

AGENDA

Audit and Governance Committee

Date: **Wednesday 23 September 2015**

Time: **10.00 am**

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

Notes: Please note the **time, date** and **venue** of the meeting.

For any further information please contact:

Ruth Goldwater

Tel: 01432 260635

Email: ruth.goldwater@herefordshire.gov.uk

If you would like help to understand this document, or would like it in another format, please call Ruth Goldwater on 01432 260635 or e-mail ruth.goldwater@herefordshire.gov.uk in advance of the meeting.

Agenda for the Meeting of the Audit and Governance Committee

Chairman
Vice-Chairman

Councillor BA Durkin
Councillor FM Norman

Councillor ACR Chappell
Councillor DG Harlow
Councillor EPJ Harvey
Councillor PD Newman OBE
Councillor RJ Phillips
Councillor J Stone
Councillor LC Tawn

AGENDA

		Pages
PUBLIC INFORMATION AND FIRE INFO		
1.	APOLOGIES FOR ABSENCE To receive apologies for absence.	
2.	NAMED SUBSTITUTES To receive details of any Members nominated to attend the meeting in place of a Member of the Committee.	
3.	DECLARATIONS OF INTEREST To receive any declarations of interest by Members in respect of items on the agenda.	
4.	MINUTES To approve and sign the minutes of the meeting held on 16 July 2015.	7 - 14
5.	2014-15 STATEMENT OF ACCOUNTS To seek the committee's approval of the 2014/15 statement of accounts and annual governance statement.	15 - 150
6.	COMMUNITY GOVERNANCE REVIEW To agree the timetable to assess the case for undertaking a community governance review (CGR) of parish boundaries and electoral arrangements.	151 - 154
7.	2015-16 BI-ANNUAL FORECAST OF REVENUE AND CAPITAL OUTTURN To update the committee on the financial position to end of May 2015 as reported to Cabinet on 23 July 2015.	155 - 164
8.	WHISTLEBLOWING POLICY To agree the proposed changes to the whistle blowing policy and procedure.	165 - 174
9.	EXTERNAL AUDIT FINDINGS REPORT 2014-15 To update the committee on the external audit findings for 2014-15.	175 - 208
10.	PUBLIC INTEREST DISCLOSURE ACT (PIDA) WORKING GROUP UPDATE To inform the committee of the activities of the working group formed to review the actions taken in response to the recommendations made by Grant Thornton following their review of the customer relationship management system implementation.	209 - 214
11.	PROGRESS REPORT ON 2015/16 INTERNAL AUDIT PLAN To update Members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.	215 - 228

12. WORK PROGRAMME UPDATE

To provide an update on the Committee's work programme for 2015-16.

229 - 232

The Public's Rights to Information and Attendance at Meetings

YOU HAVE A RIGHT TO: -

- Attend all Council, Cabinet, Committee and Sub-Committee meetings unless the business to be transacted would disclose 'confidential' or 'exempt' information.
- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and of all Committees and Sub-Committees.
- Have a reasonable number of copies of agenda and reports (relating to items to be considered in public) made available to the public attending meetings of the Council, Cabinet, Committees and Sub-Committees.
- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
- Copy any of the documents mentioned above to which you have a right of access, subject to a reasonable charge (20p per sheet subject to a maximum of £5.00 per agenda plus a nominal fee of £1.50 for postage).
- Access to this summary of your rights as members of the public to attend meetings of the Council, Cabinet, Committees and Sub-Committees and to inspect and copy documents.

Public Transport Links

- The Shire Hall is a few minutes walking distance from both bus stations located in the town centre of Hereford.

RECORDING OF THIS MEETING

Please note that filming, photography and recording of this meeting is permitted provided that it does not disrupt the business of the meeting.

Members of the public are advised that if you do not wish to be filmed or photographed you should let the governance services team know before the meeting starts so that anyone who intends filming or photographing the meeting can be made aware.

The reporting of meetings is subject to the law and it is the responsibility of those doing the reporting to ensure that they comply.

FIRE AND EMERGENCY EVACUATION PROCEDURE

In the event of a fire or emergency the alarm bell will ring continuously.

You should vacate the building in an orderly manner through the nearest available fire exit and make your way to the Fire Assembly Point in the Shire Hall car park.

Please do not allow any items of clothing, etc. to obstruct any of the exits.

Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.

The Chairman or an attendee at the meeting must take the signing in sheet so it can be checked when everyone is at the assembly point.

HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at Committee Room 1, Shire Hall, St. Peter's Square, Hereford, HR1 2HX on Thursday 16 July 2015 at 2.00 pm

Present: Councillor BA Durkin (Chairman)
Councillor FM Norman (Vice Chairman)

Councillors: ACR Chappell, DG Harlow, EPJ Harvey, PD Newman OBE, RJ Phillips and LC Tawn

In attendance: Councillor AJW Powers

Officers: A Brookes, P Robinson

61. APOLOGIES FOR ABSENCE

Apologies were received from Councillor J Stone.

62. NAMED SUBSTITUTES

There were no substitutions made.

63. DECLARATIONS OF INTEREST

There were no declarations of interest.

64. MINUTES

RESOLVED

That the minutes of the meeting held on 19 March 2015 be agreed as a correct record of the meeting.

The chairman referred to an email sent to committee members, and reminded members that the role of Audit and Governance is to establish assurance on the council's audit and governance processes.

It was agreed that the agenda items relating to external audit would be considered earlier in the agenda to allow for visitors from Grant Thornton to leave early for another appointment.

65. TRANSPARENCY CODE

The information governance principal officer introduced the updated open data policy for the council which reflects major changes to the Local Government (Transparency Requirements) (England) Regulations 2014, as detailed in the transparency code. The requirements and standards of code have been met as information is being published in open format and there is a procedure to ensure information is published in a timely manner without breaches.

Officers were congratulated for their work on producing the policy.

A member referred to an example of a freedom of information request which was felt to have involved considerable work to access the information, and asked if there was further work required to improve the culture of the organisation and fulfil the ambitions of the "digital by

default” programme, which would enable more choice in customer self-service transactions. The positive improvement in understanding the principles underpinning the freedom of information legislation and willingness to make information available was noted. However, it was acknowledged that more could be done to remove technical barriers preventing information being published in an accessible format. Members were reminded that logging requests for information through the freedom of information process provided a framework for tracking the response to such requests. A more proactive approach to publishing information was being pursued, rather than await requests via the freedom of information process, but in parallel with this, further work was needed to ensure available information could be easily found.

RESOLVED

That:

- (a) the report be noted; and**
- (b) The committee supports and endorses the actions proposed in order to address compliance with the Transparency Code.**

66. EXTERNAL AUDIT ANNUAL FEES LETTER 2015/16

The director of resources presented the report and letter from the external auditors detailing the planned audit fee set for 2015/16. The fees, which are set within a national framework, have been reduced from the previous year.

RESOLVED

That the planned audit fee for 2015/16 be approved.

67. AUDIT COMMITTEE UPDATE FROM GRANT THORNTON

Representatives from external auditors Grant Thornton provided an update report on their work to June 2015. Work was underway on the final accounts audit and schools accounting. The report also describes national issues which may impact on the council, which include welfare changes; the Devolution Bill, Housing Bill (right to buy) and the Adoption Bill.

In September Grant Thornton will be hosting training for committee members details of which will be circulated.

A member asked whether the committee should be considering provisions regarding business rates and appeals and whether this was anticipated as a problem. It was confirmed that there is reasonable provision in place to manage the impact of re-valuations.

A request was noted from a member in attendance, regarding the Devolution Bill and combined authorities, that the committee requests to be kept informed by the administration of any local issues.

RESOLVED

That the auditor’s report be noted.

68. CLOSURE OF 2013/14 ACCOUNTS

Representatives from Grant Thornton referred to a letter to a member of the public which accompanies their report. The letter, which responds to an objection to the 2013-14

accounts with regard to the Worcestershire and Herefordshire waste management service private finance initiative (PFI) contract, is given to the committee as an interested party. However, the committee's remit is to consider Grant Thornton's response to the member of the public in relation to the closure of the 2014 accounts rather than looking at the details of the project.

The external auditor is required to give opinion on the accounts by September each year. The public can object and make representations to the auditor in relation to legality, reasonableness or on the basis of value for money, and the auditor is obliged to consider an objection and respond.

The auditor will issue a report on issues of gravity and national importance in the public interest. The objection was not considered to meet that criteria for a report to be issued and so a statement of reasons for that decision was provided for the objector. The points considered in the response were:

- Whether the project represented value for money;
- Whether the council handled the project appropriately; and
- That the accounts are in order.

A key aspect of this was whether the council made reasonable decisions. Councils are expected to seek expert advice on new projects and it is the task of audit to ensure that advice was sought from an appropriate source and acted upon and considered objectively. There is a long history to the waste incinerator project, with constraints of longevity and contractual terms. The auditor concluded that the council had sought appropriate advice and established information on value for money. The approach taken was not considered to be unreasonable and therefore there was no requirement to report in the public interest, although there were lessons learned from the project which have previously been reported to committee. The project stimulated a lot of local debate but it is audit's role to look at governance issues and not to challenge the views of the experts consulted by the council. The auditor concluded that the council's financial analysis was sound.

A member thanked the auditors for the report and sought clarification on the distinction between relevant advice and sufficient advice and whether the project represented value for money for Herefordshire independent of other partners. In response to her question, the auditor felt there was no evidence to suggest that the council did not gain sufficient evidence or that experts in the field were not consulted. There was sufficient relevant evidence gathered to enable decisions to be made. The objector had asked if the variation to the contract represented good value for money and it was found that it did. This project was a very early PFI contract, not without its challenges and decisions were made in light of that and based on appropriate advice.

The member further commented that the report contains a caveat about the technologies chosen for the project not being the best and that they were not considered in terms of the specific site, implying that there was therefore no assessment of whether the best technology for the site was chosen and whether it represented value for money in that respect. It was believed that early reports suggested a different preferred solution.

The auditor replied that consideration needed to be given to tried and tested technologies and results from other sites. It was noted that most councils choose incinerator technology and that alternative technologies carry a degree of risk.

The chairman reminded the committee that its role is to consider the report and asked if members had any questions about the letter.

A member commented that councillors have a role in explaining to the public why decisions are made on spending. This was an early PFI project and there are lessons to be learned. However, as there were no national plans for such projects, councils were forced to have local solutions.

The vice chairman commented that regardless of individuals' views on the future of waste management and preferred technologies, the auditor's report provided assurance with regard to the process and whether it was clearly followed. Constraints were a major factor partly due to the partnership arrangement and the duration of the project. The constraints need to be noted so that consideration can be given to how future partnerships are established.

In response to a member's request for more detail about the report's recommendation for ongoing monitoring, the auditor confirmed that Worcestershire had set up a separate committee to consider risks relating to the councils' role as lender to the scheme the Audit and Governance Committee was tasked to carry out a similar role in Herefordshire. It was noted that matters relating to this lending had been reported to this committee in the past and this will continue.

A member observed that it appeared Grant Thornton had approached the matter thoroughly and professionally and that their report provides a clear account of that.

RESOLVED

That the closure of the 2013/14 accounts and the rejection of the objection received be noted.

69. CHANGES TO THE STATUTORY APPOINTMENT AND DISMISSAL PROCEDURES FOR HEAD OF PAID SERVICE, MONITORING OFFICER AND S151 FINANCE OFFICER

The governance manager presented the report which describes the requirements of the Local Authorities (Standing Orders) (England) Regulations 2015 in respect of the dismissal process for statutory officers. It was noted that these regulations were issued the day before the purdah period and so delaying the process for their local implementation.

It has always been a matter for Council to make decisions over the dismissal of the head of paid service and this was now extended to the monitoring officer and the section 151 officer. The requirement to appoint a designated independent person (DIP) for decisions regarding disciplinary action has been removed to be replaced by a panel including persons from the standards panel (or from the standards panel of another authority if there were not sufficient panel members). The regulations were a legislative requirement and the monitoring officer had delegated authority to make such amendments to the constitution as were required by law.

The requirements and timescales for implementing the regulations were noted.

RESOLVED

That:

- (a) the changes to the statutory dismissal procedures be noted; and**
- (b) the monitoring officer makes the necessary changes to the constitution as required by law by no later than 17 July 2015.**

70. DRAFT ANNUAL GOVERNANCE STATEMENT

The director of resources presented the draft annual governance statement and explained that there is a requirement to review the governance framework which is published with the annual accounts in September. The previous committee asked for an early draft, hence reporting at this stage. Actions have been completed although where there may be some concern, themes have been retained in the new statement.

The 2015/16 action plan shows twelve areas for improvement. The committee's role is to review progress and so there will be updates throughout the year.

In answer to a question from the chairman regarding health and safety, it was confirmed that there is training and awareness, a stronger inspection regime and a more holistic approach.

At this point the chairman declared interest in this item as a fire inspection consultant for Integral (a council contractor) and the vice-chairman took the chair.

A member commented that there is some vulnerability as regards condition of highways and pavements. He gave a further example of the impact of new legislation for establishing British citizenship in relation to registering marriages and that officials conducting wedding ceremonies had encountered difficulties accessing the relevant on-line information.

A member asked for clarification about initials in the documentation, and it was confirmed that GH was Geoff Hughes, director for economy communities and corporate.

In response to a member's question about tracking progress, welcoming the availability of three years' worth of reports, it was confirmed that it is now possible to indicate what has resolved and what is carried forward in future. It was further explained that the improvement outcomes are not reported this time as an update was provided at the last committee. There will be an update at the next committee with outcomes to inform what needs to be carried forward. The corporate plan and the financial plan are now combined to facilitate reporting. The corporate performance report will be presented to both this committee and cabinet.

RESOLVED

That the draft 2014/15 annual governance statement be noted.

Having declared an interest Cllr Durkin abstained from this resolution.

71. INTERNAL AUDIT ANNUAL REPORT AND OPINION 2014/15

At this point Councillor Durkin returned to the chair for the remainder of the meeting.

The SWAP director presented the report and introduced senior auditor, Paula Gibson. This was the first annual report by SWAP for Herefordshire. Audits have been completed to report stage either as final reports or in discussion.

The report showed the level of assurance for audits completed to draft or final report stage, and illustrated that over half were of reasonable assurance and one had no assurance. Risks were well managed but for some areas there is more risk management. The report reflected challenges as well as the commitment from senior management to audit and the support of the director of resources.

In terms of identified risks, those that are high and very high are reported to the committee. Those with high risk as marked so because of the impact on the council, although there is low probability.

In answer to a question from the chairman, the SWAP director explained that if an audit showed up significant risk, it would be defined as high risk because of the risk assessment formula used.

The SWAP director confirmed that the audit action plan is monitored and follow-up audits are carried out in the next financial year.

A member commented on the presentation and interpretation of information around risk, that the number ranking of priorities was not intuitive and asked if other formats could be considered. She added that once an audit is completed, it needs to be tracked to ensure that recommendations are followed through.

The Chairman expressed concern that even though probability was low, it was recorded as a high risk and asked SWAP to provide committee members with a briefing on how the final level of risk was determined.

RESOLVED

That the report be noted.

72. GOVERNANCE IMPROVEMENT WORKING GROUP UPDATE

An update was provided by the governance manager, regarding ongoing planned work to review governance arrangements in line with good practice. There was a planned review of the constitution and this is on hold pending the governance review. The working group that was established to start the review was a cross-party and cross-function group reporting to the Audit and Governance Committee and following the election requires new membership to allow the work of the group to be completed. Group leaders had been consulted on membership for the new working group and nominations are awaited.

Prior to the election, the group had started to gather evidence and identify strengths and weaknesses of the current arrangements. If it were concluded that the council move back to a traditional committee structure, this would require public consultation and it could only be in place after annual full council. Other models could be implemented more quickly.

It was confirmed that there was extensive consultation in 1999 prior to the current structure being implemented.

In response to a member's comment about the value of benchmarking with other councils, it was confirmed that benchmarking needs to establish what a good constitution looks like. The last review in 2009 was extensive and so if the current model fits then the constitution may only require stylistic changes which would make it clearer.

In response to a member's question, it was confirmed that the outcomes and recommended changes to the constitution would be reported to full council.

It was confirmed that Cllr Seldon has been nominated to join the working group as the member representing It's Our County/scrutiny function.

RESOLVED

That:

- (a) the outcomes of the initial work carried out by the governance improvement working group as set out in the report be noted;**
- (b) future membership of the working group as set out at paragraph 4 be confirmed; and**
- (c) the outline work programme for the working group as set out at paragraph 9 be approved.**

73. AUDIT AND GOVERNANCE WORK PROGRAMME UPDATE

The work programme for the year was presented for review.

Discussion took place regarding a Public Interest Disclosure Act (PIDA) update and guidance was sought from the committee as to how to take this forward as the current membership was not involved in earlier work. Although a working group had not concluded its work, the issues were picked up through the monitoring officer's annual report.

A member commented that the PIDA working group was concerned with a specific issue regarding the procurement of the customer relationship management (CRM) software and there was a recommendation to consider how feedback from staff is acted upon. This was in conjunction with the whistleblowing policy which was also to be reported to the committee and had been under review and union consultation.

It was confirmed that the chief executive had reported to the committee the staff survey results and these were now built into the committee's annual work plan.

The review of the whistleblowing policy every two years was a standalone piece of work.

In response to a question about the work of the governance improvement working group having an impact on the role of the committee, it was confirmed that reports arising from the group would be built into the work programme.

In discussion with SWAP, consideration would be given to internal audit involvement in the financial strategy.

Discussion took place regarding the inclusion of the ICT plan in the work programme as this had been requested at the last meeting on 19 March 2015. It was confirmed that this was in relation to ICT internal audit work and would be reported to committee by SWAP.

It was clarified that the item regarding the tipping point report, which is currently unallocated to a particular month, would be scheduled as necessary.

RESOLVED

That an updated work programme be recirculated.

The meeting ended at 4.05 pm

CHAIRMAN



Meeting:	Audit and governance committee
Meeting date:	23 September 2015
Title of report:	2014/15 statement of accounts
Report by:	Director of resources

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To seek the audit and governance committee's approval of the 2014/15 statement of accounts and annual governance statement.

Recommendation(s)

THAT:

- (a) the 2014/15 statement of accounts (appendix a) be approved;**
- (b) the letter of representation (appendix b) be signed by the chairman of audit & governance committee and the director of resources; and**
- (c) the annual governance statement (appendix c) be approved and signed by the chairman of audit and governance committee, the chief executive and the director of resources.**

Alternative options

- 1 There are no alternative options.

Reasons for recommendations

- 2 The 2011 accounts and audit regulations require the council to produce a statement of accounts and an annual governance statement. The process requires the accounts to be certified by the chief finance officer by 30 June and then approved by the audit and governance committee by 30 September. For next year's accounts, 2015/16, the 2015 accounts and audit regulations brings forward this requirement by one month.
- 3 The council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the annual governance statement which is reviewed and approved by the audit and governance committee. The annual governance statement also provides commentary on how the council's governance framework including the system of internal control can be improved. Whilst the annual statement by its nature is only signed off once a year, the process of review is continuous. As a result the reports presented to each meeting of the audit and governance committee are used to inform the annual governance statement.

Key considerations

- 4 The statement of accounts (appendix a) have been drawn up in accordance with the accounts and audit regulations 2011, and the CIPFA code of practice on local authority accounting in the United Kingdom (the code). The code consolidates the statutory requirements and accounting standards that the council is legally required to follow.
- 5 The most significant matters in the 2014/15 accounts and a summary of the council's financial position are set out in the explanatory foreword. Key points for 2014/15 include the following:
 - An accounting policy change to include school assets, excluding academy and free schools, has increased the Council's asset base by £29.9m.
 - In 2014/15 the council underspent by £0.6m.
 - General fund reserves increased to £7.1m, from £5.1m at 31.3.14.
 - Specific reserves have been set aside totalling £26.7m, this includes £6.2m of school reserves. These reserves will be used to mitigate specific key corporate financial risks, including any settlements required in respect of ongoing litigation.

2014/15 Statements

- 6 The main financial statements are prepared in accordance with the international financial reporting standards. These comprise: the movement in reserves statement, a comprehensive income and expenditure account, a balance sheet and a cash flow statement.

Movement in reserves statement

- 7 This statement, section 4 of the accounts, shows the movement in the year on the

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on Tel (01432) 261867

different reserves held by the authority, analysed into usable and non-usable reserves. These are used to balance the Council's balance sheet which details all assets and liabilities as at the end of the financial year.

Usable reserves

- 8 Total usable reserves at 31 March 2015 were £40.7m compared with £41.3m at 31 March 2014, summarised in the table below.

	General fund balance	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves
	£m	£m	£m	£m	£m
Balance as at 31 March 2014	5.1	23.9	5.9	6.4	41.3
Balance as at 31 March 2015	7.1	26.7	4.4	2.5	40.7
Increase/(decrease)	2.0	2.8	(1.5)	(3.9)	(0.6)

- 9 The general fund reserve balance increased by £2m as a result of the 2014/15 underspend plus a contribution from the revenue budget approved when the 2014/15 budget was set. Details of the movement to and from earmarked reserves are shown in note 8.8 to the accounts.

Unusable Reserves

- 10 Unusable reserves are not available to be spent. They include unrealised gains and losses, such as the revaluation reserve and timing differences for funding of spend on assets (through the capital adjustment account). There is also a negative reserve, a liability, for future pension fund deficit obligations. The unusable reserves totalled £78.9m at 31 March 2015 compared to £119.3m at 31 March 2014, the main movement being an increase of £52.3m in the external valuation of the pension deficit. The estimated pension deficit on Herefordshire's fund as at 31 March 2015 is £212.7m, this represents the difference between the estimated value of obligations and the assets held in the pension fund. Further details can be found in note 8.20 to the accounts.

Comprehensive income and expenditure statement

- 11 This statement, section 5 of the accounts, shows the accounting cost in the year of providing services as required under international reporting standards. This differs from the amount to be funded from council tax. Authorities raise taxation to cover expenditure in accordance with regulations and this cost may differ from the accounting cost. The adjustments to reconcile this statement to the amount to be funded from council tax are included in the movement in reserves statement shown in note 8.7.
- 12 The net cost of services in 2014/15 was £146.9m compared to £148.9m in 2013/14 with the reduction reflecting savings achieved in the delivery of services.

