and manage our performance and risks to that performance. The framework is regularly reviewed by Cabinet, and further improvements to the framework are being considered to ensure that risks are appropriately considered and escalated.
- Risk registers are maintained at project, service, and directorate levels as well as corporately and the Audit and Governance Committee monitors the effectiveness of the risk management arrangements.
- Performance (including financial management) is reported formally to Cabinet on a quarterly basis and published on the website. The council also published an annual performance report.
- During 2017/18 the council agreed to become the accountable body for public funding directed to support the establishment of a new university in the county. Robust internal control arrangements agreed by the council's s151 officer, are in place overseen by a robust partnership arrangement, to ensure effective oversight and management.
- During May 2018 the council entered into a development partnership arrangement. The contractual arrangements include robust governance and reporting arrangements and as each project will be subject to its own governance approval before any commitment is entered into through the partnership arrangement, accountability and transparency will be evident.
- Business continuity arrangements are in place for critical services and resilience arrangements regularly tested.
- During 2017/18 the council became aware of unauthorised expenditure in relation to a project to refurbish Blueschool House. Following an internal audit investigation a number of internal controls improvements were identified as necessary. Led by the council's s151 officer and overseen by the Audit and Governance Committee an improvement plan has been progressed throughout the year and will continue in 2018/19.
- The council has appointed a senior information risk officer who is responsible for ensuring arrangements are in place to maintain security of the council's information assets.
- The council's internal audit function provides an independent view on the adequacy and effective operation of the council's internal control environment. They have identified improvement areas during the course of their work and action plans have been agreed with management to address them. Implementation of these actions is tracked and reported to the Audit and Governance Committee. The internal audit opinion for 2017/18 reported to Audit and Governance Committee on 30 July 2018 provided a reasonable assurance opinion noting that "... there is generally a healthy system of internal control designed to meet the organisations objectives. However, some weaknesses have been identified in the inconsistent application of controls that put the achievement of a particular objective at risk in some areas reviewed.". Actions to address this issue are included in the action plan as part of implementing the actions in response to the Blueschool House internal audit findings.
- A thread remains in their findings, and reflected in the assurance statements provided by managers, that there are some instances of policies and procedures either not being followed or being applied inconsistently. Internal audit have noted this has been a particular concern during 2017/18 in relation to ensuring compliance with the General Data Protection Regulations (GDPR) that came into force in May 2018 and the completeness of documentation supporting data

sharing agreements. Action has been taken during 2017/18 to establish a register of council strategies, policies and procedures. There is now an agreed programme, owned by each directorate, to review the documents and ensure they are fit for purpose, that there is a communication plan to support each document, and measure are in place to monitor compliance with and effectiveness of the policy. The council had robust arrangements in place to prepare for the implementation of GDPR, identified risk areas, and agreed plans to mitigate those risks. Overarching data sharing agreements are in place with key partners. Data sharing requirements are included in relevant contract and procurement documentation and a rolling programme is in place linked to contract renewal to ensure data sharing arrangements are documented.

- The council is committed to reviewing its performance and actively pursues opportunities to gain external input into that process as evidenced by participation in the Local Government Association peer review and corporate peer challenge processes.

➤

Summary

The council has appropriate processes in place through which it manages risk and performance. However there is evidence of the need to strengthen some internal controls and to ensure that policies and procedures are clear, effective and being followed. The following improvements are planned:

- Complete implementation of actions in response to the Internal Audit findings re Blueschool House

Principle G: Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- The council publishes information about the decisions it takes on its website; where there is a justification for withholding information or excluding the public from a meeting of the council in accordance with the Access to Information Rules the reason for doing this is explained. During 2017/18 there were no meetings of cabinet from which the public were excluded.
- We explain what information we hold and how to access that information on our website, including publication of open data in accordance with the local government transparency code.
- The council has established a performance challenge process through which directorate performance is regularly reviewed and challenged by senior managers and elected members including cabinet members, scrutiny chairmen and political group leaders.
- An annual review of the adequacy of the council's governance arrangements is undertaken and reported to senior managers and to the Audit and Governance Committee. This review process has been strengthened this year through the introduction of a checklist for service managers to complete to inform the assessment and to inform service improvement plans.
- The council has strengthened its scrutiny function by moving from two to three committees enabling additional focus to be given to the children and young people area of activity. Each committee determines its own workplan. All executive decisions, including those taken by officers under delegation are subject to the council's call in procedures. Of the 46 recommendations made to the executive which have been considered in 2017/18 only two have been rejected.
- In their annual finding report for 2016/17 the External Auditor identified a number of improvements needed to ensure the efficient and accurate closedown of accounts, and in particular advised that consideration be given to improving the process for classification and valuation of property, plant and equipment.