Balance Sheet

- 13 The balance sheet, section 6 of the accounts, summarises the council's assets, liabilities and reserves at the end of the financial year.
- 14 At 31 March 2015 long term assets totalled £537.5m, compared to £497.9m at 31 March 2014. Long term assets include the current valuation of property, plant and equipment the Council uses in the provision of its services. This valuation will increase by the capital spend in 2014/15 which included spend on improvements to our road network of £30.3m.
- 15 Current assets totalled £29.5m at 31 March 2015, compared to £57.4m at 31 March 2014. Cash and investment balances decreased by £21.6m due to improvement treasury management practices where a minimum year end cash balance was held.
- 16 Current liabilities totalled £66.2m at 31 March 2015, compared to £70.6m, at 31 March 2014. Short term borrowing decreased by £8.0m due to improved treasury management practices.
- 17 Long term liabilities totalled £381.2m at 31 March 2015 compared to £324.1m at 31 March 2014. The pensions net liability as determined by the pension fund actuary increased by £52.3m in 2014/15.

Cash flow statement

- 18 Statement 7 of the accounts represents a summary of all cash flowing in and out of the council during 2014/15, during 2014/15 there was a net decrease in cash and cash equivalents of £5.1m.

The collection fund

- 19 Note 9 to the accounts details the collection fund. This fund includes all income collected from council taxpayers and business ratepayers, which totalled £151.0m in 2014/15 compared to £143.8m in 2013/14. Expenditure includes precept payments to West Mercia Police (£11.8m), Hereford and Worcester Fire Authority (£5.4m) and parishes (£2.8m). These are paid from income collected from council taxpayers on their behalf. In 2014/15 business rates of £23.6m were paid to central government representing 50% of business rate income collected.

The annual governance statement

- 20 The council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the annual governance statement which is reviewed and approved by the committee as an element of the annual statement of accounts in September. The annual governance statement also provides commentary on how the council's governance framework including the system of internal control can be improved. Whilst the statement by its nature is only signed off once a year, the process of review is continuous. Audit and governance committee received a draft of the statement at its meeting in July; the action plan supporting the statement has been further developed to identify intended outcomes and to ensure it addresses any elements outstanding from the previous action plan. The statement is attached at appendix c.

Community impact

- 20 The council is responsible for ensuring that appropriate safeguards are in place to

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on Tel (01432) 261867

ensure that it operates effective governance arrangements and internal controls. The decisions the council makes have direct impact on the lives of residents of the County and therefore it is essential that the council have appropriate governance arrangements in place.

Equality duty

21 The content of the report has no direct impact on equality and human rights.

Financial implications

22 As set out in the report.

Legal implications

23 The audit and account regulations 2011 require the Council to prepare a statement of accounts in respect of each financial year and an annual governance statement.

Risk management

24 The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the end of September. The risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 30 September.

Consultees

None.

Appendices

Appendix A – statement of accounts 2014/15

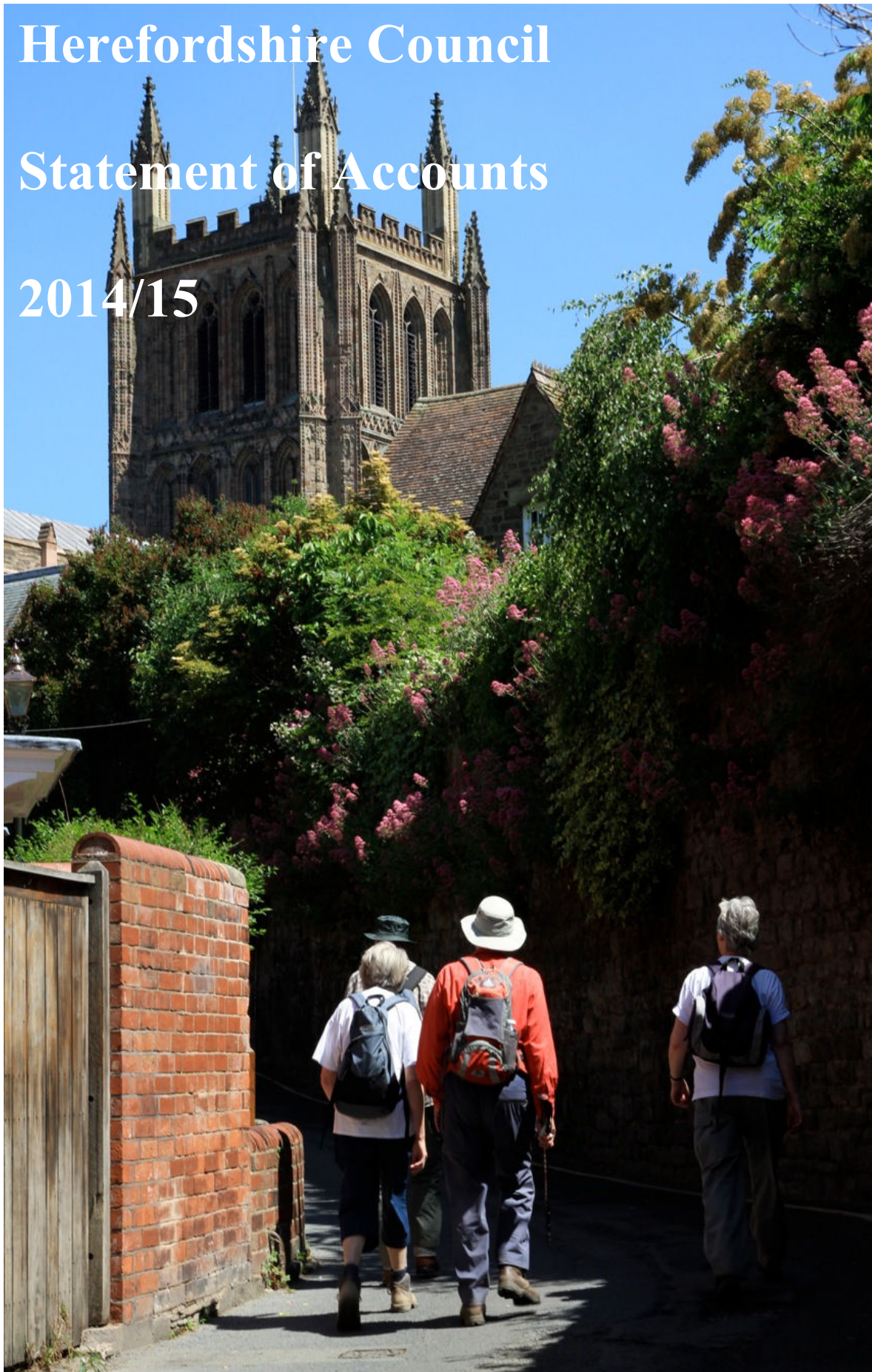
Appendix B – letter of representation

Appendix C – annual governance statement

Background papers

- None identified.

Herefordshire Council Statement of Accounts 2014/15





Contents	Page
1 Introduction	2
2 Explanatory Foreword	3
Statements to the accounts	
3 Statement of Responsibilities	13
Core financial statements and explanatory notes	
4 Movement in Reserves Statement	15
5 Comprehensive Income and Expenditure Statement	17
6 Balance Sheet	19
7 Cash Flow Statement	21
8 Notes to the Financial Statements	23
Supplementary financial statement and explanatory notes	
9 Collection Fund	86
Other statements	
10 Definitions	89



1. Introduction

- 1.1. Herefordshire's statement of accounts for 2014/15 presents the council's overall financial position and performance for 2014/15.
- 1.2. 2014/15 was another challenging year where further savings were delivered against a back drop of continuing funding reductions and budget pressures. Despite this the council underspent its budget by £0.6m reflected throughout the year in its projections. The underspend included the delivery of £15.4m of savings, in addition to previous four years savings of £49.0m.
- 1.3. Further savings will be required in the coming years, £10.2m for 2015/16. The council is committed to achieve this alongside increasing demand for services from both an ageing and sparse population that provide a challenging environment.
- 1.4. 2014/15 saw the council's general reserve balance increase by £2.0m to £7.1m, 5% of its net revenue budget. This recognises the need for increased resilience when facing further budget reductions over the coming years. Herefordshire's financial management strategy includes maintaining specific reserves to deal with the key corporate financial risks, these totalled £26.7m as at 31st March 2015.



Councillor Tony Johnson
Leader of the Council

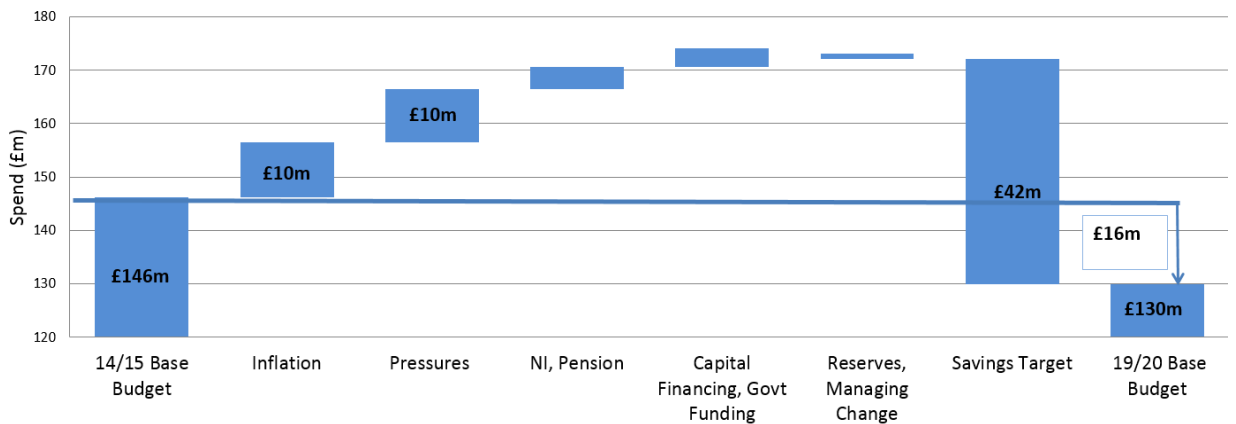


2. Explanatory Foreword

2.1 Message from the Chief Financial Officer

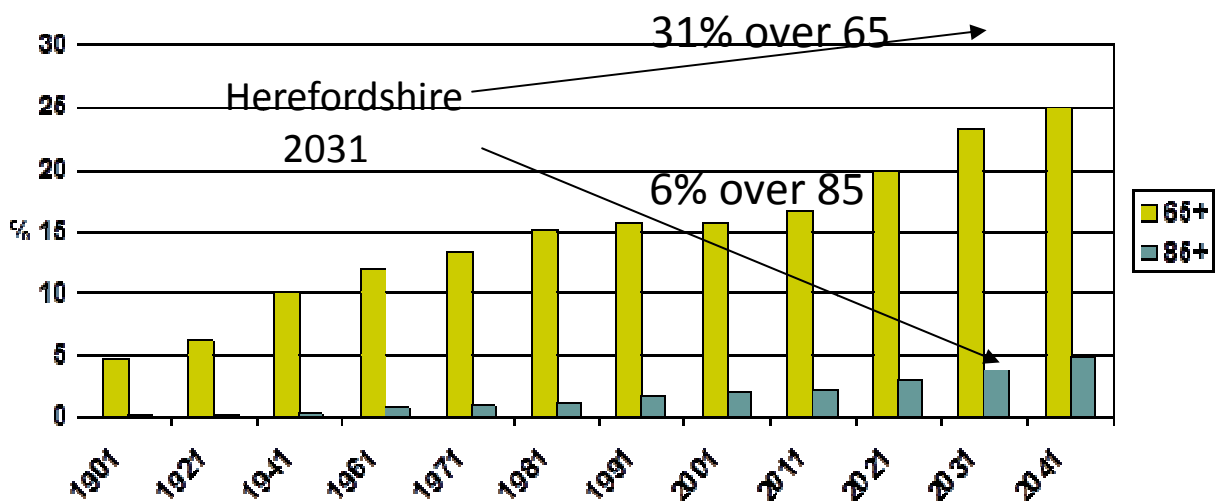
This year’s Statement of Accounts are prepared a month earlier than previous years complying with new statutory guidance 12 months earlier than required. This will enable the finance team to concentrate on helping the council to address the challenges of further budget reductions, as well as review income and growth opportunities.

We have forecast a need for £42m of savings between 2015/16 to 2019/20, in addition to the savings already achieved, shown below:



The pressure to deliver savings is substantial when demographic expectations are likely to significantly increase the demand for our services. The ONS have predicted the proportion of the population aged over 65 increasing and particularly over 85s in the coming years adding significant cost pressures, with Herefordshire expected to have an above average proportion of older people residing in the County, shown below.

Predicted national demographics

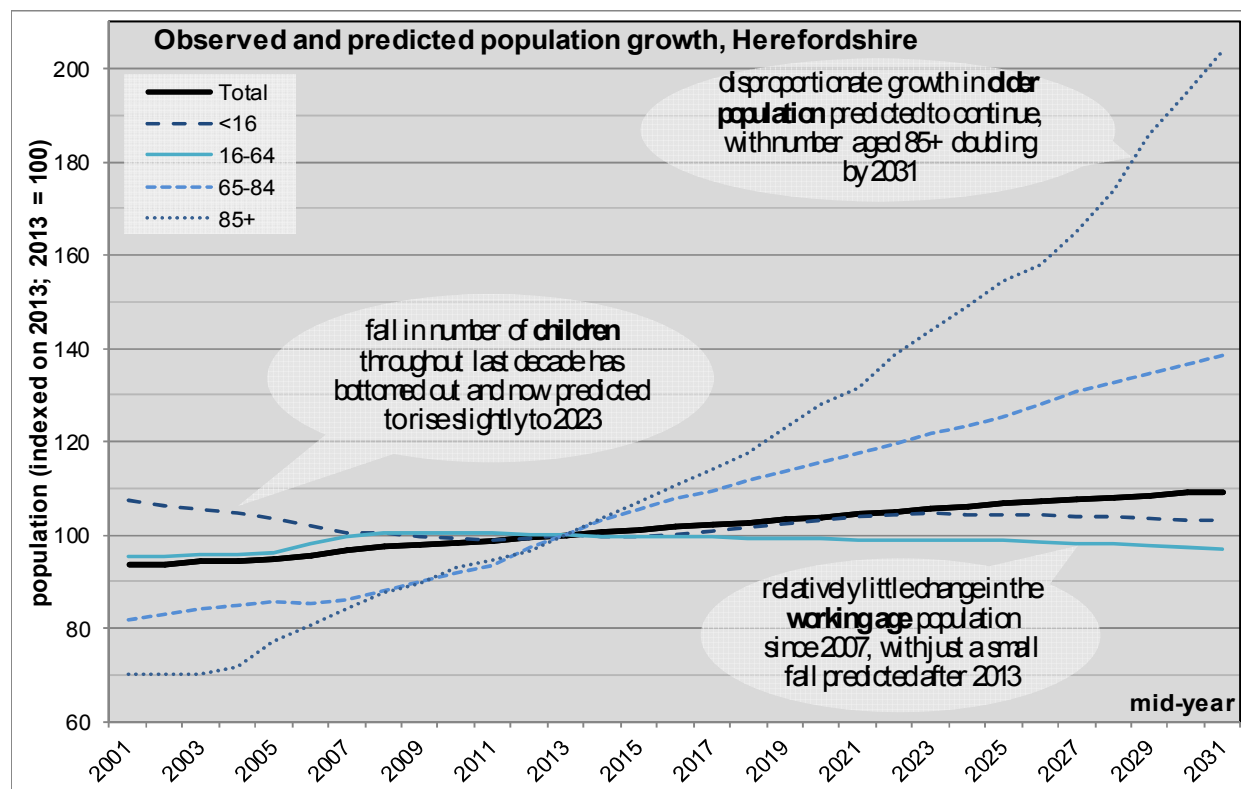


Herefordshire has an older age structure than England and Wales with people aged 65 and over constituting 23% of the county’s population (42,000 people), in comparison with 19%



nationally. The number of people aged 85+ in the county has increased by 43% (from 4,000 to 5,700), compared with 29% nationally. Projections suggest 31% of Herefordshire's population will be aged 65+ in 2031, compared to 23% nationally.

Figure 1: Observed and predicted change in broad age groups, Herefordshire 2001-31



Source: MYEs - Population Estimates Unit, ONS. Crown copyright; Projections – GL Hearn for Herefordshire Council (demographic scenario, 2014).

The impact of this demographic profile and funding pressures are being considered as part of the updated medium term financial strategy being prepared this summer.

The 2014/15 accounts demonstrate financial robustness with reserves proportionately comparable to similar councils, providing increased resilience as we face the challenges ahead.

2.2 Introduction to the accounts

2.2.1 The Statement of Accounts for Herefordshire Council presents the overall financial position for the year ended 31st March 2015 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest £0.1m.

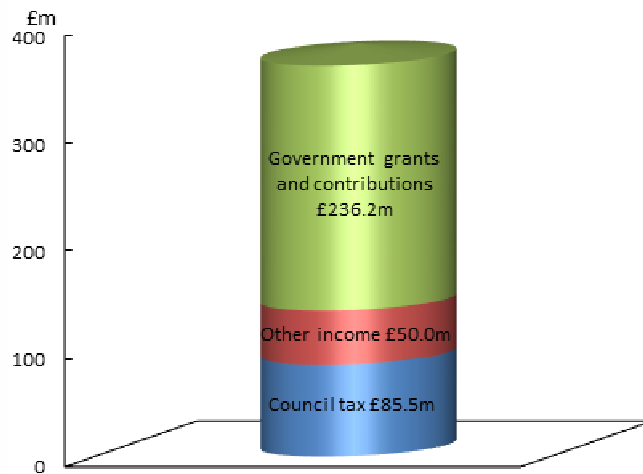
2.2.2 There were a number of minor changes to the Code having an impact on the 2014/15 accounts, the main change for Herefordshire's accounts was the recognition of voluntary aided school assets previously excluded. All school assets, excluding Academy and free schools are now included on the council's balance sheet. This addition has increased the council's asset value by £32.2m as at 31st March 2015.



2.3 Revenue Expenditure and Income

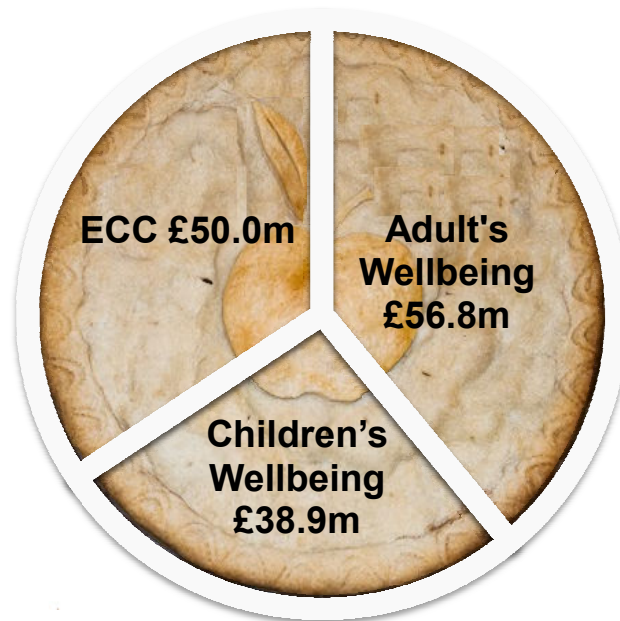
2.3.1 The outturn position on the council's revenue account was £0.6m underspend after transfers to and from reserves.

The gross income for the year was £371.7m and came from the following sources:



2.3.2 The following table summarises the overall position, with 39% of the council's net budget being spent on adult's wellbeing:

	Budget £m	Actual £m	(Under)/Over Spend £m
Directorate			
Adults Wellbeing	56.8	56.8	0.0
Children's Wellbeing	38.4	38.9	0.5
Economy, Communities and Corporate	50.3	50.0	(0.3)
Directorate total	145.5	145.7	0.2
Other corporate budgets and reserves	0.6	(0.2)	(0.8)
Total	146.1	145.5	(0.6)



- 2.3.3 The budget and actual figures above reflect the requirement to allocate internal recharges to comply with CIPFA's Service Reporting Code of Practice (SERCOP). This makes the accounts comparable across all local authorities by ensuring services report their full costs including overheads and capital charges. It also includes technical accounting adjustments to comply with International Financial Reporting Standards (IFRS), including pensions, PFIs and holiday accruals, which have to be undertaken to complete the statutory accounts. These are different to the budgets monitored and reported through the year which reflect management responsibilities and accountabilities which is normal practice. A reconciliation between the directorate totals and amounts included in the Comprehensive Income and Expenditure Accounts is shown in note 8.21.3.
- 2.3.4 A detailed breakdown of reserves is provided in note 2.8, new reserves have been created for severe weather costs (£0.5m), invest to save (£0.3m) and infrastructure development fund (£0.2m).

2.4 Members' Allowances

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

	2013/14 £m	2014/15 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	0.6	0.6

2.5 Capital Programme

2014/15 Out-turn

- 2.5.1 £72.3m was incurred on capital spending funded through the utilisation of grants of £27.5m, prudential borrowing of £38.7m, capital receipts reserve of £3.6m and revenue funding of £2.5m.



Summary of Capital Expenditure

2.5.2 Capital expenditure for the year can be summarised as follows:

	£m
Road network investment and improvements	30.3
EnviRecover energy from waste plant	6.0
Leominster Primary School replacement	5.2
New Heritage Archive & Records Centre	3.9
Leisure Centre site improvements	3.7
Hereford city link road	2.7
Broadband network, Fastershire	2.6
Hereford Enterprise Zone site investment	2.2
Other smaller schemes	15.7
Total	72.3

Capital Outturn Variance to Forecast

2.5.3 The outturn was £13.3m less than forecast; with this spend now falling into 2015/16. A summary of the main scheme changes to forecast is set out below:

- Reduced spend on EnviRecover, energy from waste plant of £4.7m. This loan drawdown will be provided in 2015/16. The plant remains on schedule to open in early 2017.
- Forecast spend on the new link road of £3.8m lower due to forecast land acquisition and compensation sums not falling due during the period.
- Broadband spend of £2.1m lower than anticipated. This is due to later than anticipated delivery of elements of the programme and as a result extensions have been granted to milestone areas 1 and 11 of the contract completion dates to September 2015, to be reviewed in June. All other milestones currently remain with a December 2016 completion date.
- Works at the Ross leisure centre have been delayed following the identification and consideration of a possible sewer diversion requirement resulting in a revised expected completion date of September 2015, £1.6m underspend in year.

Prudential Borrowing

2.5.4 When capital grants cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2014/15 the council utilised £38.7 million of prudential borrowing to fund the capital programme.

Future years' capital programme

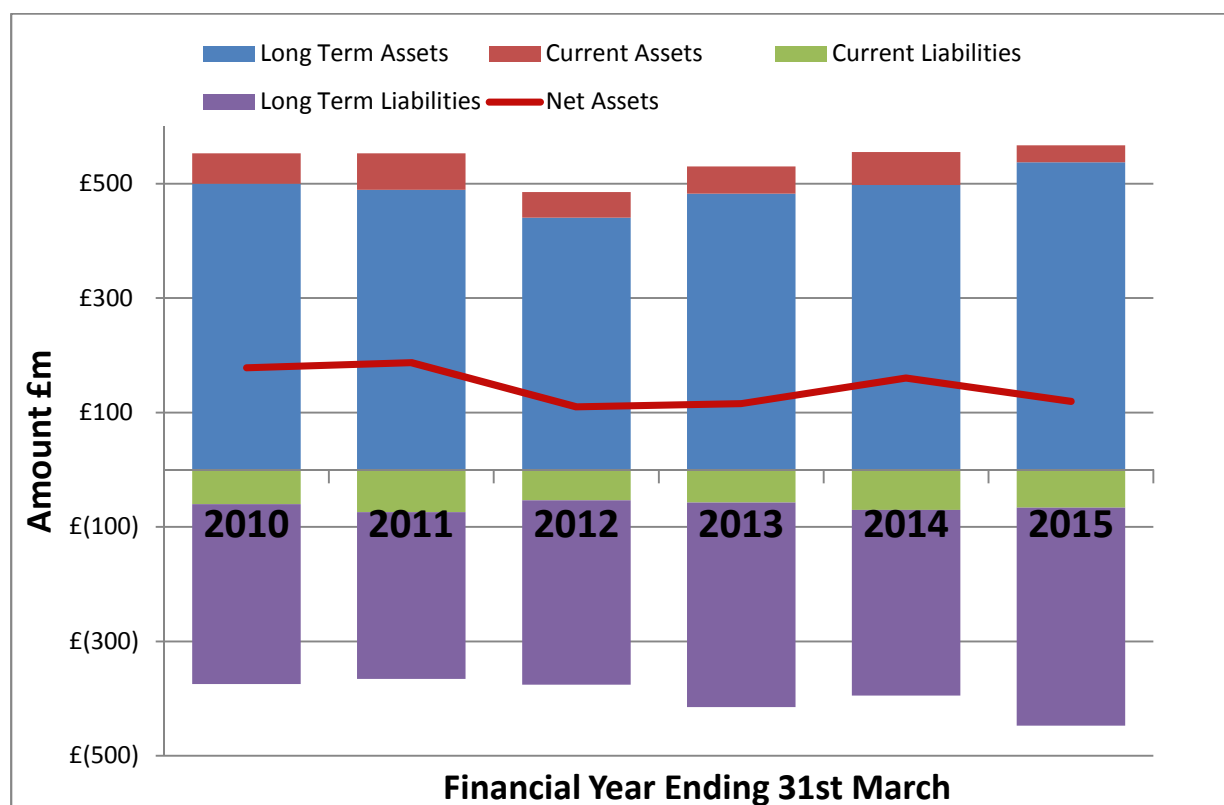
2.5.5 The council maintains as a minimum a rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is set out below.

	2015/16 £m	2016/17 £m	2017/18 £m
Sources of Funding			
Grants and Contributions	23.9	13.4	23.6
Prudential Borrowing	44.0	33.9	4.8
Total Capital Expenditure	67.9	47.3	28.4



2.6 Balance Sheet

2.6.1 The chart below shows how the balance sheet has changed over the last 5 years.



2.6.2 The net assets on the balance sheet total £119.6m (£160.6m in 2013/14), a decrease of £41.0m over the course of the year mainly due to the pension deficit increasing by £52.0m.

2.6.3 Whilst net assets have reduced in the last year, this is consistent with the trend of falling net asset values, with a high of £187.4m at 31st March 2011 to a low of £115.0m at 31st March 2013, a fall of £72.4m (39%). The reduction in net asset values can be explained as mostly due to the transfer of a number of schools to academies and increasing pension liabilities.

2.7 Council borrowing

2.7.1 The council's borrowing strategy is determined each year within the Treasury Management Strategy, which is approved as part of the budget 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.

2.7.2 In 2014/15 the council took out £13.0m of new long-term borrowing. Principal of £4.0m was repaid to the Public Works Loan Board under existing annuity and IIP (equal instalments of principal) agreements. Interest of £5.7m was paid on council borrowing during the year (including £5.5m to the Public Works Loan Board), of which £0.6m was capitalised and added to the cost of the associated property, plant and equipment (see note 8.1.4).

2.7.3 During the year the council continued using short-term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31st March 2015 £19.1m of short-term loans from other local authorities were outstanding.



- 2.7.4 Total borrowing at the year end, including short-term loans, stood at £164.5m (compared to £168.0m as at 31st March 2014). Of this amount £12.0m relates to two bank loans. Every six months, when the interest payments become due, the lenders have the option to increase the interest rates being charged. If a lender did increase the rate (from 4.5%) the council would then have the option to repay the loan. These two bank loans were previously shown as being repayable within one year, however following advice from Arlingclose (treasury management advisors) they have been reclassified as long-term borrowing. This is because interest rates are forecast to remain low with the lenders unlikely to increase the interest rates charged and therefore it would be unlikely that the Council will repay these loans during 2015/16.
- 2.7.5 The amounts noted above relate to principal 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 the 31st March.
- 2.7.6 Net borrowing (after offsetting investments) was £161.8m as at 31st March 2015, compared to £144.7m as at 31st March 2014.
- 2.7.7 The council is only allowed to borrow to support capital projects. The borrowing supports property, plant and equipment valued at £528.2m at the balance sheet date.

2.8 Council reserves

General reserves

- 2.8.1 In 2014/15 the council has a policy of maintaining a minimum of £4.0m of general reserves as contingency against unforeseen emergencies and events. At the end of 2014/15 the council held general reserves of £7.1m compared with a position of £5.1m in 2013/14.

Earmarked reserves

- 2.8.2 Specific reserves totalled £26.7m (£23.9m in 2013/14), which are detailed in note 8.8 to the Statements.
- 2.8.3 The table below shows the level of revenue usable reserves over the last 5 years:

Balance as at:	General Fund £m	Specific Reserves		Total £m
		Schools	Other	
31 st March 2011	6.3	6.0	11.6	23.9
31 st March 2012	6.1	5.8	7.7	19.6
31 st March 2013	4.7	5.5	8.4	18.6
31 st March 2014	5.1	6.3	17.6	29.0
31 st March 2015	7.1	6.2	20.5	33.8

Capital and unusable reserves however have decreased during the year due to capital investment and increasing pension liabilities in 2014/15 as detailed in note 8.19 and 8.20.

2.9 Significant provisions, contingencies and write-offs

- 2.9.1 The council held provisions of £5.3m at 31st March 2015, as detailed in note 8.18 to the Statements.
- 2.9.2 The most significant provision is the rates appeal provision of £2.6m based on an independent external assessment of the councils liability in relation to submitted business rate appeals at 31 March 2015.
- 2.9.3 At 31 March 2015 the council also held a provision of £2.1m for independently assessed outstanding insurance commitments. Herefordshire Council pays the first £5k to £50k of most insurance claims (depending on the type or class of the claim), known as the excess. During



2014/15 the council commissioned an actuary review of the outstanding insurance liabilities to determine the provision allowance.

- 2.9.4 A list of contingent liabilities are set out in note 8.38 to the Statements. Although contingent liabilities are not required to be accounted for there is a reserve of £0.3m in the accounts as a general contingency against future spend. In addition specific reserves have been set up for the national land charges dispute (£0.5m) and for risk mitigation (£4.5m).
- 2.9.5 There were no significant general fund income write-offs in the year.

2.10 Pensions

- 2.10.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.37.5 to the Statements 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. Occupational therapists who transferred during 2014/15 retained their NHS pensions.
- 2.10.2 Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31st March 2015 is £211.4m. Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1.3m relating to ex-Hereford and Worcester teachers' unfunded benefits (£1.0m at 31 March 2014).

Pension fund	As at 31 March 14 £m	As at 31 March 15 £m
Present value of obligations	419.6	500.0
Fair value of assets	(260.2)	(288.6)
Deficit	159.4	211.4
Deficit %	38%	42%

- 2.10.3 The pension fund position is reviewed every three years and was last revalued as at 31st March 2013. The council has agreed with the Actuary that in order to recover the deficit over 21 years that the employer's deficit contribution increases from £4.2m in 2013/14 to £7.6m by 2016/17. The Actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% in 2013/14 to 14.6% by 2015/16.

2.11 Impact of economic climate

- 2.11.1 The economic climate has had an impact on the 2014/15 accounts in a number of areas:
- 2.11.2 **Children's Wellbeing:** The current economic climate continues to affect the lives of children and young people in Herefordshire. Financial pressures continue to affect all families and the changes to welfare benefits have yet to be fully assessed in terms of their impact on local authority services. Herefordshire has continued to see increased numbers of children needing to be looked after in 2014/15 creating cost pressures for the service. The transfer of responsibility for children in remand to the Local Authority has caused additional financial burdens.

In order to maintain provision for children's social care, additional cuts were made across the full range of other children's wellbeing in 2013/14 balancing the need to meet the increasing cost of providing children's social care. As a result there is an increasing focus on maintaining statutory and essential services. Cuts in early years' services will have an impact on children and young people in Herefordshire and may have an adverse longer term impact, resulting in



higher costs at a later date. This is being mitigated by focusing integrating services within the council to support children, young people and their families making the most of initiatives such as Troubled Families and improving health initiatives.

Fees for post 16 and denominational school transport were increased to reflect the decision to reduce the subsidy which has been staged over three years. However, there is no change to the support for those who are eligible for assistance. In line with government policy Herefordshire has continued to see a movement of schools to Academy status and out of local authority control. This results in cuts in funding to central and children's services, whilst a number of statutory duties remain with the local authority.

- 2.11.3 **Adults Wellbeing:** The growing needs of the local population and financial pressures facing the local NHS Trust remains a key factor in the pressure on finances, in particular the increased demand on the social care system to enable the early discharge and prevention of admission to hospital. This has continued to create pressures on the community equipment and domiciliary care support budgets.

The increased financial pressures on families has seen a continued request for carers to seek social care support.

Efficiencies in the reduction in the number of grants given to the voluntary sector is likely to have an impact on our communities as some services are greatly reduced or removed.

- 2.11.4 **Economy, Communities and Corporate:** In the last six months of the year, planning fee income levels improved in line with national improved economic climate. Parking fee income also started to improve on the previous year levels towards the end of the financial year. Recent data also indicates that household and trade waste tonnage levels have stabilised in Herefordshire and the rest of the country following the reduction in the previous year which related to the economic downturn.

- 2.11.5 **Treasury Management activities:** The Bank Base Rate has now been at 0.50% for more than six years and has significantly reduced the income that the council is able to earn on its investments. During the year deposit interest rates fell further with the average rate earned on the council's investments falling from 0.75% in 2013/14 to 0.66% in 2014/15.

However, the continuing low interest rate regime also meant that the cost of short-term finance remained favourable with the average interest rate payable on short-term borrowing from other local authorities being 0.49%, including brokers commission. It is council strategy to maintain borrowing and investments below their underlying levels by using "internal borrowing". This means borrowing is reduced by utilising usable reserves and keeping investment balances relatively low.

2.12 Academy schools

- 2.12.1 Academies are publicly funded local schools that are independent of the council, responsible to, and funded directly by, government. They are freed from national restrictions such as the teachers' pay and conditions and the national curriculum. Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.

- 2.12.2 Many schools in Herefordshire have become Academies. At 31st March 2015 there were 29 Academies and two free schools with 9,568 pupils (42% of total pupils).

- 2.12.3 With Academies, the ownership of the school land and buildings is transferred to the school. If the school is owned by the council this transfer is made by issuing a long-term lease at a peppercorn rent and the assets are removed from the balance sheet when the legal agreement is completed.

- 2.12.4 In 2014/15 the following schools converted to Academies:
- Brookfield Special School
 - Fairfield High School

- 2.12.5 As a result of the two schools converting to academies assets have decreased by £5.0m.



Core Financial Statements and Explanatory Notes

2.13 2014/15 Financial Statements

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

Movement in Reserves Statement (page 15)

2.13.1 This statement shows the movement in the year on the different reserves held by the authority.

Comprehensive Income and Expenditure Statement (page 17)

2.13.2 This statement shows the comprehensive cost in the year of providing services, not just the cost funded from council tax.

Balance Sheet (page 19)

2.13.3 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.

Cash Flow Statement (page 21)

2.13.4 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded.

Notes to the Financial Statements (page 23)

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

The Collection Fund (page 86)

2.13.6 This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes council tax precept 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.

2.13.7 The Statement of Accounts, which takes into account events up to 4th June 2015, was authorised for issue on 4th June 2015 by the Chief Financial Officer.

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



Peter Robinson
Chief Financial Officer
(Section 151 Officer)



Statements to the accounts

3. Statement of Responsibilities

3.1 The Council's Responsibilities

3.1.1 The council is required to:

- a. 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 Chief Financial Officer.
- b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- c. Approve the statement of accounts.

3.2 The Chief Financial Officer - Responsibilities

3.2.1 The Chief Financial Officer is responsible for the preparation of the authority'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).

3.2.2 In preparing this statement of accounts, the Chief Financial 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.

3.2.3 The Chief Financial 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.

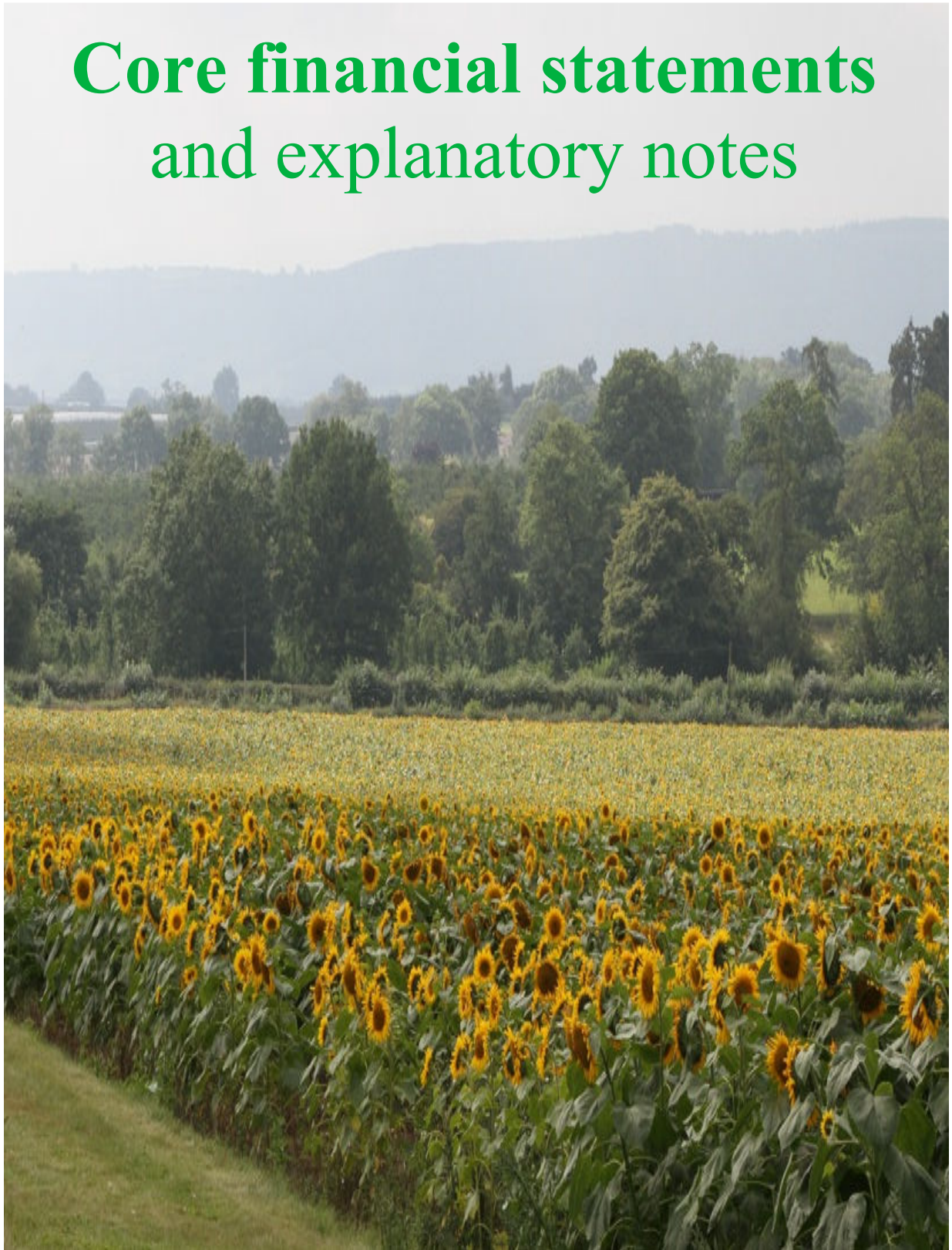
Certificate of the Chief Financial Officer

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31st March 2015 and its income and expenditure for the year ended 31st March 2015.

Peter Robinson
Chief Financial Officer.



Core financial statements and explanatory notes





Core Financial Statements and Explanatory Notes

4 Movement in Reserves Statement

4.1 This statement shows the movement in the year on the different reserves held by the authority, 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 authority'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.

	General fund balance £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Total usable reserves £m	Unusable reserves £m	Total reserves £m
Balance as at 31st March 2013	(4.7)	(13.9)	(2.7)	(13.5)	(34.8)	(44.9)	(79.7)
<u>Movement in reserves during 2013/14</u>							
(Surplus) or deficit on the provision of services	(1.4)				(1.4)		(1.4)
Other comprehensive income and expenditure					0.0	(79.5)	(79.5)
Total comprehensive income and expenditure	(1.4)	0.0	0.0	0.0	(1.4)	(79.5)	(80.9)
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(9.0)		(3.2)	7.1	(5.1)	5.1	0.0
Net increase/decrease before transfers to earmarked reserves	(10.4)	0.0	(3.2)	7.1	(6.5)	(74.4)	(80.9)
Transfers to or from earmarked reserves (note 8.8)	10.0	(10.0)			0.0		0.0
(Increase) or decrease in 2013/14	(0.4)	(10.0)	(3.2)	7.1	(6.5)	(74.4)	(80.9)
Balance as at 31st March 2014	(5.1)	(23.9)	(5.9)	(6.4)	(41.3)	(119.3)	(160.6)



	General fund balance £m	Earmarked reserves £m	Capital receipts reserve £m	Capital grants unapplied £m	Total usable reserves £m	Unusable reserves £m	Total reserves £m
Balance as at 31st March 2014	(5.1)	(23.9)	(5.9)	(6.4)	(41.3)	(119.3)	(160.6)
<u>Movement in reserves during 2014/15</u>							
(Surplus) or deficit on the provision of services	(7.0)				(7.0)		(7.0)
Other comprehensive income and expenditure					0.0	48.0	48.0
Total comprehensive income and expenditure	(7.0)	0.0	0.0	0.0	(7.0)	48.0	41.0
Adjustments between accounting basis and funding basis under regulations (note 8.7)	2.2		1.5	3.9	7.6	(7.6)	0.0
Net increase/decrease before transfers to earmarked reserves	(4.8)	0.0	1.6	3.8	0.6	40.4	41.0
Transfers to or from earmarked reserves (note 8.8)	2.8	(2.8)			0.0		0.0
(Increase) or decrease in 2014/15	(2.0)	(2.8)	1.6	3.8	0.6	40.4	41.0
Balance as at 31st March 2015	(7.1)	(26.7)	(4.4)	(2.5)	(40.7)	(78.9)	(119.6)



5. 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. Authorities 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.



Comprehensive Income and Expenditure Statement

Restated 2013/14

2014/15

	Expenditure	Income	Net		Expenditure	Income	Net
	£m	£m	£m		£m	£m	£m
	73.4	(16.9)	56.5	Adult Social Care	71.5	(17.7)	53.8
	129.9	(94.3)	35.6	Educational and Children Services	135.9	(91.9)	44.0
	7.7	(1.1)	6.6	Cultural and Related Services	7.7	(1.1)	6.6
	22.3	(6.1)	16.2	Environmental and Regulatory	20.6	(5.4)	15.2
	10.9	(5.4)	5.5	Planning Services	14.2	(8.9)	5.3
	25.3	(7.7)	17.6	Highways and Transport Services	20.8	(6.0)	14.8
	47.8	(42.6)	5.2	Housing Services	55.7	(52.5)	3.2
	6.6	(2.0)	4.6	Corporate and Democratic Core	3.8	(1.7)	2.1
	(0.2)		(0.2)	Non-distributed Costs	1.9	(1.0)	0.9
	13.8	(12.4)	1.4	Central Services to the Public	3.0	(1.9)	1.1
	7.6	(7.7)	(0.1)	Public Health	7.9	(8.0)	(0.1)
	345.1	(196.2)	148.9	Cost of Services	343.0	(196.1)	146.9
	13.2	(2.5)	10.7	Other operating expenditure (note 8.9)	7.4		7.4
	19.5	(6.3)	13.2	Financing, investment income & expenditure (note 8.10)	15.2	(3.1)	12.1
		(174.2)	(174.2)	Taxation and non-specific grant income (note 8.11)		(173.4)	(173.4)
			(1.4)	(Surplus) on the provision of services			(7.0)
			(9.3)	Surplus on revaluation of PPE			(0.9)
			(35.4)	Extraordinary item – recognition of school assets			0.0
			(34.8)	Re-measurement of net defined benefit liability (note 8.37.3)			48.8
			(79.5)	Other comprehensive income and expenditure			47.9
			(80.9)	Total comprehensive income and expenditure			40.9



6 Balance Sheet

- 6.1 The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories.
- 6.2 The first category of reserves are usable reserves i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).
- 6.3 The second category of reserves is those that the authority 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'.