- The council's Independent Person has expressed concern that the council's annual report on the code of conduct is insufficiently transparent because the individual parish councils concerned are not named. Following a review of the council's constitution by Audit and Governance Committee, Council approved changes to the constitution which make clear that individual parish councils will be named and, where a complaint has been upheld individual councillors will be named.
- Financial reporting arrangements are sound in relation to revenue but less well developed in relation to capital projects. Under the leadership of the council's s151 officer a programme of improvements to capital reporting, accompanied by clear guidance to budget managers is being pursued.
- The council's framework for partnerships governance requires a periodic assessment of the effectiveness of the governance arrangements for partnerships. This review has highlighted some potential to provide greater transparency of decisions taken by a small number of partnerships; we are working with relevant partners to secure improvement in 2018/19.

Summary

The council complies with this principle by having robust arrangements in place which ensure transparency over how decisions are taken and reported and who is accountable for them. Scrutiny and audit support adherence to this principle. However improvements are required to strengthen capital financial reporting and to further improve the transparency of some partnerships' decision-making.

- Adopt and implement a revised process to close down the annual accounts including improving the processes for valuation of assets.
- Adopt and Implement improvements to capital reporting processes to improve transparency.
- Agree and implement arrangements to provide greater transparency of partnership decision-making by West Mercia Energy, Hoople and arrangements with health bodies.

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Progress against actions agreed in response to the 2016/17 annual governance statement

15. The table below shows progress made, and the progress reported to the Audit and Governance Committee in May 2018.

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Supporting implementation of the revised constitution and codes which provide clearer information, a communication and training programme will be delivered for both members and officers.	End July 17	Solicitor to the Council Head of HR and OD	Achieved - Member code adopted May 2017, training provide as part of committee induction for municipal year, training to clerks and parish councillors also provided. In progress - employee code of conduct Analysis of consultation response from employee representative bodies is ongoing

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
					and the revised code is now expected to be adopted in May 2018. A programme of training will follow adoption.
2.	The council's commitment to openness and the public interest is not always clear in its decision-making.	New guidance on access to information is included in the revised constitution.	19/05/17	Solicitor to the Council	Achieved – training also provided
		Guidance on public interest will form part of training to report authors and decision-makers	End July 17	Head of Corporate Governance	Achieved – guidance included in report writing guide and included in training sessions.
		Guidance on report writing will provide clarity on expected report content and the requirements for compliance with all the principles of good decision making to be demonstrated	End July 17	Head of Corporate Governance	Achieved – report writing guide produced and published on the intranet. Promoted through training and now, with the benefit of six-months of use, is being reviewed to ensure it is fit for purpose. Revised guidance has been produced, and is being reviewed in light of recommendations from a recent data quality audit before published on the intranet and promoted through news core.
3.	Channels of communication with the community and stakeholders are not always clear and there are inconsistent approaches to consultation.	Supporting the communication strategy and protocols, consultation and engagement standards will be established	End Nov 17	Head of Business Improvement and Transformation	In progress: revised target date of February 2018 - a revised internal consultation process and guidance for staff has been drafted to ensure a consistent approach across the organisation and is scheduled for consideration by Management Board in January 2018 for implementation in February 2018. Consultation process has been approved by management board and cascaded through the directorate senior management teams. This will also be followed up with a direct communications to all staff at the end of April 2018. The new consultation process and

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
					a revised toolkit for consultation and engagement will be available on the intranet at the end of April 2018.
		Communications training for staff and members delivered	End March 18 then ongoing	Assistant Director Communities	<p>In progress - First tranche of training with key communications staff (including public health, regulatory and development control, and environment and waste) delivered in December 2017.</p> <p>Communications training for committee chairmen delivered in September 2017.</p> <p>Programme for further training for senior management and members to be confirmed in the new year.</p> <p>Further training scheduled in March 2018 had to be cancelled due to adverse weather. This has been rescheduled for May 2018.</p> <p>On an ongoing basis further periodic refresher training will be scheduled and any additional training as necessary to meet identified need.</p>
4.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Seek to agree consolidated vision through development of corporate delivery plan 2018/19	March 18	Chief Executive	<p>In progress.</p> <p>Achieved: We developed the following vision as part of the Communications Strategy 2016 – 2020 adopted by cabinet in September 2016: <i>‘People, organisations and businesses working together to bring sustainable prosperity and well-being for all, in the outstanding natural environment of Herefordshire.’</i> This vision builds</p>