Balance Sheet

Restated 31.3.13 £m	Restated 31.3.14 £m		Note	31.3.15 £m	31.3.15 £m
439.5	459.2	Property, plant and equipment	8.12	492.6	
2.5	2.8	Long-term debtors	8.14	8.9	
33.0	30.2	Investment property	8.13	32.0	
7.5	5.7	Other long-term assets		4.0	
<u>482.5</u>	<u>497.9</u>	Long-term Assets			537.5
8.5	17.6	Short-term investments	8.14	0.2	
32.8	28.5	Short-term debtors	8.15	21.5	
2.4	8.4	Cash and cash equivalents	8.16	4.2	
3.7	2.9	Other current assets		3.6	
<u>47.4</u>	<u>57.4</u>	Current Assets			29.5
(1.7)	(3.2)	Cash and cash equivalents	8.16	(4.0)	
(21.3)	(36.8)	Short term borrowing	8.39	(28.8)	
(32.4)	(26.4)	Short term creditors	8.17	(29.0)	
(2.1)	(4.2)	Other current liabilities		(4.4)	
<u>(57.5)</u>	<u>(70.6)</u>	Current Liabilities			(66.2)
(1.1)	(1.6)	Long-term provisions	8.18	(3.2)	
(137.6)	(133.2)	Long-term borrowing	8.39	(137.5)	
(2.1)	(1.6)	Capital grants received in advance		(1.5)	
(216.6)	(187.7)	Other long-term liabilities	8.14	(239.0)	
<u>(357.4)</u>	<u>(324.1)</u>	Total Long-term liabilities			(381.2)
115.0	160.6	Net Assets			119.6
(34.8)	(41.3)	Usable reserves	8.19		(40.7)
(80.2)	(119.3)	Unusable reserves	8.20		(78.9)
<u>(115.0)</u>	<u>(160.6)</u>	Total reserves			(119.6)



7 Cash flow Statement

- 7.1 The cash flow statement shows the changes in cash and cash equivalents of the authority during the year. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows arising as operating, investing and financing activities.
- 7.2 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.
- 7.3 Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery.
- 7.4 Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.
- 7.5 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.



Cash Flow Statement

2013/14 £m		2014/15 £m	2014/15 £m
(3.8)	Net surplus on the provision of services	(7.0)	
(37.7)	Adjust for non-cash movements	(37.1)	
4.2	Adjust for items that are investing and financing activities	2.5	
<u>(37.3)</u>	Net cash flows from operating activities		<u>(41.6)</u>
	Investing activities		
39.6	Purchase of property, plant, equipment, investment property and intangible assets	61.8	
63.7	Purchase of short-term and long-term investments	10.0	
(4.2)	Proceeds from the sale of property, plant, equipment, investment property and intangible assets	(2.5)	
(54.7)	Proceeds from short and long term investments	(27.3)	
(1.0)	Capital grants received	-	
<u>43.4</u>	Net cash flows from investing activities		<u>42.0</u>
	Financing Activities		
(71.7)	Cash receipts of short and long term borrowing	(76.5)	
1.0	Cash payments for the reduction of the outstanding liability relating to finance leases and on balance sheet PFI contracts	1.0	
60.2	Repayments of short and long term borrowing	80.2	
<u>(10.5)</u>	Net cash flows from financing activities		<u>4.7</u>
<u>(4.4)</u>	Net decrease/(increase) in cash and cash equivalents		<u>5.1</u>
0.8	Cash and cash equivalents at 1st April		5.2
5.2	Cash and cash equivalents at 31st March		0.1
<u>(4.4)</u>	Net decrease/(increase) in cash and cash equivalents		<u>5.1</u>



8 Notes to the accounts

8.1 Accounting Policies

General Principles

- 8.1.1 The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice (SERCOP) 2014/15, supported by International Financial Reporting Standards.

Accruals of Income and Expenditure

- 8.1.2 Revenue and capital transactions are accounted for on an accruals basis where above the de-minimus threshold of £10k. 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.

Borrowing Costs

- 8.1.3 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 interest associated with the project.
- 8.1.4 During 2014/15 £0.6m of borrowing costs have been capitalised relating to spend on the corporate accommodation programme, leisure centre improvements and link road enabling costs.

Cash and cash equivalents

- 8.1.5 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.

Contingent assets

- 8.1.6 A contingent asset arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the authority. 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.

Contingent liabilities

- 8.1.7 A contingent liability arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the authority. 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

Benefits payable during employment

- 8.1.8 Employment benefits are accounted for according to the principles of accruals of expenditure. Short-term compensated absences, such as annual leave and flexi-time, are recognised when employees render services that increase their entitlement to future compensated absences. These are measured as the additional amount that the authority 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 of Reserves Statement to the accumulated absences account in the balance sheet.

Termination benefits

- 8.1.9 Termination benefits are recognised in the surplus or deficit on the provision of services at the earlier of when an authority can no longer withdraw an offer of benefits, or when the authority recognises the costs for 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

Post-employment benefits

- 8.1.10 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.
- 8.1.11 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.
- 8.1.12 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.
- 8.1.13 Staff transferred with a NHS pension is an unfunded defined benefit scheme. It is accounted for as a defined contribution plan by NHS bodies. Therefore, it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for transferred staff.
- 8.1.14 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 3.3% (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 seven 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 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.
- 8.1.15 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.
- 8.1.16 Further information on accounting for the pension fund is set out in note 8.37 to the Statements.
- Events after the balance sheet date**
- 8.1.17 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.
- 8.1.18 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.
- Extraordinary items**
- 8.1.19 Where items of income and expenditure are material, the nature and amount is disclosed separately in the Income and Expenditure Statement or in the notes to the accounts.



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

- 8.1.20 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.

There has been a change in accounting policy in 2014/15 in relation to the recognition of assets (see 8.12.6), which has increased the number of schools recognised in the council's balance sheet. This has resulted in the following prior period adjustments to the 2013/14 accounts:

Balance Sheet

	Original 2013/14 £m	Restated 2013/14 £m
Property, Plant and Equipment	426.3	459.2
Unusable reserves	(86.3)	(119.3)

Comprehensive Income and Expenditure Statement

	Original 2013/14 £m	Restated 2013/14 £m
Net Cost of Services	148.1	148.9
(Surplus)/Deficit on provision of services	(3.8)	(1.4)
Other comprehensive income and expenditure	(44.2)	(79.5)
Total comprehensive income and expenditure	(47.9)	(80.9)

Financial Instruments

- 8.1.21 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.

Financial liabilities

- 8.1.22 A financial liability is an obligation to deliver cash (or another financial asset) to another entity.
- 8.1.23 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. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.
- 8.1.24 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.

- 8.1.25 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 on Reserves Statement.

Financial assets

- 8.1.26 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.

- 8.1.27 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.

- 8.1.28 **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.

Government grants and other contributions

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

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

- 8.1.31 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 authority has not satisfied.

- 8.1.32 General grants and contributions e.g. Revenue Support Grant, are disclosed on the face of the Comprehensive Income and Expenditure Statement.

- 8.1.33 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.

Investment property

- 8.1.34 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.
- 8.1.35 Investment property is measured initially at cost, and subsequently at market value. Properties are not depreciated but are revalued annually reflecting market conditions at the year end.
- 8.1.36 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.
- 8.1.37 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;
- On derecognition 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.
 - Gains or losses are reversed out to the Capital Adjustment Account.

Leases

- 8.1.38 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.

8.1.39 Finance leases

- 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.
- 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 so treated as an asset disposal.



8.1.40 **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.

Arrangements containing a lease

8.1.41 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 classified as a finance or operating lease.

Overheads and Support Services

8.1.42 The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- a. **Corporate and Democratic Core:** The costs relating to the council's status as a multi-functional, democratic organisation; and
- b. **Non Distributed Costs:** The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

PFI schemes

8.1.43 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 the Balance Sheet.

8.1.44 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 scheme operator to pay for the assets.

8.1.45 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.

8.1.46 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

8.1.47 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.

8.1.48 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 secondary 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

Property, plant and equipment

8.1.49 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.

Recognition

8.1.50 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.

8.1.51 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 £10k.

8.1.52 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.

Schools

8.1.53 In line with accounting standards and the Code, maintained schools are now considered to be under the Council's control (i.e. under the responsibility of the Council's Section 151 Officer) 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. As a result Community schools, Voluntary Aided schools, Voluntary Controlled schools and Foundation schools are all consolidated into the Council's single entity accounts. However, once 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 Plant, Property and Equipment associated with schools the Council has determined that Community schools, Voluntary Aided and Voluntary Controlled schools should be 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 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.

Measurement

8.1.54 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

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

- a) **Infrastructure** – depreciated historic cost.
- b) **Community assets and assets under construction** – historical cost.
- c) **Land and buildings** – fair value in accordance with Royal Institution of Chartered Surveyors guidelines. Where there is no market-based evidence of fair value because of the specialist nature of the asset fair 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 fair value)

Revaluations

8.1.56 Assets included in the Balance Sheet held at fair 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 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.

8.1.57 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 up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

8.1.58 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.

8.1.59 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.

**Depreciation**

- 8.1.60 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).
- 8.1.61 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.
- 8.1.62 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 worth 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.
- 8.1.63 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.

Impairments

- 8.1.64 An 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.
- 8.1.65 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 in the Revaluation Reserve for the same asset and thereafter in the Surplus or Deficit on the Provision of Services. An impairment loss on a non-revalued asset shall be recognised in the Surplus or Deficit on the Provision of Services.
- 8.1.66 At the end of each financial year an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. The reversal of an impairment loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.
- 8.1.67 Impairment losses and subsequent reversals are charged to the Surplus or Deficit on the Provision of Services, they are not proper charges to the General Fund. These amounts are



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

Disposals

8.1.68 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.

8.1.69 Where appropriate the costs of disposing of non-current assets are financed from the capital receipts generated up to a maximum of 4% of the capital receipt.

Provisions

8.1.70 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.

8.1.71 Provisions are charged to the cost of services when the authority 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.

Reserves

8.1.72 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.

Unusable reserves

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

Revenue funded from capital under statute

8.1.74 Where legislation allows expenditure to be classified as capital for funding purposes, which does not result in a fixed asset on the balance sheet (generally grants), it is charged to the Surplus or Deficit on the Provision of Services in accordance with proper practice. A transfer to the Capital Adjustment Account from the Statement of Movement in Reserves reverses this out so that there is no impact on council tax.

Charges to revenue for non-current assets



- 8.1.75 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

8.1.76 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.

Value added tax

8.1.77 Revenue included in the Comprehensive Income and Expenditure Statement is only the amount relating to the authority on its own behalf and therefore excludes VAT that must be passed on the 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.

Revenue recognition

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

8.1.79 **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 entity, and
- e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

8.1.80 **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.

8.1.81 **Interest;** revenue is recognised when;

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and



b) the amount of the revenue can be measured reliably.

8.1.82 **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 authority; and

b) the amount of the revenue can be measured reliably.

Interests in Companies and Other Entities

8.1.83 An assessment of the councils 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 over the entity demonstrated through ownership such as a shareholding in an entity or representation on an entity's board of directors and materiality. The production of group accounts are not required. These accounts have been prepared on a single entity basis with the interests in companies and other entities recorded as financial assets at cost, less any provision for losses, or at valuation as appropriate.

8.1.84 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss though transactions or collapse, and therefore there is no requirement to complete group accounts.

8.1.85 The council holds an interest in a company called Hereford Futures, whose role was to facilitate development and regeneration within Hereford. This company did not trade in 2014/15.

8.1.86 West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The financial advantage of bulk purchasing arrangements is reflected in the Comprehensive Income and Expenditure Statement. The council's share is not considered material to the accounts. At 19.6%, based on the estimated proportion of the surplus attributable to the council, the council's share of WME net liabilities of £2.7m amounted to £0.5m at 31 March 2015.

8.1.87 The council holds 74.7% shareholding in Hoople Ltd. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture was to increase efficiency and reduce back office costs for all partners. However, the balance sheet value of Hoople Ltd at 31 March 2015 was insignificant, at £3.5m, to justify the preparation of group accounts.

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

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

Council Tax

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

8.1.90 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 preceptors 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.

- 8.1.91 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.
- 8.1.92 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.

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

- 8.2.1 Authorities are required to disclose the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted in the CIPFA Accounting Code of Practice for the relevant financial year.
- 8.2.2 For 2014/15 these are IFRS 13 Fair Value Measurement and IFRIC21 Levies. There are also annual improvements to IFRSs but these are minor and usually for clarification purposes so will not have a material impact on the Statement of Accounts.

IFRS 13 Fair Value Measurement

- 8.2.3 This standard provides a consistent definition of fair value and enhanced disclosure requirements. The adoption will require surplus assets to be revalued at market value. Operational property, plant and equipment's assets will not require revaluing therefore this standard is not expected to have a material impact on Herefordshire's accounts.

IFRIC 21 Levies

- 8.2.4 This standard will provide guidance on the timing of the recognition of the payment of levies in the payees accounts. This is not expected to have a material impact on Herefordshire's accounts.

8.3 Critical judgements in applying accounting policies

- 8.3.1 In applying the accounting policies set out in note 8.1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.
- 8.3.2 The critical judgements made in the Statement of Accounts are:
- The inclusion of all school assets, liabilities, reserves, income and expenditure where the school is not an academy or free school. The council has determined it has deemed rights, obligations, controls and risks with to consolidate into the council accounts. This means all maintained school assets will be included in the balance sheet unless a notice of intention to discontinue the school has been issued. If a school were to convert to an academy or free school its assets are treated as disposal for nil proceeds and all transactions are excluded from these accounts from the date of transfer.
 - 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 note 8.1 but it has been determined that there is no requirement for group accounts.
 - The Council is providing part of the project finance to build EnviRecover, an Energy for Waste Plant, through a variation to the waste PFI agreement. The loan balance outstanding is included on the balance sheet as long term debtor with repayments due



from 2017/18. The effective interest rate is used to calculate the interest receivable which is credited to the comprehensive income and expenditure account.

- Included in current assets are assets held for sale valued at £3.5m in accordance with accounting practice. These assets are being actively marketed and as such are not depreciated.
- Long term assets include heritage assets of £2.8m that have been recognised in the accounts at open market value having been professionally valued in May 2012. Heritage assets will not be depreciated and the carrying amount will be reviewed at least every five years in addition to a review if there is evidence of impairment. Any variations to individual valuations will not have a material impact on the accounts.
- The council has examined its leases and classified them as either operational or finance leases depending on the transfer of risks and rewards of ownership. In some cases the council has used its judgement to determine the correct accounting treatment.

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

8.4.1 The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority 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.

8.4.2 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 2015:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	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 Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	<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 £9.0m.</p> <p>An increase of 0.1% in the inflation rate used would increase the stated liability by £9.2m.</p> <p>A one year increase in the assumed life expectancy would increase the stated liability by £9.8m.</p> <p>However, the assumptions interact in complex ways. During 2014/15 the Authority’s actuaries advised that the net pensions liability had increased by £52m as a result of the updating of assumptions.</p>
Non-current assets - depreciation	Non-current assets held on the Balance Sheet have an estimated useful life. This is based the professional judgement of our external valuers.	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



		<p>Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.</p> <p>As at 31 March 2015, the carrying value of accumulated depreciation is £80.2m.</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 rate appeals.</p>	<p>Actual settlements could differ from the 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 specific set aside reserve funding is used.</p> <p>The carrying amount of provisions increased by £1.6m to £5.3m as at 31 March 2015.</p>
Property, plant, equipment and investment properties	<p>Full valuation in accordance with professional standards of the Royal Institution of Chartered Surveyors is carried out every 5 years.</p> <p>In addition an impairment and valuation review is carried out as a desk exercise 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 carrying value of fixed assets as at 31 March 2015 is £492.6m.</p>

8.5 Material Items of Income and Expense

- 8.5.1 There was one material item of income and expense in the Comprehensive Income and Expenditure Account for 2013/14. A change in accounting policy introduced by the CIPFA code of practice has resulted in all school assets, excluding Academy and free schools, now being included in the balance sheet. This addition increased the council's asset value by £35.4m as at 1st April 2013 and this has been adjusted through the Comprehensive Income and Expenditure Account.

8.6 Events after the Balance Sheet Date

- 8.6.1 The Statement of Accounts was authorised for issue on 4th June 2015 by the Chief Financial Officer. Events taking place after this date are not reflected in the financial statements or notes. Post 31st March and prior to 4th June one asset held for sale was sold subject to contract.

8.7 Adjustments between Accounting Basis and Funding Basis under Regulations

- 8.7.1 This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.



2014/15

	General Fund Balance £m	Usable Reserves Capital Receipts Reserve £m	Capital Grants Unapplied £m	Unusable reserves £m
Adjustments involving the Capital Adjustment Account:				
<u>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Charges for depreciation on non-current assets	(13.9)			13.9
Revaluation losses and impairment on Property, Plant and Equipment	(6.7)			6.7
Movements in the market value of investment properties				
Amortisation of intangible assets	(1.7)			1.7
Capital grants and contributions	19.0			(19.0)
Revenue expenditure funded from capital under statute	(0.4)			0.4
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(6.1)			6.1
<u>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</u>				
Statutory provision for the financing of capital investment	11.1			(11.1)
Capital expenditure charged against the General Fund balance	2.8			(2.8)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0.4		(0.4)	
Application of grants to capital financing transferred to the Capital Adjustment Account			4.2	(4.2)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part	2.0	(2.0)		



of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement

Use of the Capital Receipts Reserve to finance new capital expenditure 3.6 (3.6)

Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.

Transfer from Deferred Capital Receipts Reserve upon receipt of cash

Adjustments involving the Financial Instruments Adjustment Account:

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements

Adjustments involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.37.3) (13.8) 13.8

Employer's pensions contributions and direct payments to pensioners payable in the year 10.4 (10.4)

Adjustments involving the Collection Fund Adjustment Account:

Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements (0.6) 0.6

Adjustment involving the Accumulated Absences Account

Amount by which charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements (0.3) 0.3

Total Adjustments 2.2 1.6 3.8 (7.6)

2013/14 Comparative Figures (restated)

	Usable Reserves			Unusable reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£m	£m	£m	£m
Adjustments involving the Capital Adjustment Account:				



Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:

Charges for depreciation on non-current assets	(14.5)		14.5
Revaluation losses and impairment on Property, Plant and Equipment	(4.5)		4.5
Movements in the market value of investment properties	(0.3)		0.3
Amortisation of intangible assets	(2.2)		2.2
Capital grants and contributions	16.4		(16.4)
Revenue expenditure funded from capital under statute	(1.9)		1.9
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(12.5)		12.5

Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:

Statutory provision for the financing of capital investment	10.7		(10.7)
Capital expenditure charged against the General Fund balance	0.5		(0.5)

Adjustments primarily involving the Capital Grants Unapplied Account:

Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0.5	(0.5)	
Application of grants to capital financing transferred to the Capital Adjustment Account		7.7	(7.7)

Adjustments involving the Capital Receipts Reserve:

Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5.3	(5.3)	
Use of the Capital Receipts Reserve to finance new capital expenditure		2.0	(2.0)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals			
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.			
Recognition of new deferred capital receipts			
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			

Adjustments involving the Financial Instruments Adjustment Account:

Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from



finance costs chargeable in the year in accordance with statutory requirements

Adjustments involving the Pensions Reserve:

Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.37.3)	(16.6)			16.6
Employer's pensions contributions and direct payments to pensioners payable in the year	9.8			(9.8)

Adjustments involving the Collection Fund Adjustment Account:

Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.6)			0.6
--	-------	--	--	-----

Adjustment involving the Accumulated Absences Account

Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.9			(0.9)
---	-----	--	--	-------

Total Adjustments	(9.0)	(3.3)	7.2	5.1
--------------------------	--------------	--------------	------------	------------



8.8 Transfers to/from Earmarked Reserves

8.8.1 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 2014/15:

31 Mar 2014	Transfer out 14/15	Transfer (in) 14/15	31 Mar 2015
£m	£m	£m	£m
(6.3) School balances	0.1		(6.2)
(0.4) Industrial Estates			(0.4)
(0.4) Schools Insurance	0.4		0.0
(0.2) Schools sickness			(0.2)
(2.4) Waste Disposal	0.3	(1.1)	(3.2)
(0.3) Contingent liabilities			(0.3)
(0.2) Hereford Futures		(0.2)	(0.4)
(0.4) Whitecross school PFI			(0.4)
(0.1) Economic Development			(0.1)
(0.4) Three Elms Ind. Estate	0.4		0.0
(0.1) Community Equipment			(0.1)
(0.1) Community Social Care	0.1		0.0
(0.1) Insurance	0.1		0.0
(3.5) Risk mitigation		(1.0)	(4.5)
(1.0) Business Rate smoothing		(2.2)	(3.2)
(0.6) Land charges	0.1		(0.5)
(0.4) Safeguarding	0.4		0.0
(0.4) ICT		(0.2)	(0.6)
(0.3) Library services		(0.1)	(0.4)
(0.2) Herefordshire Local Plan			(0.2)
(0.1) HR	0.1		0.0
(0.1) Special Educational Needs			(0.1)
(0.1) Section 256			(0.1)
0.0 Severe Weather Fund		(0.5)	(0.5)
0.0 Infrastructure Development Fund		(0.2)	(0.2)
0.0 AWB Invest to Save		(0.3)	(0.3)
(0.1) Other small reserves		(0.2)	(0.3)
(5.7) Unused grants carried forward	3.4	(2.2)	(4.5)
(23.9)	5.4	(8.2)	(26.7)



8.9 Other Operating Expenditure

2013/14 £m		2014/15 £m
2.8	Parish council precepts	3.1
0.2	Levies	0.2
7.7	(Gains)/losses on the disposal of non-current assets	4.1
10.7	Total	7.4

8.10 Financing and Investment Income and Expenditure

2013/14 £m		2014/15 £m
7.8	Interest payable and similar charges	7.2
7.9	Pensions net interest and admin charge	7.1
(0.3)	Interest receivable	(0.4)
(1.2)	Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	(1.4)
(0.5)	(Gains)/losses on the disposal of investment properties	0.0
(0.5)	Other investment income	(0.4)
13.2	Total	12.1

8.11 Taxation and Non Specific Grant Income

2013/14 £m		2014/15 £m
(81.8)	Council tax income	(85.5)
(27.6)	Non domestic rates	(27.3)
(47.9)	Non-ringfenced government grants	(41.2)
(16.9)	Capital grants and contributions	(19.4)
(174.2)	Total	(173.4)



8.12 Property, Plant and Equipment

8.12.1 Movements in 2014/15:

	Land & buildings	Vehicles, plant, furniture & equipment	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total PPE	PFI assets incl. in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation								
At 1 April 2014	293.6	20.6	198.3	1.9	4.2	15.2	533.8	10.6
Additions	11.2	1.7	33.0			14.1	60.0	0.1
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0.5				0.4		0.9	2.5
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(6.8)						(6.8)	1.9
Adjustment to write back depreciation on revalued assets	(7.8)						(7.8)	(0.3)
Disposals	(6.3)	(0.1)			(0.1)		(6.5)	
To held for sale	(0.8)						(0.8)	
At 31 March 2015	283.6	22.2	231.3	1.9	4.5	29.3	572.8	14.8
Accumulated Depreciation and Impairment								
At 1 April 2014	(19.3)	(15.8)	(39.5)				(74.6)	(2.9)
Depreciation on cost (net of any impairments)	(6.8)	(1.3)	(5.7)				(13.8)	
Depreciation on revalued amount in excess of cost	(0.1)						(0.1)	
Depreciation written back on revalued assets	7.8						7.8	0.3
Disposals	0.5						0.5	
At 31 March 2015	(17.9)	(17.1)	(45.2)	0.0	0.0	0.0	(80.2)	(2.6)
Net Book Value								
At 31 March 2015	264.5	5.1	186.1	1.9	4.5	29.3	492.6	12.2
At 31 March 2014	274.3	4.8	158.8	1.9	4.2	15.2	459.2	7.7



Comparative Movements in 2013/14:

	Land & buildings	Vehicles, plant, furniture & equip	Infrastructure assets	Community assets	Surplus assets	Assets under construction	Total PPE	PFI assets incl. in PPE
	£m	£m	£m	£m	£m	£m	£m	£m
Cost or Valuation								
At 1 April 2013	244.5	20.8	182.6	1.6	4.0	14.8	468.3	10.5
Additions	49.4	0.6	11.5	0.2		12.7	74.4	0.2
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9.3						9.3	
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4.4)					(0.1)	(4.5)	
Adjustment to write back depreciation on revalued assets	(3.7)						(3.7)	
Disposals	(5.6)	(0.8)			(3.5)		(9.9)	(0.1)
To held for sale	(0.1)						(0.1)	
Other reclassifications	4.2		4.2	0.1	3.7	(12.2)		
At 31 March 2014	293.6	20.6	198.3	1.9	4.2	15.2	533.9	10.6
Accumulated Depreciation and Impairment								
At 1 April 2013	(16.4)	(13.6)	(34.2)				(64.2)	(2.6)
Depreciation on cost (net of any impairments)	(5.3)	(2.6)	(5.3)				(13.2)	(0.3)
Depreciation on revalued amount in excess of cost	(1.4)						(1.4)	
Depreciation written back on revalued assets	3.7						3.7	
Disposals	0	0.4					0.4	
At 31 March 2014	(19.4)	(15.8)	(39.5)	0.0	0.0	0.0	(74.7)	(2.9)
Net Book Value								
At 31 March 2014	274.3	4.8	158.8	1.9	4.2	15.2	459.2	7.7
At 31 March 2013	228.1	7.2	148.4	1.6	4.0	14.8	404.1	7.9



8.12.2 Depreciation

Depreciation is provided on a straight line basis over an asset's economic useful life. Lives have been estimated as follows:

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

8.12.3 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:

Directorate	Depreciation £m	Impairments £m	Total for 2014/15 £m
Adults Well-being		(1.7)	(1.7)
Children's Well-being	6.7	6.9	13.6
Economy, Communities and Corporate	8.9	1.6	10.5
Total	15.6	6.8	22.4

8.12.4 Capital Commitments

At 31 March 2015 the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2015/16 and future years budgets. Major commitments totalled £5.8 million in relation to the improvements of leisure centres.

8.12.5 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. Hub Professional Services Ltd, complete the majority of the valuations with only the lower value assets (less than £5k) being reviewed by the in-house valuation team. 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 is based on depreciated costs as a proxy for fair value.

Of the land buildings held at fair value as at 31st March, £264.5m, the effective date of revaluations are as follows:

Valued at fair value as at:	Land and buildings £m
31 st March 2015	122.8
31 st March 2014	53.3
31 st March 2013	61.4
31 st March 2012	23.6
31 st March 2011	34.6
Total	295.7



8.12.6 Schools

The authority has recognised additional schools buildings as assets as it is considered probable that the schools using these premises will benefit from the service potential of the schools. These schools are however not legally owned by the authority and the owners retain legal rights that would prevent the authority from disposing of the schools or using them for any other purposes than the provision of education. The owners also retain the right to require the schools premises to be returned to them provided appropriate notice is given.

The carrying value of these schools at 31 March 2015 was £32.2m.

8.13 Investment Properties

8.13.1 The following items of income and expense 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.

2013/14 £m		2014/15 £m
(2.7)	Rental income from investment property	(2.3)
0.7	Direct operating expenses arising from investment property	0.7
(2.0)	Net gain	(1.6)

8.13.2 The following table summarises the movement in the fair value of investment properties over the year:

2013/14 £m		2014/15 £m
33.0	Balance at start of the year	30.2
	Additions:	
	Enhancement expenditure	1.8
(2.4)	Disposals	
(0.4)	Net gains/(losses) from fair value adjustments	
30.2	Balance at end of the year	32.0

8.14 Financial Instruments

8.14.1 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, general rates etc, 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.

8.14.2 Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet.

8.14.3 Financial Assets

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



2013/14			2014/15	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
0.0	0.0	Long-term investments	0.0	0.0
		Treasury stock etc		
		Long-term debtors		
1.3	1.3	Loans	7.1	7.1
1.5		PFI lifecycle costs	1.8	
2.8	1.3		8.9	7.1
		Investments		
17.6	17.6	Short-term investments	0.2	0.2
8.4	8.4	Cash and cash equivalents	4.2	4.2
26.0	26.0		4.4	4.4
		Short-term debtors		
18.8	18.8	Sales invoices and contractual rights	15.1	15.1
9.0		Statutory debts (council tax, VAT etc)	7.1	
2.4		Prepayments	2.1	
(1.7)		Bad debt provisions	(3.1)	
		Loans	0.3	0.3
28.5	18.8		21.5	15.4

8.14.4 Financial Liabilities

All the financial liabilities in the Balance Sheet which are financial instruments are classed as financial liabilities at amortised cost.

2013/14			2014/15	
Per Balance Sheet	Financial Instruments		Per Balance Sheet	Financial Instruments
£m	£m		£m	£m
3.2	3.2	Cash and cash equivalents (unpresented items)	4.0	4.0
		Short-term borrowing:		
0.1	0.1	Bank loans	0.1	0.1
4.9	4.9	Public Works Loan Board	9.5	9.5
31.5	31.5	Borrowing from other local authorities	19.1	19.1
0.3	0.3	Other loans (Salix loan)	0.1	0.1
36.8	36.8		28.8	28.8



		Short-term creditors			
17.6	17.6	Invoiced amounts and other contractual liabilities	20.5	20.4	
3.6		Statutory liabilities (PAYE etc)	1.4		
5.0		Accruals and receipts in advance	6.8		
0.2		Funds and deposits held	0.3		
26.4	17.6		29.0	20.4	
		Long-term borrowing			
120.5	120.5	Public Works Loan Board	124.9	124.9	
12.5	12.5	Bank loans	12.5	12.5	
0.2	0.2	Other loans (Salix loan)	0.1	0.1	
133.2	133.2		137.5	137.5	
		Other long-term liabilities			
27.3	27.3	PFI liabilities and finance leases	26.3	26.3	
160.4		Pensions liability	212.7		
187.7	27.3		239.0	26.3	

LOBO bank loans were classed as short-term borrowing in 2013/14, but have been re-classified as long-term borrowing in 2014/15 following advice from our treasury management advisors.

8.14.5 Income, Expense, Gains and Losses

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

2013/14			2014/15		
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
<u>Interest payable and similar charges:</u>					
Interest expense relating to:					
5.4		5.4	5.1		5.1
2.1		2.1	2.1		2.1
	0.3	0.3			
7.5	0.3	7.8	7.2	0.0	7.2
Total expense in surplus on the provision of services			Total expense in surplus on the provision of services		
<u>Interest receivable:</u>					
				(0.2)	(0.2)
	(0.3)	(0.3)		(0.2)	(0.2)
0.0	(0.3)	(0.3)	0.0	(0.4)	(0.4)
Total income in surplus on the provision of services			Total income in surplus on the provision of services		
7.5	0.0	7.5	7.2	(0.4)	6.8
Net loss/(gain) for the			Net loss/(gain) for the		



year

8.14.6 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 premature repayment 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 2014			31 March 2015	
Carrying amount	Fair value		Carrying amount	Fair value
£m	£m		£m	£m
170.0	191.0	Total borrowing	166.3	213.9

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 £26m and the fair value as at 31.03.15 totals £44m. The accounts have not been adjusted for this as the PFI schemes are set to continue until expiry.

8.15 Debtors

31 March 2014 £m		31 March 2015 £m
10.5	Central government bodies	5.7
0.9	Other local authorities	0.4
5.0	NHS bodies	3.2
13.8	Other entities and individuals	15.3
30.2		24.6



(1.7)	Provision for Bad Debts	(3.1)
28.5	Total	21.5

8.16 Cash and Cash Equivalents

8.16.1 The balance of cash and cash equivalents is made up of the following elements:

31 March 2014 £m		31 March 2015 £m
2.6	Cash held by the Authority	1.5
5.8	Short-term deposits	2.7
8.4		4.2
(3.2)	Bank current accounts	(4.0)
5.2	Total Cash and Cash Equivalents	0.2

8.16.2 By transferring funds to and from its investment accounts the council maintains a nil cleared balance on its current accounts overnight. The overdrawn amount shown above is wholly due to the inclusion of unrepresented bank payments for accounting purposes.

8.16.3 The cash flows for operating activities include the following adjustment for non-cash movements:

31 March 2014 £m		31 March 2015 £m
(0.1)	Net Movement in Inventories	(0.1)
(4.0)	Net Movement in Debtors	(0.9)
6.0	Net Movement in Creditors	(2.6)
(20.5)	Depreciation, amortisation & impairment of non-current assets	(22.3)
(11.3)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(6.3)
(6.7)	Net Charges made for retirement benefits in accordance with IAS 19	(3.4)
(1.1)	Net Movement in Provisions	(1.5)
(37.7)	Adjustment for non-cash movements	(37.1)

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

31 March 2014 £m		31 March 2015 £m
(4.2)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2.5)

8.16.5 Interest received and paid:

31 March 2014 £m		31 March 2015 £m
7.5	Interest paid	6.9
(0.3)	Interest received	(0.3)
7.2		6.6



8.17 Creditors

31 March 2014 £m		31 March 2015 £m
(3.8)	Central government bodies	(4.8)
(4.2)	Other local authorities	(3.0)
(1.1)	NHS bodies	(0.2)
(17.3)	Other entities and individuals	(21.0)
(26.4)	Total	(29.0)

8.18 Provisions

8.18.1 The movement on provisions from 1st April 2013 to 31st March 2015 is set out below:

	Long-term £m	Short-term £m	Total £m
Balance at 1 April 2013	(1.1)	(1.5)	(2.6)
Additional provisions made in 2013/14	(0.5)	(1.5)	(2.0)
Amounts used in 2013/14		0.9	0.9
Balance at 31 March 2014	(1.6)	(2.1)	(3.7)
Additional provisions made in 2014/15	(2.2)	(2.4)	(4.6)
Amounts used in 2014/15		2.0	2.0
Unused amounts reversed in 14/15	0.6	0.4	1.0
Balance at 31 March 2015	(3.2)	(2.1)	(5.3)

8.18.2 The provisions held at 31st March 2015 are;

31 March 2014 £m	Provision name	Description	Additional provisions	Amounts used	Unused amounts reversed	31 March 2015 £m
(1.8)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31 st March 2015 plus contractual commitments to cover redundancies for transferred staff in partner organisations	(0.2)	1.4	0.4	(0.2)
(1.3)	Insurance	For potential future insurance claims based on external professional assessment	(1.4)	-	0.6	(2.1)
-	Disputed invoices	Estimated costs relating disputed invoices for provision of childcare at Ledbury Road	(0.1)	-	-	(0.1)
-	Academy recoupment	For potential monies to be claimed back by DfE	(0.3)	-	-	(0.3)
(0.6)	NNDR appeals	For future appeals against rating valuations which will affect rating income due for 2014/15 and prior years. This figure is after spreading the impact of appeals affecting pre April 2013, as allowed by legislation.	(2.6)	0.6	-	(2.6)
(3.7)		Total	(4.6)	2.0	1.0	(5.3)



8.19 Usable Reserves

Movements in the Authority's usable reserves are summarised in the Movement in Reserves Statement and set out in more detail below.

8.19.1 Capital receipts reserve

31 March 2014 £m		31 March 2015 £m
(2.8)	Balance at 1 April	(6.0)
(5.3)	Received during the year	(2.1)
2.0	Applied during the year	3.6
0.1	Admin costs of sales	0.1
(6.0)	Balance at 31 March	(4.4)

8.19.2 Capital grants unapplied

31 March 2014 £m		31 March 2015 £m
(13.5)	Balance at 1 April	(6.4)
(0.5)	Received during the year	(0.4)
7.6	Applied during the year	4.3
(6.4)	Balance at 31 March	(2.5)

8.19.3 Usable reserves summary

31 March 2014 £m		31 March 2015 £m
(5.9)	Capital receipts reserve	(4.4)
(6.4)	Capital grants unapplied reserve	(2.5)
(23.9)	Earmarked reserves (note 8.8)	(26.7)
(5.1)	General Fund reserve	(7.1)
(41.3)	Balance at 31 March	(40.7)

8.20 Unusable Reserves and Unrealised Liabilities Summary

31 March 2014 £m		31 March 2015 £m
(55.3)	Revaluation reserve	(54.5)
(227.8)	Capital Adjustment Account	(241.5)
(0.4)	Deferred Capital Receipts Reserve	(0.3)
0.4	Financial Instruments Adjustment Account	0.4
160.4	Pensions liability	212.7
1.7	Collection Fund Adjustment Account	2.3
1.7	Accumulated Absences Account	2.0
(119.3)	Total unusable reserves	(78.9)

8.20.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority 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.

31 March 2014 £m		31 March 2015 £m
(48.9)	Balance at 1 April	(55.3)
(9.3)	(Surplus) or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(0.9)
1.4	Difference between fair value depreciation and historical cost depreciation	1.6
1.5	Accumulated gains on assets sold or scrapped	0.1
(55.3)	Balance at 31 March	(54.5)

8.20.2 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 Authority 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 Authority.

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.

Note 8.7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

Restated 2013/14 £m		2014/15 £m	2014/15 £m
(188.3)	Balance at 1 April		(227.8)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
14.6	Charges for depreciation on non-current assets	13.9	
4.5	Revaluation losses and impairment on Property, Plant and Equipment	6.7	
2.2	Amortisation of intangible assets	1.7	
1.9	Revenue expenditure funded from	0.4	



	capital under statute		
12.5	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	6.1	
35.7			28.8
(2.9)	Adjusting amounts written out of the Revaluation Reserve		(1.7)
32.8	Net written out amount of the cost of non-current assets consumed in the year		27.1
	Capital financing applied in the year:		
(2.0)	Use of the Capital Receipts Reserve to finance new capital expenditure	(3.6)	
(16.5)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(19.0)	
(7.6)	Application of grants to capital financing from the Capital Grants Unapplied Account	(4.3)	
(10.7)	Statutory provision for the financing of capital investment charged against the General Fund balance	(11.1)	
(0.5)	Capital expenditure charged against the General Fund balance	(2.8)	
(37.3)			(40.8)
(35.4)	Inclusion of previously excluded school assets		
0.4	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		
(227.8)	Balance at 31 March		(241.5)

8.20.3 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.

The opening balance mainly relates to the council's two "stepped interest" bank loans where the interest paid in the first two years was much lower than the rate subsequently charged. The charge in the Comprehensive Income & Expenditure Statement is based on the effective (or average) rate over the period of the loan and so in the first two years the charge was increased by debiting the differential in the Movement in Reserves Statement and crediting the FIAA. This latter reserve is then reversed out over the remaining period of the loan to give a consistent effective rate of interest.

		2014/15
		£m
2013/14		
£m		
0.4	Balance at 1 April and 31 March	0.4



8.20.4 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 Authority 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 Authority makes employer's contributions to pension funds or eventually pays 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 Authority 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.

2013/14 £m		2014/15 £m
188.5	Balance at 1 April	160.4
(38.0)	Re-measurement of the net defined benefit liability	48.9
3.1	Business combination	
	Reversal of items relating to retirement benefits debited or credited	
16.6	to the Surplus or Deficit on the Provision of Services in the	13.8
	Comprehensive Income and Expenditure Statement	
(9.8)	Employer's pensions contributions and direct payments to	(10.4)
	pensioners payable in the year	
160.4	Balance at 31 March	212.7

8.20.5 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 Authority 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.

2013/14 £m		2014/15 £m
(0.4)	Balance at 1 April and 31 March	(0.3)

8.20.6 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.

2013/14 £m		2014/15 £m
1.1	Balance at 1 April	1.7
(1.2)	Amount by which council tax income credited to the Comprehensive	
	Income and Expenditure Statement is different from council tax	(1.4)
	income calculated for the year in accordance with statutory	
	requirements	
1.8	Amount by which non-domestic rates income credited to the	
	Comprehensive Income and Expenditure Statement is different	
	from rates income calculated for the year in accordance with	2.0
	statutory requirements	



1.7	Balance at 31 March	2.3
8.20.7	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.

2013/14		2014/15
£m		£m
2.6	Balance at 1 April	1.7
	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	
(0.9)		0.3
1.7	Balance at 31 March	2.0

8.21 Amounts Reported for Resource Allocation Decisions

8.21.1 The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular the report includes:

- Transactions for Trading Accounts
- Movements on Schools Balances
- Expenditure on Levies



8.21.2 Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2014/15 out-turn report is as follows:

Directorate Income and Expenditure	Adults Wellbeing (inc Public Health)	Children's Wellbeing	Economy, Communities & Corporate	Total
<u>2014/15</u>	£m	£m	£m	£m
Fees, charges & other service income	18.3	9.2	22.8	50.3
Government grants	8.8	82.2	57.2	148.2
Total Income	27.1	91.4	80.0	198.5
Employee expenses	11.1	69.2	18.4	98.7
Other service expenses	68.8	51.7	121.0	241.5
Support services	4.0	9.4	(9.4)	4.0
Total Expenditure	83.9	130.3	130.0	344.2
Net Expenditure	56.8	38.9	50.0	145.7



The following table shows the restated comparative figures for 2013/14:

Directorate Income and Expenditure	Adults Wellbeing (inc Public Health)	Children's Wellbeing	Economy, Communities & Corporate	Total
<u>2013/14 Comparative figures</u>	£m	£m	£m	£m
Fees, charges & other service income	17.7	12.1	19.0	48.8
Government grants	9.3	82.4	58.5	150.2
Total Income	27.0	94.5	77.5	199.0
Employee expenses	8.5	71.8	20.1	100.4
Other service expenses	75.6	49.9	117.4	242.9
Support services	4.1	9.2	(9.4)	3.9
Total Expenditure	88.2	130.9	128.1	347.2
Net Expenditure	61.2	36.4	50.6	148.2



8.21.3 Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

2013/14 £m		2014/15 £m
148.3	Net expenditure in the Directorate Analysis	145.7
0.6	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account	1.2
<hr/> 148.9	Cost of services in the Comprehensive Income and Expenditure Statement	<hr/> 146.9


8.21.4 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2014/15	Directorate Analysis £m	Amounts not Included in I & E £m	Cost Of Services £m	Corporate Items £m	Total £m
Fees, charges & other service income	50.2	(2.4)	47.8	0	47.8
Financing and investment income	0	0	0	2.2	2.2
Income from council tax	0	0	0	85.5	85.5
Government grants and contributions	148.3	0	148.3	87.9	236.2
Total Income	198.5	(2.4)	196.1	175.6	371.7
Employee expenses	98.7	0	98.7	0	98.7
Other service expenses	241.4	(0.5)	240.9	0	240.9
Support Service recharges	4.1	(0.5)	3.6	0	3.6
Financing and investment expenditure	0	0	0	14.3	14.3
Precepts & Levies	0	(0.2)	(0.2)	3.3	3.1
Payments to Housing Capital Receipts Pool	0	0	0	0	0
Gain or Loss on Disposal of Property, plant and equipment	0	0	0	4.1	4.1
Total expenditure	344.2	(1.2)	343.0	21.7	364.7
(Surplus) or deficit on the provision of services	145.7	1.2	146.9	(153.9)	(7.0)



The following table shows the comparative figures for 2013/14:

2013/14	Directorate Analysis £m	Amounts not Included in I & E £m	Cost Of Services £m	Corporate Items £m	Total £m
Fees, charges & other service income	48.7	(2.7)	46.0	0	46.0
Financing and investment income	0	0	0	2.0	2.0
Income from council tax	0	0	0	81.8	81.8
Government grants and contributions	150.2	0	150.2	92.4	242.6
Total Income	198.9	(2.7)	196.2	176.2	372.4
Employee expenses	100.4	(0.2)	100.2	0	100.2
Other service expenses	242.9	(0.8)	242.1	0	242.1
Support Service recharges	3.9	(0.9)	3.0	0	3.0
Financing and investment expenditure	0	0	0	15.7	15.7
Precepts & Levies	0	(0.2)	(0.2)	3.0	2.8
Gain or Loss on Disposal of Property, plant and equipment	0	0	0	7.2	7.2
Total expenditure	347.2	(2.1)	345.1	25.9	371.0
(Surplus) or deficit on the provision of services	148.3	0.6	148.9	(150.3)	(1.4)



8.22 Trading Operations

8.22.1 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.

2013/14 £m		2014/15 £m
	Markets	
	The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	
(0.8)	Turnover	(0.6)
0.5	Expenditure	0.4
(0.3)	(Surplus)/deficit	(0.2)
	Industrial Estates	
	The council owns and manages a number of industrial estates in the county.	
(1.4)	Turnover	(1.2)
0.5	Expenditure	0.5
(0.9)	(Surplus)/deficit	(0.7)
	Retail Properties	
	The council owns retail premises in Hereford City centre from which it receives commercial rents.	
(0.5)	Turnover	(0.5)
0.0	Expenditure	0.0
(0.5)	(Surplus)/deficit	(0.5)
1.7	Total	1.4

8.22.2 The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing and investment income and expenditure' (note 8.10).

8.23 Agency Services

8.23.1 During 2014/15 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 2014/15 spend totalled £8.0m (2013/14 £0.7m) under the Fastershire project, of which £5.4m (2013/14 £0.5m) represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

8.24 Pooled Budgets

8.24.1 The council is party to one pooled budget arrangements;

CNS Complex Needs Solution

8.24.2 Herefordshire Council have entered into a pooled budget agreement with the Clinical Commissioning Group to provide provision for children and young people with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.