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
					upon our four key priorities and has helped to inform the development of our 2018/19 budget, medium term financial strategy and corporate delivery plan 2018/19. During 2018/19 further consideration will be given to how council-wide resources are aligned to achieve this vision in light of the recommendations from the Local Government Association Corporate Peer Challenge to inform the future corporate planning processes.
		Supplement the performance, risk and opportunity management framework (PROM) with some clearer guidance on service and project planning to ensure these links are made effectively and consistently; to ensure risk is consistently recorded and used to inform decision making; and to ensure outcomes are measured and reported	Sept 17	Assistant Director Environment and Place	In progress: revised target date for completion February 18 - service planning guidance was agreed by Management Board in October. Project planning guidance has been produced and will be finalised following system testing during December. It consists of an eight stage process designed to provide the required oversight and assurance at specific points. An update of the PROM is scheduled for Cabinet consideration in February 2018. Partially achieved, remainder in progress: The service planning guidance has been used as the basis for service planning for 2018/19 and the project planning guidance is to be rolled out during 2018/19 in light of learning from the systems testing which has taken place in the final quarter of 2017/18.

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
					The updated PROM is due to be published in Q1 2018/19. The updated PROM provides greater clarity about the process to ensure that risks are identified at all levels of the organisation and are correctly recorded on the relevant risk register(s) with clear escalation processes to be applied.
		End of year/annual report to highlight the impact of activities	July 17	Assistant Director Environment and Place	Achieved - the Annual Report 2016/17 was approved by Cabinet on 22 June 2017, and can be found on the Council's website using the following link: Annual Performance Report 2016/17
		Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	Sept 17	Assistant Director Communities	In progress: revised target date for completion February 2018 - Procurement and Commissioning Strategy drafted and currently being reviewed internally; scheduled for cabinet member approval in February 2018. In progress: the draft has been reviewed to ensure any learning from the Blueschool House findings are addressed and is now scheduled for cabinet member consideration in May 2018 and following adoption a training plan will be implemented.
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	Sept 17	Chief Finance Officer	In progress, revised target date for completion March 2018 to allow for the lessons to be learnt from the Internal Control Improvement Board to be incorporated. Work is now expected to be completed by June 2018
5.	The level of awareness of fraud risk and potential mitigation is low in	The anti-fraud and corruption policy will be reviewed and refreshed	July 17	Chief Finance Officer	Achieved – revised anti-fraud, bribery and corruption policy

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
	areas outside of financial transaction service areas.				approved by Audit & Governance Committee in July 2017.
		Communication and training of the revised policy will be delivered	Dec 17	Chief Finance Officer	In progress. Revised target date for completion June 18 to ensure that all sections of the council are aware of the revised policy
6.	There is some evidence from internal audit findings that policies and procedures are not always understood/followed.	Establish a register of policies and procedures which identifies the policy/procedure, policy owner, scope of policy, approval date, review date, and monitoring arrangement.	Dec 17	Corporate Customer Information and Equality Manager	Achieved. A register has been established on the council's intranet and the policies it contains are also available on the council's website at: policies . Employees are able to self-serve adding policies and procedures to the register and the directorate performance leads are working with their teams to ensure the register is complete.
		Following above action, establish programme to review all policies and procedures to ensure they are relevant, have clear processes for communication to employees, and compliance is monitored appropriately	March 18	Corporate Customer Information and Equality Manager	Based on a review of the populated register a prioritised programme will be developed and begin to be implemented by the end of March 2018, to ensure that each document entered on the register has been reviewed by its owner and approved through the appropriate governance process. Because of the need to prepare for the implementation of the General Data Protection Regulations in May 2018 the review programme will need to be delivered over a period of time – however priority will be given to those policies and procedures where risks associated with non-compliance are the greatest. As policies are taken through the assurance process the communications requirements for