2013/14 £m			2014/15 £m
		Funding provided to the pooled budget:	
(3.0)		Herefordshire Council	(3.0)
(0.5)	(3.5)	Herefordshire CCG	(0.5) (3.5)
<hr/>			
		Expenditure met from the pooled budget:	
3.0		Herefordshire Council	3.0
0.5	3.5	Herefordshire CCG	0.5 3.5
<hr/>			
	0.0	Net surplus arising on the pooled budget during the year	0.0
<hr/>			
	0.0	Council share of the net surplus	0.0
<hr/>			

8.25 Officers' Remuneration

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

8.25.2 The 2014/15 salary banding information is set out below. This includes the cost of living pay award agreed to March 2016. The numbers of staff are actual numbers, non-school full time equivalents for 2014/15 totalled 1,050. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. The increase in staff numbers in the salary band £50k-£55k reflects the January 2015 pay award. Where no employees fell within a particular band (£120k to £140k), this band is not shown in the table.

2013/14					2014/15		
<u>Non School</u>	<u>School</u>	<u>Total</u>	<u>From £000</u>	<u>To £000</u>	<u>Non School</u>	<u>School</u>	<u>Total</u>
1,628	2,772	4,400	0	50	1,648	2,701	4,349
11	36	47	50	55	17	25	42
6	10	16	55	60	6	17	23
2	8	10	60	65	1	7	8
3	7	10	65	70	6	7	13
1	2	3	70	75	2	1	3
4	1	5	75	80	5	1	6
1	2	3	80	85	0	2	2
1	1	2	85	90	2	2	4
1	1	2	90	95	1	1	2
1	0	1	95	100	0	0	0
1	0	1	100	105	0	0	0
0	0	0	105	110	1	0	1
1	0	1	110	115	0	0	0
1	0	1	115	120	1	0	1
1	0	1	140	145	1	0	1
1,663	2,840	4,503			1,691	2,764	4,455



Post holder information			Salary, Fees and Allowances	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Note	Year	£	£	£	£	£	£
Senior Employees Remuneration								
Chief Executive	1	2014/15	143,887			143,887	17,554	161,441
		2013/14	143,887			143,887	32,625	176,512
Deputy Chief Executive	2	2013/14	24,916			24,916	5,606	30,522
Director for Children's Wellbeing		2014/15	107,885		114	107,999	13,176	121,175
		2013/14	111,904		95	111,999	25,200	137,199
Director for Economy, Communities and Corporate		2014/15	119,079			119,079	14,688	133,767
		2013/14	119,284		81	119,365	27,000	146,365
Chief Officer - Finance and Commercial	3	2013/14	44,798		28	44,826	10,125	54,951
Chief Financial Officer - Section 151 Officer	4	2014/15	33,525		105	33,630	4,480	38,110
		2013/14	18,040		57	18,097	4,342	22,439
Assistant Director - Law, Governance & Resilience	5	2013/14	3,000	34,952		37,952	675	38,627
Assistant Director - People, Policy & Partnerships	6	2014/15	7,040			7,040	858	7,898
		2013/14	82,510			82,510	17,777	100,287
Assistant Director - Education and Commissioning		2014/15	78,941			78,941	9,703	88,644
		2013/14	78,406			78,406	17,777	96,183
Assistant Director - Safeguarding and Early Years	7	2013/14	46,582			46,582	10,617	57,199
Head of Service - Adult Services	8	2013/14	3,072	28,506		31,578	691	32,269
Head of Special Projects	9	2013/14	65,726	30,000	699	96,435	12,309	108,744



			Salary, Fees and Allowances	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions
	Notes	Year	£	£	£	£	£	£
Assistant Director - Economic, Environment and Cultural Services		2014/15	78,941			78,941	9,731	88,672
		2013/14	78,406			78,406	17,777	96,183
Assistant Director - Homes and Community Services		2014/15	78,319		105	78,424	9,567	87,991
		2013/14	78,311			78,311	17,777	96,088
Assistant Director - Place Based Commissioning		2014/15	78,826		114	78,940	9,701	88,641
		2013/14	78,311			78,311	17,777	96,088
Director of Public Health	10	2014/15	29,746	39,650	28	69,424	3,534	72,958
		2013/14	100,879		200	101,079	14,136	115,215
Assistant Director - Governance	11	2014/15	89,194		114	89,308	8,217	97,525
		2013/14	69,547			69,547	15,804	85,351
Head of Safeguarding and Transformation		2014/15	67,573			67,573	8,243	75,816
Head of Community and Customer Services		2014/15	69,625		15	69,640	8,496	78,136

- 1 The Chief Executive started on the 1st March 2013
- 2 45% of the Deputy Chief Executive salary cost was recharged to the PCT in 2012/13. The Deputy chief Executive left on the 9th June 2013
- 3 The Chief Officer – Finance and Commercial left on the 30th September 2013
- 4 The Chief Financial Officer – Section 151 Officer started on the 13th September 2013. The post is equivalent to 0.2 FTE, additional Services for financial transformation are procured separately under a contract (further details are set out in the report to the employment panel 3rd June 2014). The post was filled on a FTE permanent basis from 1st July 2015 (further details are set out in the report to the employment panel 31st March 2015).
- 5 The Assistant Director, Law, Governance & Resilience left on the 12th April 2013
- 6 The Assistant Director – People, Policy & Partnerships left on the 5th May 2014
- 7 The Assistant Director – Safeguarding and Early Years left on the 5th November 2013
- 8 The Head of Service - Adult Services left on the 14th April 2013
- 9 The Head of Special Projects left on the 31st December 2013
- 10 The Director of Public Health left on the 30th June 2014
- 11 The Solicitor to the Council started on the 7th May 2013



8.26 Termination Benefits

8.26.1 The following table summarises the redundancies which occurred in 2014/15, with comparative numbers for 2013/14;

	Compulsory redundancies	Other agreed departures	Total
2014/15			
Number	59	45	104
Total Cost	£698,702	£476,129	£1,174,831
Average	£11,842	£10,581	£11,296
2013/14			
Number	102	121	223
Total Cost	£747,900	£1,183,368	£1,931,268
Average	£7,332	£9,780	£8,660

8.26.2 In addition, the total cost of actuarial strain relating to 2014/15 terminations was £0.3m (£0.3m in 2013/14). This is paid to the pension fund over 3 years. The actual amount of actuarial strain paid to Worcestershire County Council in 2014/15 was £0.6m (relating to retirements in 2012/13, 2013/14 and 2014/15).

8.26.3 The number and total cost per band of exit packages analyses 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 (see 8.37.2)

Number of compulsory redundancies	Number of other agreed departures	Total number of exit packages	Total cost of exit packages in each band	Exit package cost band (including special payments)	2013/14				2014/15			
96	110	206	1,418,649	£0 - £20,000	53	35	88	699,213				
5	11	16	457,619	£20,001 - £40,000	4	9	13	330,232				
1	0	1	55,000	£40,001 - £60,000	2	1	3	145,386				
102	121	223	1,931,268	Total	59	45	104	1,174,831				

8.27 External Audit Costs

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

2013/14 £m		2014/15 £m
0.2	Fees payable with regard to external audit services carried out by the appointed auditor	0.2

8.27.2 It should be noted that as part of the above fee, sums of £6,420 and £4,200 were charged for the Housing Benefit and teachers' pension grant claim respectively for their certification.



8.27.3 The council received a rebate of £16,938 for the financial year of 2014/15 from the audit fee due to the audit commission seeking greater efficiency from auditors when carrying out their audits.

8.28 Dedicated Schools Grant

8.28.1 The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) 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 (ISB), 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.

8.28.2 Details of the deployment of DSG receivable for 2014/15 are as follows:

Total 2013/14 £m		Central Expenditure 2014/15 £m	Individual Schools Budget 2014/15 £m	Total 2014/15 £m
109.9	Final DSG allocation before Academy Recoupment			111.1
(34.4)	Less Academy figure recouped for 2013/14			(38.8)
75.5	Total DSG after Academy recoupment for 2013/14			72.3
0.5	Brought forward from previous year			0.6
0.5	2012/13 Sponsored Academy deficit reserve – unused amount reversed			
(0.5)	Less Carry Forward to 2014/15 agreed in advance			(0.2)
76.0	Agreed budgeted distribution in year	9.5	63.2	72.7
	Unallocated and retained in reserves	0.4		0.4
(9.7)	Less: Actual central expenditure	(9.5)		(9.5)
(65.6)	Less: Actual Individual School Budget deployed to schools		(62.2)	(62.2)
0.7	Carry forward	0.4	1.0	1.4

8.29 Grant Income

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



2013/14 £m		2014/15 £m
	Credited to Taxation and Non Specific Grant Income	
42.9	Revenue Support Grant	35.8
5.0	Other non-ringfenced Grants	5.3
81.8	Council Tax income	85.5
27.6	Business rates income	27.4
16.9	Capital Grants	19.4
174.2		173.4
	Credited to Services	
84.0	Department for Education	79.6
2.5	Department for Communities and Local Government	5.8
50.5	Department for Work and Pensions	50.7
0.5	Department for Transport	0.7
0.0	Department for Culture, Media and Sport	2.6
1.9	Defra	0.3
8.0	Department of Health	8.4
0.0	Other	0.2
147.4		148.3
321.6	Total	321.7

8.30 Related Parties

8.30.1 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 authority.

Central Government

8.30.2 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. Details of income received from government departments are set out in note 8.29.

Members

8.30.3 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 2014/15 are not material. One member was the employee of a care home to which the council made payments in the year of £0.7m.

**Officers**

- 8.30.4 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

- 8.30.5 During the year the council made payments of £24.8m to Worcestershire County Council (£23.9m in 2013/14), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2014/15 totalled £1.3m (£0.5 m in 2013/14). A total of £2.1m was paid to Wye Valley NHS Trust (£6.7m in 2013/14) and £3.6 million to 2Gether (£3.6m in 2013/14).

Significant long-term contracts

- 8.30.6 The council awarded the public realm services contract to Balfour Beatty Living Places on 1st September 2013.
- 8.30.7 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 £42.0m to Balfour Beatty in 2014/15 (£9.3m in 2013/14).
- 8.30.8 In 2009 the council entered into a 7 year contract with Fosca for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5m. Payments to Fosca totalled £4.3m in 2014/15 (£4.3m in 2013/14).

Other organisations

- 8.30.9 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2014/15 the council paid £0.7m to Halo Leisure Trust (£1.1m in 2013/14). In 2014/15 the council paid £0.2m to the Courtyard Trust (£0.2m in 2013/14). The council has a commissioning agreement with the Trust based on agreed outcomes.
- 8.30.10 During the year the council made payments totalling £0.6m to Herefordshire Housing Ltd (£0.3m in 2013/14).
- 8.30.11 The council held an interest in a company called Hereford Futures, whose role was to facilitate development and regeneration within Hereford. Payments were made to Hereford Futures amounting to £0.2m partially to support its the closedown process (£0.4m in 2013/14).
- 8.30.12 West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils Payments of £1.8m were made in 2014/15 to WME (£0.6m in 2013/14).

Jointly controlled organisation

- 8.30.13 Hoople Ltd 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 Ltd was wholly owned by Herefordshire Council and Wye Valley NHS Trust.
- 8.30.14 The inter-organisation transaction between the council and Hoople Ltd amounted to £7.1m (£7.4m in 2013/14). There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31st March 2015 payable to Hoople Ltd.
- 8.30.15 The draft year-end result of Hoople Ltd, prior to adjustments for pensions, was a profit before tax of £0.4m (£0.3m in 2013/14). The council share of 74.7% is equivalent to £0.3m (£0.3m in 2013/14). In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts.



8.30.16 All amounts shown in this section are net of value added tax.

Outstanding balances with related parties

8.30.17 As at 31st March 2015 significant amounts due to and from related parties were:

2013/14		Related Party	2014/15	
Due to £000	Due from £000		Due to £000	Due from £000
0.4		Amey Wye Valley		
3.1	0.2	Balfour Beatty	4.5	0.5
		Dept for BIS		1.9
0.2	2.9	DCLG	0.1	0.7
		DEFRA		0.1
		DECC	0.1	
		Dept for Transport	0.1	0.4
0.1	0.1	Dept for education	0.2	
0.6		Education Funding Agency		
	0.9	DWP	1.2	
0.4		FOCSA	0.3	
	0.1	Halo		
	0.2	Hereford and Worcs Fire		0.1
0.7	1.0	Hereford CCG	0.1	1.5
		Herefordshire Housing	0.1	0.1
	0.1	Herefordshire PCT		
0.2	0.8	Heritage Lottery Fund	0.2	0.1
2.0	4.8	HM Revenue & Customs	1.5	2.2
		Home Office		0.2
0.3	1.0	Hoople Ltd	0.5	0.9
		MOD	0.1	
		National Lottery Commission		0.2
	3.2	NHS England		0.2
		NHS Sutton CCG		0.6
		PWLB	0.2	
	0.1	Powys		
		Skills Funding Agency	0.5	
	0.3	Shaw Healthcare		
	0.1	Shropshire CC	0.1	0.2
0.6		Teachers Pensions`	0.6	
	0.2	West Mercia Police		0.1
0.1	0.3	West Mercia Energy	0.2	0.4
3.8	0.1	Worcestershire County Council	2.9	
0.1	0.7	Wye Valley Trust		0.7
	0.1	YOS Worcestershire		
0.2	0.1	2gether		0.2
12.8	17.8	Total	13.5	11.3



8.30.18 These amounts are included in the council's debtors and creditors figures.

8.30.19 In addition, there were capital grants of £2.5m from government departments held in the Capital Grants Unapplied Reserve not yet applied to capital spend.

8.31 Capital Expenditure and Capital Financing

8.31.1 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.

2013/14 £m		2014/15 £m
	212.2 Opening capital financing requirement	216.7
	Capital investment	
39.0	Property, Plant and Equipment	59.9
0.1	Investment Properties	1.8
0.4	Intangible Assets	
4.0	Revenue expenditure funded from capital under statute	4.6
0.1	Assets acquired under PFI contracts	0.1
0.3	Long term debtors (including loans and PFI prepayments)	6.3
	Sources of Finance	
(2.0)	Capital Receipts	(3.6)
(26.1)	Government grants and other contributions	(27.5)
	Sums set aside from revenue:	
(0.5)	Direct revenue contributions	(2.8)
(10.8)	MRP	(11.1)
216.7	Closing capital financing requirement	244.3
	Explanation of movements in year	
15.0	Increase in underlying need to borrowing (unsupported by government financial assistance)	38.7
0.1	Salix interest free loan	
0.1	Assets acquired under PFI contracts	0.1
(10.7)	MRP	(11.1)
4.5	Increase/(decrease) in Capital Financing Requirement	27.7

8.32 Leases

Authority as Lessee

Finance Leases

8.32.1 The council holds one car park under a finance lease arrangement.

8.32.2 The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

31 March 2014 £m		31 March 2015 £m
0.5	Other land and buildings	0.5



8.32.3 The council is committed to making minimum payments under these leases 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. The minimum lease payments are made up of the following amounts:

31 March 2014 £m		31 March 2015 £m
	Finance lease liabilities (net present value of minimum lease payments):	
0.3	Non current	0.3
2.0	Finance costs payable in future years	2.0
2.3	Minimum lease payments	2.3

8.32.4 The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance lease liabilities	
	31 March 2014 £m	31 March 2015 £m	31 March 2014 £m	31 March 2015 £m
Later than one year and not later than five years	0.0	0.0	0.1	0.1
Later than five years	0.3	0.3	1.8	1.8
	0.3	0.3	1.9	1.9

8.32.5 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 2014/15 £116,000 contingent rents were payable by the authority (£116,000 in 2013/14).

Operating leases

8.32.6 The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2014 £m		31 March 2015 £m
0.4	Not later than one year	0.5
1.5	Later than one year and not later than five years	1.1
0.1	Later than five years	0.6
2.0		2.2

8.32.7 The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2013/14 £m		2014/15 £m
0.4	Minimum lease payments	0.8

Authority as Lessor

Finance Leases

8.32.8 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. Apart from these long leasehold transfers to schools, the council does not have any other finance leases where the council is lessor.



Operating leases

8.32.9 The Authority leases out property under operating leases for the following purposes:

- Retail
- Industrial Use
- Farming
- Other Commercial Use

8.32.10 The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2014		31 March 2015
£m		£m
1.7	Not later than one year	1.6
4.3	Later than one year and not later than five years	3.9
34.7	Later than five years	35.9
40.7		41.4

8.32.11 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.

8.33 Private Finance Initiatives and Similar Contracts

8.33.1 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 Ltd – waste management PFI contract

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

8.33.3 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% relate to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years.

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

8.33.5 Both councils will be providing circa 82% of the project finance requirement from their own planned borrowing from the Public Works and Loans Board with the remaining 18% being provided by the equity shareholders of Waste Mercia Management Services. 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 Ltd – School PFI Contract

8.33.6 The Whitecross High School PFI project has delivered a fully equipped 900 place secondary school with full facilities management services. The contract with Stepnell Ltd 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

8.33.7 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 was £3.7m in 2014/15 (£3.6m in 2013/14).

Assets

8.33.8 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 detailed in Note 8.12.1– Movement on Balances on Property, Plant and Equipment.

Liabilities

8.33.9 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:

2013/14		2014/15
£m		£m
27.9	Balance outstanding at start of year	27.0
(1.0)	Payments during the year	(1.0)
0.1	Capital expenditure in the year	0.1
27.0	Balance outstanding at year-end	26.1

Payments

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

	Service Charges £m	Lifecycle Costs £m	Finance liability £m	Interest & similar £m	Total £m
Within one year	11.3	0.4	1.2	2.1	15.0
Within two to five years	48.3	1.5	5.4	7.8	63.0
Within six to ten years	49.0	2.1	7.6	8.2	66.9
Within eleven to fifteen years	25.5	2.3	8.1	6.4	42.3
Within sixteen to twenty years	20.9	1.1	4.3	4.1	30.4
Total	155.0	7.4	26.6	28.6	217.6

8.33.11 The PFI future year commitments total of £218m shown above includes inflation assumptions, without inflation the future year commitments would be £28m lower.

8.34 Impairment Losses

8.34.1 The following impairment losses and reversals were charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure:

2013/14			2014/15				
Impairments	Reversals	Net Total	Impairments	Reversals	Net Total		
£m	£m	£m	£m	£m	£m		
5.1	(0.6)	4.5	Land	and	12.5	(5.7)	6.8



			buildings			
	0.1		0.1	Assets under construction		
	5.2	(0.6)	4.6	Total	12.5	(5.7)

8.35 Capitalisation of Borrowing Costs

8.35.1 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 £10,000 of interest associated with the project. In 2014/15 there were three capital schemes which fell into this category and £0.6m borrowing costs were capitalised.

8.36 Pension Schemes accounted for as Defined Contribution Schemes

8.36.1 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.

8.36.2 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers’ unfunded added years’ benefits. The liability of £1.3m is included in the pension fund liability in the balance sheet in 2014/15.

8.36.3 In 2014/15 the council paid employer contributions of £4.1m in respect of teachers’ pension costs, which represented 14.1% of teachers’ pensionable pay. 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. In 2014/15 these amounted to £0.1m representing 0.36% of pensionable pay. At the year-end there were contributions of £0.3m remaining payable, which related to the March 2015 contributions paid to the scheme in April 2015.

8.36.4 Under the new 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.

8.36.5 In 2014/15 the council paid employer contributions of £0.1m in respect of NHS pension costs for public health staff, which represented 14% of their pensionable pay.

8.37 Defined Benefit Pension Schemes

Participation in Pension Schemes

8.37.1 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



8.37.2 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.

8.37.3 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

2013/14 £m		2014/15 £m
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
	Service cost comprising	
8.9	• current service cost	7.7
	• past service cost/(gain)	
(0.2)	• (gain)/loss from settlements	(1.0)
	Financing and Investment Income and Expenditure:	
7.8	• Net interest expense	7.0
0.1	• Admin expenses	0.1
16.6	Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	13.8
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
	Re-measurement of the net defined benefit liability comprising	
2.8	• actuarial (gains) and losses arising on changes in demographic assumptions	
(40.8)	• actuarial (gains) and losses arising on changes in financial assumptions	48.8
(38.0)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	48.8
	Movement in Reserves Statement	
(16.6)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	13.8
	Amount charged to the General Fund Balance for pensions in the year	
9.8	Employer's contribution payable to the scheme	10.4

8.37.4 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2015 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £84.9m.

Pensions Assets and Liabilities Recognised in the Balance Sheet

8.37.5 The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefits plans is as follows;

Local Government pension scheme



2013/14 £m		2014/15 £m
419.6	Present value of the defined benefit obligation	500.0
(260.2)	Fair value of plan assets	(288.6)
<u>159.4</u>	Net liability arising from defined benefit obligation	<u>211.4</u>

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

8.37.6 The table below shows the movement on the pension liability;

2013/14 £m		2014/15 £m
422.8	Opening balance 1 st April	419.6
8.9	Current Service Cost	7.7
18.2	Interest Cost	18.5
2.4	Contributions by scheme participants	2.4
	Remeasurement (gains) and losses;	
2.8	• Actuarial (gains)/losses arising from changes in demographic assumptions	
(37.0)	• Actuarial (gains)/losses arising from changes in financial assumptions	69.5
0.9	Losses/(gains) on curtailment	0.4
17.9	Liabilities assumed on entity combinations	
(16.2)	Benefits paid	(16.7)
(1.2)	Liabilities extinguished on settlements	(1.4)
<u>419.5</u>	Closing balance 31st March	<u>500.0</u>

Reconciliation of the Movements in the Fair value of the scheme assets

8.37.7 The table below shows the movement on the pension assets;

2013/14 £m		2014/15 £m
235.4	Opening fair value of scheme assets	260.2
10.4	Interest income	11.6
3.9	Remeasurement gain: The return on plan assets, excluding amount included in the net interest expense	20.9
(0.1)	Administration expenses	(0.1)
14.7	Liabilities assumed on entity combinations	
9.7	Contribution from employer	10.3
2.4	Contributions from employees into the scheme	2.4
(16.2)	Benefits Paid	(16.7)
<u>260.2</u>	Closing fair value of scheme assets	<u>288.6</u>

The actual return on scheme assets in the year was £32.5m, 11.3% (2013/14 £12.4m, 4.8%)

8.37.8 **Local Government Pension Scheme assets (at fair value) comprised:**

31 Mar 2014		Quoted	31 Mar 2015
£m		(Y/N)	£m
	Cash		
2.1	Cash instruments	Y	1.4
1.6	Cash accounts	Y	0.3
2.6	Net current assets	N	2.9
	Equity instruments		
67.4	UK quoted	Y	64.1



93.7	Overseas quoted	Y	110.5
30.4	Pooled investment vehicle - UK managed funds	N	29.4
44.5	Pooled investment vehicle - UK managed funds (overseas equities)	N	58.9
1.6	Pooled investment vehicle - overseas managed funds	N	2.3
	Bonds		
1.8	UK Corporate	Y	2.0
14.6	Overseas Corporate	Y	16.7
260.3	Total assets		288.5

Basis for estimating Assets and Liabilities

8.37.9 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.

8.37.10 The liabilities have been estimated by Mercers, an independent firm of actuaries based on the latest full valuation of the scheme as at 1 April 2013.

The principal assumptions used by the actuary have been;

	Beginning of period (p.a.)	End of period (p.a.)
Mortality assumptions		
Longevity at 65 for current pensioners:		
• Men	23.3 years	23.4 years
• Women	25.7 years	25.8 years
Longevity at 65 for future pensioners:		
• Men	25.5 years	25.6 years
• Women	28.0 years	28.1 years
Rate of CPI inflation	2.4%	2.0%
Rate of increase in salaries	3.9%	3.5%
Rate of increase in pensions	2.4%	2.0%
Rate for discounting scheme liabilities	4.5%	3.3%
Long-term expected rate of return on assets in the scheme:		
Equity investments	6.5%	
Government Bonds	2.2%	
Other bonds	2.9%	
Cash/liquidity	0.5%	
Property	5.9%	

The expected returns on assets is based on market expectations for investment returns over the life of the related obligation. An average of assumptions appropriate weighted by the proportion of the asset in each class is used.

8.37.11 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 in assumption
£m**



Longevity (1 year increase in life expectancy)	9.8
Rate of inflation (increase by 0.1%)	9.2
Rate of increase in salaries (increase by 0.1%)	1.6
Rate for discounting scheme liabilities (increase by 0.1%)	(9.0)

Impact on the Authorities Cash Flows

8.37.12 The council has agreed a strategy with the actuary to recover the deficit over 21 years, resulting in the employer's deficit contribution increasing from £4.2m in 2014/15 to £7.6m by 2016/17. The actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. The actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% to 14.6%.

8.37.13 Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2016 is £11.3m.

8.37.14 Scheme History

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
Present value of liabilities	(361.0)	(367.6)	(422.8)	(419.6)	(500.0)
Value of Scheme assets	229.2	208.3	235.4	260.2	288.6
Surplus/(Deficit) in scheme	(131.8)	(159.3)	(187.4)	(159.4)	(211.4)

8.38 Contingent Liabilities

8.38.1 There is a High Court claim from a care home provider following an adverse external inspection, this will go to trial in 2016. The value of the claim will be submitted beforehand but has not been received to date.

8.38.2 The council is obliged to fund the after care of a number of closed landfill sites. No reliable estimate can be made of the future costs involved in meeting these obligations however, as capital works are identified they are included in the capital programme.

8.38.3 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 and determine the appropriate outcome.

8.38.4 No estimate for losses of business rates income can be made for future appeals that have not been lodged with the VOA as they have not yet occurred. A provision has been included for known appeals.

8.39 Nature and Extent of Risks Arising from Financial Instruments

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

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

8.39.2 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.

8.39.3 During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years. However, new banking regulations introduced in January has meant that exposure to credit risk increased resulting in reducing the limits of credit placed with each counterparty as advised by our treasury management advisors Arlingclose to spread this increased risk.

Credit Risk

8.39.4 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 Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest long-term rating assigned by the three main credit rating agencies and the minimum criteria for UK institutions during 2014/15 was as A- for long-term minimum as rated by Fitch, Moody's and Standard & Poor's.

8.39.5 During 2014/15 the council continued to restrict investments to only the largest and strongest of the UK banks, the Nationwide building society, other local authorities and instant access Money Market Funds.

8.39.6 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 31st March 2015	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2015	Estimated maximum exposure to default and uncollectability 31 Mar 2014	Estimated maximum exposure to default and uncollectability 31 Mar 2015
	£m	%	%	£m	£m
Deposits with banks and financial institutions	2.8	0.0	0.0	0.0	0.0
Customers	9.0	0.37%	0.45%	0.0	0.0

8.39.7 The amount outstanding for council debtors as at 31st March can be analysed by age as follows:

31 March 2014		31 March 2015
£m		£m
14.3	Less than 3 months	6.0
1.0	3 to 6 months	0.7
1.4	6 months to 1 year	0.5
2.1	More than 1 year	1.8
<u>18.8</u>		<u>9.0</u>

Liquidity Risk

8.39.8 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 2014			31 March 2015	
£m	£m		£m	£m
	36.8	Less than 1 year		28.8
		More than one year:		
8.4		Between 1 and 2 years	7.5	
15.3		Between 2 and 5 years	15.0	
15.3		Between 5 and 10 years	16.4	
94.2	133.2	More than 10 years	98.6	137.5
	170.0	Total borrowing per Balance Sheet		166.3

NB All trade and other payables are due to be paid in less than 1 year.

LOBO bank loans were classed as short-term borrowing in 2013/14, but have been re-classed as long-term borrowing in 2014/15 following advice from Arlingclose (treasury management advisors).

Market Risk

- 8.39.9 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:
- Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase
 - Borrowings at fixed rates – the fair value of borrowings would fall
 - Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise
 - Investments at fixed rates – the fair value of the assets would fall
- 8.39.10 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.
- 8.39.11 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.
- 8.39.12 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.



8.39.13 If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2014/15 would have been as follows:

	1% increase in interest rates
	£m
Increase in interest payable on new borrowing	0.3
Increase in interest receivable on investment balances	0.3

As noted above, an increase in interest rates benefits the council in the short-term because, for the majority of the year, the council's investment balances exceed the level of variable rate short-term debt.

8.40 Trust Funds

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

	Balance at	Revenue Transactions		New funds, Investment Sales and	Balance at
	31/03/14	Income	Expenditure	Revaluations	31/03/15
	£m	£m	£m	£m	£m
Buchanan Trust	1.0	0.0	0.0	0.0	1.0
Other Funds	0.1	0.0	0.0	0.0	0.1
	<u>1.1</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>1.1</u>

8.40.2 The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers.

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



Supplementary Financial Statement and explanatory notes

9. Collection Fund

9.1 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.

2013/14		2014/15 Council Tax £m	Business Rates £m	Total £m
£m				
	Amounts required to be credited to the Collection Fund			
98.2	Council Tax Income (9.2.2)	102.8		102.8
44.7	Business Rates Income (9.2.1)		46.6	46.6
	Contribution towards previous year's Deficit			
	Central Government		0.8	0.8
0.8	Hereford Council		0.8	0.8
	Hereford & Worcester Fire Authority			
0.1	West Mercia Police			
143.8		102.8	48.2	151.0
	Amounts required to be debited to the Collection Fund			
	Precepts, Demands and Shares			
11.4	West Mercia Police	11.8		11.8
5.2	Hereford & Worcester Fire Authority	4.9	0.5	5.4
101.6	Herefordshire Council	81.3	23.2	107.3
23.2	Central Government		23.6	23.6
2.5	Parishes	2.8		
	Transitional Protection Payments Payable		0.2	0.2
	Charges to collection fund			
0.3	Cost of collection Allowance		0.3	0.3
0.2	Write offs of uncollectable debt	0.2	0.4	0.6
0.1	Increase/(Decrease) of Bad Debt Provision	0.1	(0.1)	0
2.1	Increase/(Decrease) of Appeals Provision		4.8	4.8
(0.9)	Spreading of Backdated Appeals		(0.6)	(0.6)
145.9		101.1	52.3	153.4
	2.1 (Surplus)/Deficit for the Year (9.2.3)	(1.7)	4.1	2.4
(1.4)	Balance brought forward	(0.1)	3.5	3.5
3.5	Balance carried forward	(1.8)	7.6	5.9



9.2 Notes to the Collection Fund

9.2.1 The total non-domestic rateable value at the year-end was £128.1m and the national non-domestic rate multiplier for 2014/15 was 47.1p

	£m	£m
Non-Domestic Rates Income		
Annual Debit		(60.1)
Less:		
Empty Allowances	2.1	
Discretionary Relief	0.5	
Mandatory Relief	4.4	
Small Business Rate Relief	5.5	
Retail Relief	0.9	
Enterprise Zone	0.1	
	13.5	(46.6)

9.2.2 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 1st 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 2014/15 was £1,552.36 including fire, police and parish precepts, with a range of between £1,508.66 and £1,630.76. The council tax base used for setting the council tax in 2014/15 was 64,942.04.

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	4,838.33
B	£40,001 to £52,000	7/9	10,565.18
C	£52,001 to £68,000	8/9	11,537.75
D	£68,001 to £88,000	9/9	11,021.76
E	£88,001 to £120,000	11/9	12,275.30
F	£120,001 to £160,000	13/9	8,757.54
G	£160,001 to £320,000	15/9	5,348.77
H	Over £320,000	18/9	312.01
Crown			285.40
	Council Tax Base		64,942.04



Council Taxpayer Income	£m	£m
Council Tax debit at 1 st April		<u>(127.0)</u>
Less:		
Discounts	10.5	
Exemptions	2.3	
Council Tax Reduction	11.3	
Disablement Relief	0.1	
		<u>24.2</u>
		<u>(102.8)</u>

9.2.3 The Collection Fund (surplus) or deficit as at 31st March 2015 is split as follows;

	Council Tax	Business Rates	Total
	£m	£m	£m
Hereford Council	(1.4)	3.7	2.3
West Mercia Police	(0.2)		(0.2)
Hereford & Worcester Fire Authority	(0.1)	0.1	
Central government		3.8	3.8
Total	<u>(1.7)</u>	<u>7.6</u>	<u>5.9</u>



Other statements

10. DEFINITIONS

Accounting Policies

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

Assets

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

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.

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 authority, *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.

Debtors

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

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 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 an authority 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.

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.

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.

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.

Economy, communities and corporate

Geoff Hughes

Grant Thornton UK LLP
 Colmore Plaza
 20 Colmore Place
 Birmingham
 B4 6AT

Please ask for: Peter Robinson
 Direct Line / Extension: 01432 383519
 E-mail: Peter.Robinson@herefordshrie.gov.uk

23 September, 2015

Dear Sirs

Herefordshire Council**Financial Statements for the year ended 31 March 2015**

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of 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 2014/15 ("the Code"); which give a true and fair view in accordance therewith.
2. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
6. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
7. Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the 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.
8. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme 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.
9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
10. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
11. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
12. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report.

13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
14. We believe that the 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 Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.
15. We can confirm that included in the Council's 2014/15 year end accounts were contingent liabilities that could fall due following the conclusion of three on-going litigation cases. A reliable estimate cannot be made of these liabilities as of today's date. We are not aware of any other possible significant litigation claims and no equal pay claims have been raised.

Information Provided

16. We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the 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.
17. We have communicated to you all deficiencies in internal control of which management is aware.
18. All transactions have been recorded in the accounting records and are reflected in the financial statements.
19. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
20. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a management;
 - b employees who have significant roles in internal control; or

c others where the fraud could have a material effect on the financial statements.

21. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
22. 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.
23. We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
24. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

25. 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.

Approval

The approval of this letter of representation was minuted by the Audit Committee at its meeting on 23 September 2015.

Signed on behalf of the Council

Name Peter Robinson
Position Director of resources
Date 23/09/2015

Name Councillor BA Durkin
Position Chairman: Audit and Governance Committee
Date 23/09/2015

Annual Governance Statement 2014/15

Scope of responsibility

1. 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 make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this duty, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.
3. The council has adopted a code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy (“CIPFA”)/Society of Local Authority Chief Executives (“SOLACE”) framework for delivering good governance in local government. The council’s code is available on the website at the following link:
<http://councillors.herefordshire.gov.uk/documents/s50012943/Preamble.pdf>
4. The annual governance statement for 2014/15 explains how the council has complied with its code of corporate governance. It also explains how the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement of internal control have been met.

The purpose of the governance framework

5. The governance framework comprises the systems, processes, culture and values by which the council is managed and controlled. The framework also sets out how the council accounts to, engages with and leads the community.
6. 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.
7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual’s failure to comply with policies and procedures, even when provided with comprehensive training on them, can never be entirely eliminated.
8. The system of internal control is based on an ongoing process designed to:

- (a) identify the risks to the achievement of the council's policies, aims and objectives;
- (b) evaluate the likelihood and impact of the risks should they be realised; and
- (c) identify and implement measures to reduce the likelihood of the risks being realised and to negate, or at least mitigate, their potential impact.

The governance framework

9. The council's corporate governance framework was adopted by Council on 31 October 2008 and has been reviewed annually by the section 151 officer to ensure it remains fit for purpose. It seeks to ensure that the principles of good governance are embedded into all aspects of the council's work. The five principles agreed within the code link to the six principles of good governance outlined in the SOLACE/CIPFA publication "Delivering good Governance in Local Government".
10. For ease of reference, the following table matches the council's five principles with those contained in the SOLACE/CIPFA guidance:

SOLACE/CIPFA Guidance - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
Council – Principle 1	Provide the best possible service to the people of Herefordshire.
SOLACE/CIPFA Guidance - Principle 2	Members and officers working together to achieve a common purpose with clearly defined functions and roles.
Council – principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
SOLACE/CIPFA Guidance - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
Council – Principle 3	Require high standards of conduct.
SOLACE/CIPFA Guidance - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
Council – Principle 4	Take sound decisions on the basis of good information.

SOLACE/CIPFA Guidance - Principle 5	Developing the capacity and the capability of members and officers to be effective.
Council – Principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
SOLACE/CIPFA Guidance - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
Council – Principle 5	Be transparent and open: responsive to Herefordshire's needs and accountable to its people.

11. The framework we have in place to ensure adherence to the code is described in more detail below.

Principle 1 – Provide the best possible service to the people of Herefordshire

12. Herefordshire Council's strategic vision for the county is set out in the corporate plan 2013/15 approved by Council in November 2012. An annual delivery plan is approved by cabinet and funding to carry out these activities is agreed through the medium term financial strategy 2014/17 (MTFS). The MTFS is a three year rolling plan, covering both revenue and capital investment, updated annually. Both documents are scheduled for review in 2015/16 to ensure they remained aligned to residents' priorities and fit for purpose to meet the financial challenges facing public services.
13. During 2014/15 a significant number of previously agreed financial savings plans were delivered alongside significant service transformation in adult wellbeing services and children's safeguarding services.
14. Overall performance has been reported to cabinet on a quarterly basis together with financial outturn reports. Quarterly performance reviews have taken place led by senior management and providing the opportunity for members of the executive, overview and scrutiny chairs and group leaders to participate. In addition cabinet receives in June an annual report on performance, financial outturn and summary of the evidence base captured in 'Understanding Herefordshire' which incorporates the joint strategic needs assessment for the county, and summarises the input received from residents through consultations completed during the year. All these documents are available on the council website.
15. The council aims to have good governance arrangements in respect of partnerships, and has developed protocols for working with particular sectors such as local councils and the voluntary and community sector. More formal partnership arrangements with other councils, such as the

Marches Local Enterprise Partnership, have been established as joint executive committees and comply with all relevant statutory requirements for open and accountable decision-making

Principle 2 – Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness

16. The constitution sets out transparently and comprehensively the rules controlling our business including the council's executive arrangements, committee structure, codes of conduct, contract standing orders, financial procedure rules and schemes of delegation. We continue to refine and monitor our decision-making processes and constitutional arrangements to ensure they are robust, consistent, transparent, and fit for purpose.
17. The audit and governance committee's terms of reference encompass responsibility for review of the constitution and in 2014/15 a cross party working group was established to inform this work reporting to the committee. Due to the elections held in May 2015, it was agreed the working group would focus on collecting initial information and the more fundamental review would be progressed by the new council.
18. The council publishes an annual pay policy statement setting out arrangements for employee remuneration.
19. There is a formal staff performance review requirement for all officers.
20. An independent remuneration panel is established which makes recommendations to Council regarding member allowances; the panel's last report was considered by Council in May 2015 and is available at the following link:
<http://councillors.herefordshire.gov.uk/documents/s50025963/Appendix%20A.pdf>
21. Following Council's approval of the recommendations of the independent remuneration panel, with effect from May 2015 there will be a number of mandatory training modules members will be required to undertake.

Principle 3 – Require High Standards of Conduct

22. The council has agreed values, which act as a guide for decision-making and a basis for developing positive and trusting relationships both within the council and between the council and its partners. The council follows CIPFA recommended standards of conduct; although the s151 role is not fulfilled by a director the role has direct lines of accountability to the chief executive and is a member of the senior management team.
23. A regular programme of member training has been delivered and induction provided for new members. Refresher briefing sessions on the code of conduct are held annually both for Herefordshire Council members and for parish and town councillors. The annual report of the monitoring officer includes performance information regarding standards cases.

24. Managers are responsible for making sure employees keep to policies, procedures, laws and regulations. There is an employee code of conduct setting out clear expectations and standards; this is supported by employee policies such as whistleblowing, grievances, bullying and harassment.

Principle 4 – Take sound decisions on the basis of good information

25. The council ensures its constitutional arrangements provide for effective council and executive decision-making with clearly defined roles for members and officers. Decision makers are provided with complete information necessary for them to take balanced and informed decisions.
26. The council's two overview and scrutiny committees are provided with the support necessary to enable them to perform all statutory duties required of them.

Principle 5 – Be transparent and open: responsive to Herefordshire's needs and accountable to its people

27. All meetings are held in public unless there are clear legal reasons for confidentiality. All executive decisions, including those taken by officers under delegated authority, are available on the council's website.
28. Public participation through submission of questions is encouraged at Council; the overview and scrutiny committees also provide for public participation both through submission of questions and suggestions for inclusion in the work programme.
29. The council has strategies which support engagement; promote the use of digital technology to increase engagement and self-service; and respond to customer concerns if expectations are not met.
30. The communications team help the council to communicate with all sections of the community in Herefordshire via the media, marketing and through digital channels. Services are making increasing use of social media.
31. The council meets its statutory responsibilities regarding data transparency.

Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact

32. The section 151 officer is not fulfilled by a director post; however the officer is a member of the senior management team and the arrangement does not have any negative impact in how the officer fulfils their statutory duties. Financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
33. The section 151 officer has direct access to the chief executive, senior management and members on financial matters who are all involved in the

detailed medium term financial planning process. They also provide regular revenue and capital budget monitoring reports to cabinet.

Review of effectiveness

34. Herefordshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The review of effectiveness, jointly led by the section 151 officer and the monitoring officer, is informed by reports from internal and external audit, risk and performance reports, analysis of complaints and standards issues through the year, and assurance reviews completed by managers.
35. Internal audit reports include specific agreed action plans to implement improvements identified, these are reported annually to the audit and governance committee. Nine areas reviewed by internal audit during 2014-15 were given partial assurance and one area was given no assurance. The no assurance and five of the partial assurance opinions related to school audits and each school has an action plan of recommendations that has been agreed and will be monitored by the relevant head teacher and school governors. The remaining four partial assurance opinions related to service specific issues and the agreed action plan for each is monitored by the relevant service director.
36. The results of the review were provided to senior management to consider, and as a result of this review of the effectiveness of the governance framework an action plan has been drawn up (at appendix A) to address the key issues identified and ensure continuous improvement. The previous year's action plan including progress/outcomes is included at appendix B.