Action Plan 2017/18					
	Improvement required	Action planned	By when	Owner	Progress
					<p>each will be confirmed (eg part of induction or mandatory training, staff to be targeted, general communications or requirement for periodic communications updates)</p> <p>Achieved. Each directorate has in place a programme for reviewing strategies, policies and procedures.</p>
7.	There is a risk that partnerships' governance arrangements don't fully reflect the principles of the revised code of corporate governance.	Significant partnerships have been identified and initial self-assessments undertaken. These will be discussed with the relevant partners and, as part of those discussions improvement actions to mitigate any risks identified will be agreed. This review process will become business as usual going forward.	Ongoing	Head of Corporate Governance	<p>The approved framework is available on the website together with a register of the council's identified strategic partnerships. The second round of reviews will begin in January and inform improvement actions within directorates.</p> <p>The review process began in January. This annual cycle will now be business as usual with the register being updated as necessary and risks identified being recorded on the relevant risk register.</p> <p>Where decisions to enter new partnerships are being taken, report authors are advised to ensure reference is made to compliance with the framework.</p>

Key governance actions planned

16. In response to the issues identified during the review of effectiveness, the following action plan has been developed which includes outstanding actions from the previous year's plan (above). The Audit and Governance Committee will receive a six-monthly report in order on progress made in delivering this action plan.

Action Plan 2018/19					
	Improvement required	Action planned	By when	Owner	Progress
1.	Members and officers modelling the values and behaviours expected and clear about the processes to follow if they have concerns.	Approve a revised employee code of conduct.	August 2018	Head of HR and OD	
		Deliver a programme of training and awareness raising to support implementation.			
		Promote the revised whistleblowing policy and procedure	September 2018	Solicitor to the Council	
		Promote the member and officer relations code through development sessions with members and employees	October 2018	Head of HR and OD and Head of Corporate Governance	
		Implement and promote a revised standards procedure for complaints against councillors. Progress discussions with the police regarding a joint protocol.	September 2018	Solicitor to the Council	
2.	Links between the various visions, budget and service planning and commissioning, risk management, performance and value for money are not consistently demonstrated or measured	Revised commercial and commissioning strategy adopted, communicated and monitored to ensure contractual arrangements reflect the council's priorities and can demonstrate value for money.	July 2018	Assistant Director Communities	
		Options appraisal to establish whether a course of action represents best use of resources, to be a consistent element of business cases informing decisions	June 2018	Chief Finance Officer	
3.	The level of awareness of fraud risk and potential mitigation is low in areas outside of financial transaction service areas.	Communication and training of the revised Anti-fraud, bribery and corruption policy will be delivered	June 2018	Chief Finance Officer	
4.	Further develop the capacity of the organisation and individuals within it	Adopt and implement a member development strategy and plan	September 2018	Democratic Services Manager	

Action Plan 2018/19					
	Improvement required	Action planned	By when	Owner	Progress
		Adopt and implement a manager development programme	October 2018	Head of HR and OD	
		Adopt and implement a corporate workforce strategy	March 2019	Head of HR and OD	
5.	Strengthen internal controls and financial management	Implement the actions in response to internal audit's recommendations re Blueschool House	July 2018	Chief Finance Officer	
		Implement improvements to capital reporting	July 2018	Chief Finance Officer	
6.	Enhance transparency in relation to significant partnerships	Review joint committee governance where governance support is not provided by Herefordshire Council	Sept. 2018	Solicitor to the Council	
		Review and publish schemes of delegation in respect of decisions to be taken by Hoople employees, and in discussion with the Hoople Board review the processes in place to support effective transparency and communication.	October 2018	Assistant Director Environment and Place	
		In consultation with health partners review the governance arrangements in place to ensure they support effective transparency and communication whilst respecting the respective partners distinctive governance processes	November 2018	Interim Director for Adults and Wellbeing	

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Statement

To the best of our knowledge, the governance arrangements, as set out above and within the council's Code of Corporate Governance, have been effectively operating during the year with the exception of those areas identified in the table following paragraph 14 above. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation during the year and as part of our next annual review.

Signed:

Councillor Jonathan Lester

Alistair Neill

Leader of the Council

Date:

Chief Executive

Date:

43. Definitions

Accounting Policies

Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

Assets

A resource controlled by the council as a result of past events and from which future economic or service potential is expected to flow to the council.

Borrowing costs

Interest and other costs that an entity incurs in connection with the borrowing of funds. This includes finance charges in respect of finance leases.

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Contingent Liability

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the council, or

A present obligation that arises from past events but is not recognised because

- a) it is not probable that an outflow of resources embodying economic benefits or
- b) services potential will be required to settle the obligation, or

- c) the amount of the obligation cannot be measured with sufficient reliability.

Creditors

Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

Core

The single entity, being Herefordshire Council.

Debtors

Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements the council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

Depreciation

The systematic allocation of the depreciable amount of the asset over its useful life.

Exchange Transactions

Transactions in which one entity receives assets or services, or has liabilities extinguished, and gives approximately equal value (cash, goods, services, or use of assets) to another entity in exchange.

Fair value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance lease

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) records the timing differences between the rate at which gains and losses are recognised for accounting purposes and the rate at which debits and credits are required to be made against council tax.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Grants and contributions

Transfers of resources to the council in return for past or future compliance with certain conditions relating to the operation of activities.

Historical cost

The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for any subsequent depreciation or impairment.

IFRIC

International Financial Reporting Interpretations Committee (IFRIC) prescribes accounting treatment within the IFRS standards.

IFRS

International Financial Reporting Standards (IFRS) provide understandable, enforceable and globally accepted accounting standards.

Impairment loss

The amount by which the carrying amount of an asset exceeds its recoverable amount.

Intangible Asset

An identifiable asset without physical substance e.g. computer software.

Inventories

These are assets;

- a) In the form of materials or supplies to be consumed in the production process
- b) In the form of materials or supplies to be consumed or distributed in the rendering of services
- c) Held for sale or distribution in the ordinary course of operations, or
- d) In the process of production for sale or distribution

Investment property

Property held solely to earn rentals or for capital appreciation or both.

Liabilities

Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material

Items are material if they could, individually or collectively, influence the decisions or assessments of users. Materiality depends on the nature or size of the item, or both.

Minimum Revenue Provision (MRP)

A provision made for the repayment of notional borrowing used to finance capital expenditure.

Non-Exchange Transactions

Transactions in which an entity either receives value from another entity without giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Operating lease

A lease other than a finance lease

Property, plant and equipment

Tangible assets held for use in the supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one year.

Provision

A liability of uncertain timing or amount.

Related Party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date were consolidated into the Capital Adjustment Account.

Revenue

The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Soft loan

A loan at less than the market interest rate.

Mr J Roberts
Engagement Lead
Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Please ask for: Andrew Lovegrove

Direct line: 01432 383519

E-mail: Andrew.Lovegrove@herefordshire.gov.uk

30 July 2018

Dear Sirs

Herefordshire Council Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council and its subsidiary undertaking, **Hoople Limited** for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

- i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the group and parent Council financial statements:
 - a) there are no unrecorded liabilities, actual or contingent
 - b) none of the assets of the group and parent Council has been assigned, pledged or mortgaged
 - c) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its financial position at the year-end.

The group and parent Council financial statements are free of material misstatements, including omissions.

- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
- xiii We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

- xiv We are satisfied that the council is not exposed to any risks or rewards that require disclosing in the financial statements due to the arrangement with Herefords new university, NMiTE.
- xv We have considered the results of the work of the property Valuer, which we have used as a basis of valuation of non-current assets disclosed in note 10 in the 2017/18 financial statements, and we have taken reasonable steps to satisfy that the basis of these valuations and any changes in assumptions are reasonable and appropriately disclosed in the financial statements.
- xvi The majority of assets held were revalued in the year however we have conducted a review of the potential impact of market forces on our property, plant and equipment (PPE) asset base. By applying independent professional guidance this has indicated that there is a potential understatement in the financial statements of up to £6.5m. This potential can only be verified by procuring a complete asset revaluation dated 31 March 2018. We are satisfied that the indices used in the review are appropriate to Herefordshire, and being an immaterial estimated impact, we are satisfied that further valuations are not necessary and the PPE value in the financial statements is not materially misstated.

Information Provided

- xvii We have provided you with:
 - a) access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;
 - b) additional information that you have requested from us for the purpose of your audit; and
 - c) unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xviii We have communicated to you all deficiencies in internal control of which management is aware.
- xix All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xx We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xxi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
 - a) management;
 - b) employees who have significant roles in internal control; or
 - c) others where the fraud could have a material effect on the group and parent Council financial statements.

- xxii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiv We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

- xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- i The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 30 July 2018.

Yours faithfully

Name Andrew Lovegrove
Position Chief Finance Officer
Date 30 July 2018

Name Councillor PD Newman
Position Chairman: Audit and Governance Committee
Date 30 July 2018

Signed on behalf of the Governing Body