Cllr Barry Durkin
Chairman, audit & governance committee

Signed:
Date:

Alistair Neill
Chief executive

Signed:
Date:

Peter Robinson
Director of resources

Signed:
Date:

Appendix A: Annual Governance Statement Action Plan 2015/16

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
Principle 1: Provide the best possible service to the people of Herefordshire						
1.	A lack of evidence that system wide processes to ensure safeguarding of both children and adults is sufficiently robust in all agencies and that accountabilities are clear and understood.	a) Herefordshire safeguarding children board improvement plan in place to address weaknesses	JD	Dec 15	Board has monitored progress regularly and has made some progress. Areas identified as requiring faster progress are child sexual exploitation, multi agency training and hearing directly from front line practitioners and children and families. The Board will be considering a short external evaluation in October and is identifying how to enhance progress in the areas causing concern.	The Board has an effective child sexual exploitation strategy which is making a measurable impact in this area. There is a robust multi-agency training plan in place and effective training is commissioned and the impact on practice and outcomes for children is clear. The Board has an effective strategy to engage with front line practitioners and children and families
		b) Making Safeguarding Personal (MSP) implementation plan is completed and benefit realisation review takes place	MS	Dec 15	MSP went live in January 2015 including weekly monitoring across operational teams continues. This has focussed attention on historical problem areas to ensure operational managers are able to drive improvement	Percentage of concerns progressing to enquiry reduced Extra capacity results in an increase in the percentage of concerns into enquiry made within 2 working days. Percentage of enquiries completed within 28 days

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
						of decision to progress NOTE – targets are monitored by management for quality assurance purposes Percentage of service user outcomes achieved Percentage of cases where the adult feels safer as a result of the enquiry
		c) Safeguarding adults peer challenge is completed and action plan implemented for areas of improvement	MS	October 15	AWB safeguarding peer challenge took place in September 2015; formal feedback should be received during September.	Assurance that the changes to safeguarding adults board governance have delivered change, and that action plans are sufficient in focus and pace to give confidence to the wider system, service users and carers. Understanding how much positive impact MSP is having on both practise and the confidence of our workforce in safeguarding vulnerable people Assurance on how effective changes to performance management are and

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
						how we could improve service user and carer feedback into the process Understanding how we could further strengthen multi partnership engagement and involvement in the safeguarding adult's agenda
2.	Contract management is not consistently focused on achievement of contracted outcomes	a) A commercial board will provide oversight and management of key commercial matters. Contract management will be a key feature and include the management of key (platinum) contracts, plus, the agreement of a contract management framework to provide consistency of approach across the authority.	RB	Ongoing	Board established with membership from all directorates	Improved coordination of contract management activity and forum in place to enable sharing of good practice and experience.
		b) A programme of contract management training is in place to improve contract management skills. Attendees are developing a community of practice to support	RB	Sept 2014 – Ongoing	A total of 177 staff days of training has been delivered so far. A self-service assessment tool to rate contract risk, supported with contract	Contract managers across the organisation able to demonstrate required skills.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		development of skills and consistency.			management guidance in in development and due to be piloted in Oct 2015.	
		c) Improving contract management performance will also be included as part of the Commissioning and Commercial Strategy due to the refreshed by end of 2015.	RB	Dec 2015	Work commenced on reviewing current strategy	Clear commitment to effective contract management reiterated as part of new commissioning and commercial strategy
3.	As public sector resources reduce there is a need to ensure that the council's vision and objectives are clearly understood by the wider public sector	a) Fully engage with WVT, the CCG, Police, Fire and Rescue, and other agencies – with the aim of jointly leading public sector reform in Herefordshire to maximise use of resources.	AN	Ongoing	July Summit meeting organized to establish overall strategic changes; September Summit organised to establish definition of possible change plans. Central part of devolution deal proposal.	Council vision and objectives are clearly understood by partners.
Principle 2: Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness						
4.	There is an identified lack of clarity amongst members (and officers) re roles/and processes	a) Constitution (including codes & protocols) to be reviewed in conjunction with cross-party constitution working group.	GH	May 2016	Governance improvement working group work plan and timetable agreed by audit and governance committee in July; first meeting held in September.	Improved understanding and awareness of roles and processes as evidenced by member feedback and compliance with governance processes.
5.	Individual directorates/ services have undergone	a) Consider options of corporate	AN	December 2015		Business planning informed by peer

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	recent elements of peer challenge. We will consider further peer challenge to inform future strategic direction/business planning.	peer review or ECC review.				reviews.
6.	Staff reductions have placed a new level of work pressure on staff and on particular departments. Whilst there are signs that morale related to working for Herefordshire Council has improved, we still need to work hard on giving staff a clearer sense of our direction of travel.	a) Ensure clarity of vision and purpose for the organisation.	AN	March 2015		Employee opinion survey: "The council has a clear sense of direction" Improve response rate to above 50% (base line 33% agree July 2015)
		b) Ensure effective staff and member engagement in change and clear, resourced succession planning processes are developed	PR	December 2015	Improved establishment information aligned to budget – either through recruitment or managing change processes. Succession planning – identify key roles (e.g. chief officers / heads of service / critical) – and determine through a process a plan for that post should it become vacant template used in other organisation that we could look to adapt to save reinventing the wheel). For children's social workers – the Newly	Employee opinion survey: "I am kept informed of the changes". Improve response rate to above 65% (base line 56% agree July 2015) Resource plan for each directorate in place. Succession planning process in place for all chief officer and critical posts.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
					Qualified Social Worker programme is already in place that will make the shift from agency to permanent in the medium term.	
Principle 3: Require high standards of conduct						
7.	Fraud – A lack of focus across the authority and input by Internal Audit	a) Higher profile given to fraud awareness through leadership group	PR	October 2015	Days allocated in the internal audit plan, this includes work on national fraud initiative (NFI) to help services with the review of the matches where they are finding it difficult to do this A bulletin to schools is issued through the schools forum following the themed review of prevention of fraud in schools to raise awareness across all schools. Fraud alerts are also an ongoing process and are sent to officers in the council.	Greater awareness of fraud and pro-active use of NFI data by council officers
8.	Data protection/information security – as evidenced by number of breaches, including those arising through interim staff and	a) Implement action plan to deliver national information governance (IG) toolkit and progress to level 3 of	GH	April 2016	Continued improvement in the standard reached for the IG toolkit.	Target level 3 in some areas by 2016 and re-inforce and embed level 2 (the statutory minimum) of the tool kit

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	partnership arrangements	compliance				in all areas. Reduced number of data breaches.
Principle 4: Take sound decisions on the basis of good information						
9.	Performance and quality data is not used as effectively as it could be to inform improvement activity eg as evidenced by the effectiveness of controls re use of agency staff.	a) Corporate performance and financial monitoring reporting will be combined to improve linkages between performance and required improvement activity with new format in place from quarter 1. Reports will also incorporate risk and strategic HR information.	RB	Ongoing	Combined performance and financial reporting has been achieved with quarter 1 reporting to management board and cabinet. The format will be refined over the coming quarters to further improve the effectiveness of the report for decision makers.	Cabinet and management board able to make use of clear performance and financial information to identify areas for improvement
10.	Lack of robustness of challenge re business cases/benefits – consistency of business cases; follow up re benefits realisation	a) Finance team to instigate more robust challenge on business case and benefits and follow-up re. benefits realisation	PR	October 2015	New business templates in place, finance team challenging cases and monitoring savings plans which are published in cabinet reports	Achievement of business case proposed outcomes
11.	Insufficient linkages between strategic planning processes, project management, and individual decisions e.g. as evidenced by the Colwall school building decision, and compliance with health and safety procedures	a) Review performance management arrangements to ensure compliance issues are addressed	GH	December 2015		Capital strategy group in place and issues dealt with in a programmed way.
		b) Corporate health and safety board strengthened	GH	September 2015	Cabinet approved refreshed policy (including revised governance	Health and Safety issues identified in a timely fashion and properly risk assessed and mitigated.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
					arrangements) in September 2015	
Principle 5 – Be transparent and open: responsive to Herefordshire’s needs and accountable to its people						
12.	Although there is a significant amount of information made available publically, including in relation to decision taking, it is not always easy to find on the website or easily understood once found leading to a perception that information is being withheld and/or decisions are taking place ‘behind closed doors’.	a) Update website to improve transparency and make it more user-friendly.	GH	February 2016	Implementation plan in place.	Updated user friendly website in place and operational, user satisfaction improved
		b) Review decision-making governance processes to ensure there is a proportionate approach to transparency re decision-making so that information is available about decisions taken, that schemes of delegation are clear, but that the process of documenting decisions is not overly bureaucratic.	GH	May 2016	Included within the remit of the review of the constitution (see 4a above)	Clear governance processes which enable effective engagement and timely decision-making.

Owner:

RB = Richard Ball, assistant director place based commissioning

JD = Jo Davidson, director children’s wellbeing

GH = Geoff Hughes, director for economy communities and corporate

AN = Alistair Neill, chief executive

MS = Martin Samuels, director adults and wellbeing

PR = Peter Robinson, director of resources

Appendix B: Annual governance statement action plan 2014/15 outturn

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
Principle 1: Provide the best possible service to the people of Herefordshire						
13.	<p>Safeguarding</p> <p>In early 2014/15 Ofsted undertook a follow up inspection of children's safeguarding and re-graded the service from 'inadequate' to 'requires improvement' but given the improvements required the current intervention arrangements remain in place. Health & Social Care Overview & Scrutiny Committee undertook a review of scrutiny arrangements for children's safeguarding and identified a number of improvement areas.</p> <p>The impacts of reductions in council finances combined with growing demand in both adults and children's services need to be better understood to enable effective planning and demand management. Adults Safeguarding Board has not produced an annual report for 2013/14 or a business plan for the current</p>	a) Development of protocol governing arrangements between HSCB and Children's Improvement Board	JD	As set out in OFSTED action plan	Protocol established and approved by the HSCB and the Improvement Boards at their respective meetings on 22 nd October. This action is therefore fully discharged.	No further action is required on this as the Improvement Board is no longer in place, following the lifting of the intervention notice
		b) External peer diagnostic of HSCB and development plan	JD		The HSCB has been monitoring its progress in relation to the improvements identified by OFSTED and the peer review. Whilst there has been some improvement in the functioning of the Board, the Board is also concerned by slower progress in relation to some aspects of the Boards business such as child sexual exploitation and training. As part of its improvement the Council commissioned the previous improvement board chair to conduct a 9 month review of the	The Herefordshire Safeguarding Children Board is effective in securing effective multi agency safeguarding practice and children are safe in Herefordshire. This remains a priority action for Herefordshire.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	<p>year.</p> <p>The speed within which adult safeguarding investigations are completed has been identified as needing improvement.</p> <p>The evolving health and social care governance structures require clarity regarding accountability for ensuring safeguarding improvements for both adults and children are achieved.</p>				Board and this will be considered by the Board at its October meeting	
		c) Clear forward plan for Boards and Scrutiny to assure sufficient oversight of safeguarding matters	JD	November 2014	The Board and the scrutiny committee have forward plans. The HSCB Chair has challenged whether the scrutiny committee has sufficient time to cover the children's wellbeing agenda; the scrutiny chair and vice chair are reviewing the forward plan with officers.	Both the HSCB and Scrutiny perform their specific functions well and sufficient time is given to all the relevant aspects of the children's safeguarding agenda.
		d) Agreement through Group Leaders and constitution changes to secure mandatory training elements for members of the new Council	BN	March 2015	Council approved mandatory training (including safeguarding) on 22 May. All members provided with opportunity for face to face training on safeguarding in addition to mandatory e-learning module.	Improved awareness amongst members of safeguarding issues and leadership role. Periodic refresher training will be available; continued inclusion on the action plan is not required
		e) Monitoring the effectiveness of services with a focus on retaining a strong front line. Focus service investment where it can be most effective whilst meeting	JD/HC	March 2015 & ongoing	Children's Wellbeing: The Scrutiny Committee and Cabinet continue to monitor the effectiveness of services. The Annual Report of the Safeguarding Children Board will be	Adults: Public are well informed around the safeguarding adults board business objectives and the safeguarding adults agenda. Compliance with best

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		statutory obligations.			reporting to both governance bodies in the Autumn 2015. Scrutiny committee is also considering the annual self assessment of children's services. Members are well sighted on the staffing issues which impact on the strength of the front line services Adults Wellbeing: there is an adults safeguarding board report due for publication in September 2015 spanning financial years 2013/14 and 14/15. The board has in place a business plan aligned to current strategic priorities and objectives	practice and care act legislation. Children's: The public are well informed about the quality and impact of safeguarding services; they are clear about the role communities play and they can see the value for money provided by services. Compliance with best practice and safeguarding legislation and best use of resources.
		f) Ensure that robust Information sharing protocols are in place to support the partnership arrangements (IG toolkit)	CT	March 2015	Agreements have been sent to our key partner strategic Partners in Health and the Police, and signed off by management board. Local agreements with partners are periodically	A raised understanding and awareness at a local level of who we are sharing data with and what we are sharing and the reassurance that we are sharing it safely and securely and

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
					reviewed to ensure they remain fit for purpose	appropriately. Improved public confidence in the council and the data we hold Ongoing and continually changing as we re-commission services. However Information governance protocols are now embedded in that commissioning process ensuring that data sharing is understood and safeguarded. Continued inclusion on the action plan is not required.
		g) Adults Safeguarding Governance and Operational Arrangements require reviewing and an action plan put in place for improvement and compliance with the Care Act	HC	December 2014	Review completed and the Council has signed up to implementing Making Safeguarding Personal (MSP) a national programme. An improvement action plan is in place with a new process implemented from December 2014 and ensure compliance with Care Act 2014	Action plan developed and council operational with MSP since January 2015. A full action plan will be developed following receipt of the final peer review report which is due in September 2015.
		h) Adult Safeguarding Performance monitoring mechanisms put in place and	HC	March 2015	Safeguarding adults board and steering group now receive	A revised scorecard in place and used for Q1 reporting. This has

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		a safeguarding adults peer challenge will be commissioned in 2015			regular performance report Safeguarding performance is now reported as part of council wide quarterly performance meeting. A review of the performance scorecard will be required following the peer review	enabled monitoring by the performance audit and quality assurance group, a subgroup of the board, of key performance metrics and is reported to the board's exec group. Internal council monitoring of 'making safeguarding personal' performance is now being monitored on a weekly basis and reported to directorate senior managers on a monthly basis
14.	Public health/integration – the quality of data existing in relation to contracts/services novated under the recent national health reforms has been inconsistent and in some cases absent. Insufficient focus has been given to ensuring staff transferring to the local	d) Due Diligence is carried out on all novated contracts and where appropriate contracts are transferred onto local authority terms and conditions within 14/15	HC	March 2015	All contracts reviewed and a planned approach to transferring them onto council terms and conditions.	All contracts scoped and on a rolling process for review on a regular basis.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	authority have a full understanding of local government governance requirements and processes.	e) Introduction to Local Authority Governance Workforce Development session undertaken by all Public Health Staff	HC	March 2015	Induction sessions have been delivered to ensure coverage of all public health managers and a rolling development programme is now in place.	Public health staff clear on local authority governance process.
		f) Ensure that processes are in place regarding Information governance and that the Local government IG toolkit is implemented	CT	March 2015	Continued improvement in the standard reached for the IG toolkit. Target level 3 in some areas by 2016 and re-inforce and embed level 2 (the statutory minimum) of the tool kit in all areas.	There has been some improvement in working practice and Information Governance, but continued inclusion in the action plan is recommended.
15.	Commissioning/contract management – whilst processes for commissioning are established there is evidence to suggest that they are not consistently followed eg high number of contract procedure rule exemption requests to extend existing contracts Contract management is not consistently focused on achievement of contracted	a) Corporate Governance and compliance with the formal decision making process is reflected in the revised Contract Procedure Rules due to be implemented as part of the review of the constitution.	BN	March 2015	The review of the council's governance arrangements was delayed pending the election; it has now recommenced, and is working to a timetable approved by the audit & governance committee in July 2015. In August audit & governance committee noted technical changes	Improvements have been made in ensuring compliance with contracts procedure rules. With the need for continued focus on contract management to deliver contracted outcomes that element will be included in the next action plan

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	outcomes e.g. ongoing high value contract dispute (see 10 below)				made to the financial and contracts procedure rules to ensure they were compliant with current legislative requirements.	
		b) In addition, decision approval is a key step in the pre-procurement planning stage within the Commercial Procurement pipeline and so Category Managers check that stakeholders have secure this as part of major projects procurement.	RB	Training October 14	Commercial Services carried out regular contract management training with a cross section of staff involved from across the organisation.	Increased awareness has been achieved but this remains an area where a continue programme of training is required to embed best practice and ensure new staff joining the organisation in contract management roles are effectively inducted.
		c) These requirements also feature within the internal procurement awareness sessions due to start in Sept and therefore aim to increase awareness in the requirement.	RB		Category managers within commercial services are now in place to work across directorates to plan the pipe line of procurement which is successfully reducing the number of exemption requests through improved planning.	Increased awareness has been achieved and there has been a reduction in the number of exemption requests. Category managers are involved in procurement activity across the organisation.
		d) Ensure Equality considerations are incorporated into	CT		Equality considerations are incorporated into our decision making process through the Equality	To give reassurance and evidence to the community that decision makers have considered

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		commissioning process			Impact assessment process for reports that go to Cabinet or councillor decision. They are also incorporated into our procurement and contract process. These have been reviewed and amended and are now consistently implemented into new contracts.	the equality implications in the decision taken and where negative impacts have been identified these have been fully assessed and mitigation investigated. Continued inclusion in the action plan is not required.
Principle 2: Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness						
16.	There is an identified lack of clarity amongst members (and officers) re roles/and processes – as evidenced by budget debate at Council in February 2014. HSCOSC has identified the need for greater member training and development re safeguarding and corporate parenting	a) Constitution (including Codes & Protocols) to be reviewed in conjunction with cross-party Constitution Working Party.	BN	End March 2015	See 3a above.	
		b) Improved clarity to be one outcome of 2014/15 review of Constitution.	BN	End March 2015	See 3a above	
		c) Induction Programme for May 2015 intake of Members to be developed in conjunction with Member Development Group	BN	End March 2015	Induction programme included sessions on corporate parenting and safeguarding and e-learning modules on safeguarding	Improved awareness amongst members of safeguarding and corporate parenting issues and leadership role; continued inclusion on the action plan is not

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
						required
		d) Review of Constitution to consider introduction of mandatory training (and sanctions for non-compliance)	BN	End March 2015	Following discussions by the then cabinet member for young people and children's wellbeing with health & social care overview and scrutiny committee, group leaders and member development working group the recommendations of the independent remuneration committee were approved by Council on 22 May 2015	All members completing in mandatory training; continued inclusion on the action plan is not required
		e) Managers receive monthly reports re compliance with mandatory training requirements	BN	ongoing	Reports are produced on a monthly basis that the performance leads in each directorate disseminate to the respective managers. This report is at individual level so managers can identify those individuals who have not complied so appropriate action can be taken. Management board monitor overall completion rates.	Performance is reported to management board; continued inclusion on the action plan is not required
		f) Ongoing programme of	BN	ongoing	All directorate	Continued inclusion on

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		Governance awareness training with management teams.			management teams have received training and periodic refreshers/updates are scheduled. Online guidance is available about governance processes. Once the review of the constitution is complete an awareness programme and resources will be made available.	the action plan is not required.
		g) Ongoing programme of Equality awareness and training for decision makers and report writers to comply with Equality duties (PSED)	BN	ongoing	Diversity and the public sector equality duty is a mandatory e-learning module for employees and members. The equality team review all draft reports to ensure that the public sector equality duties have been addressed.	Improvements have been made in the quality of information available to decision makers; continued inclusion on the action plan is not required
		h) Increased use of modern.gov, including better version controlling of emerging reports.	BN	End December 2014	Progress on this element was delayed by a lack of capacity; additional resources have now been identified to support this work which will begin in September 2015.	This project is now included in the directorate performance monitoring process and reported by exception; continued inclusion on the action plan is not required.
17.	Staff reductions of around	a) Continue and further develop	AN	Ongoing	1.A December	Pay policy approved and

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	20% in 18 months have placed a new level of work pressure on staff and on particular departments. This has had an impact on staff morale alongside wider public sector confidence levels. The use of interim staff in key roles provides a further challenge to workforce cohesion during a long period of continuing restructuring.	staff engagement with the council's programme of change. Ensure staff are clear about the direction of change.			Leadership Group session focussed on these issues, using the staff feedback. 2.Introduction of the major new C-PiP (Continuous Performance Improvement Programme) across all staff groups, focussed on staff priority proposals for how we can improve is now bedding in, with excellent cross directorate staff take-up (over 60 staff).	published in line with transparency requirements; impact of staff reductions on both morale of staff and use of interim staff is likely to require continued monitoring given the financial challenges faced by the organisation. This monitoring is already included in quarterly performance reports to cabinet and annual staff survey reporting to audit and governance committee therefore continued inclusion in the action plan is not required.
		b) Review staffing needs in any areas of significant pressure.	AN	February 2015	This is kept under regular review, and has featured as a significant consideration in 2015/16 budget developments. Reality is that we must reduce costs by very large amounts, and therefore must also consider alternative approaches – which has been taken forward eg in considering channel-shifting opportunities.	

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		c) Where appropriate re-balance staffing levels within the organisation.	AN		This is ongoing work, and has been a feature of budget development.	
		d) Risks to be reviewed before any further contract extensions recommended for approval/further interim appointments made.	AN	ongoing	Risks are reviewed: the Jan Employment Panel report sets out the intention to replace senior interim appointments with permanent appointments.	
		e) Annual pay policy statement review to address any issues arising re use of interim senior managers including transparency requirements and taxation guidance.	BN	January 2015	Employment Panel on 14 January agreed to commence the recruitment to a number of senior management posts currently covered by interim arrangements.	
Principle 3: Require high standards of conduct.						
18.	Fraud – A lack of focus across the authority and input by Internal Audit aside from Housing Benefits	a) The new Internal Audit provider, the South West Audit Practice has been given responsibility for a number of fraud initiatives in the Internal Audit Plan, 135 days in total approved by the Audit and Governance Committee that will improve focus and process around	PR	Ongoing to commence May 2014, reviewed by CFO and Audit and Governance Committee	Fraud/governance audits have been completed for Members and staff expenses. The annual fraud and corruption survey for the council has been completed and the whistleblowing, Fraud and corruption Policy updated.	Improved focus from Internal Audit and key risk areas have made improvements in process. Improvement still felt to be required in respect of focus across the whole council in 2015/16.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
		fraud detection and prevention				
19.	Data protection/information security – as evidenced by number of breaches, including those arising through interim staff.	a) Non-compliance with staff on-line mandatory information/data security training to be pursued with relevant managers.	CT	31 December 14 March 2015 for those with no access to CPD on-line	See 4 e above	There is greater assurance that all staff have an understanding and awareness of the statutory responsibilities as public sector workers in regards to a number of statutory requirements. Continued inclusion on the action plan is recommended to maintain focus on delivering improvement.
		b) Non-disclosure / confidentiality agreements to be signed by all staff / interims/ agency prior to be granted access to systems.	CT	November 2014	This is now incorporated into terms of employment and all members of staff have to confirm acceptance of the non-disclosure / confidentiality statement or they cannot gain access to any IT system.	
Principle 4: Take sound decisions on the basis of good information						
20.	Lack of robustness of challenge re business cases/benefits – consistency of business cases; follow up re benefits realisation; need for horizon scanning at point of decision to assess what may impact on achievement of benefits e.g. as identified in recent external audit report following a public interest disclosure act disclosure.	a) Reorganisation of finance function to enable greater focus on change and business case development and strategic/corporate oversight	PR	April 2014	Reorganisation and implementation of financial self- service has meant the finance team have been more pro-active, particularly in supporting change.	Improved focus on business planning and benefits realisation. Ongoing action still required to effect further improvements but not warranting AGS inclusion
		b) Standard business case template to be developed and implemented	PR	December 2014	New template implemented	Consistent standards

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
21.	Budget - Adult Wellbeing overspent by £3m in 2013/14 due to over optimistic assumptions on the rate of change, inadequate data and strategic planning, a lack of challenge and lack of contingency	a) The budget approved by council in February 2014 was subject to a zero based approach before applying savings plans. The budget was prepared with Directors and challenged by the finance team. A corporate contingency was established and reserves added to ensure any unforeseen items arising could be managed. Monitoring at June 2014 predicts an overall balanced budget with minor variations in Directorate budgets and unforeseen items managed through corporate contingency arrangements approved by Cabinet	PR	Budget and Medium Term Financial Plan approved February 2015	Balanced budget for 2014/15 reflected budget monitoring through the year. This gives confidence that the budget was reasonable based on available information. Difficulties in Children's Safeguarding identified in 2015/16 although not to the scale of Adults in 2013/14 and reflecting service pressures rather than over-optimistic assumptions	Improved standard of budget preparation, monitoring, challenge and ownership. Corporate contingency established for unforeseen items.
22.	Progress has been slow in achieving closer integration with health in order to reduce waste and duplication, achieve better demand management and deliver service improvements.	a) Establish formal governance mechanisms to drive integration and transformation	AN	March 2015 & ongoing	System Wide Transformation Board and governance structure put in place and reporting to the HWBB. External Chair appointed; Ernst +Young commissioned to deliver	Whilst some improvement has been made in governance there is a continued need to focus on system accountabilities to ensure robust safeguarding of adults and children; this is

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
					resources overview. Work now in progress to drive change across health and social care resources.	reflected in the future action plan.
		b) Establish projects and programmes to re-shape service delivery.	HC/JD		Transformation Board and Better Care Fund has identified series of key projects to oversee implementation this includes children's, adults and communities. For children's the position is: Agreed programmes of change are taking place in relation to child and adolescent mental health and disabilities. The council has commissioned a new integrated model the Herefordshire Intensive Placement Support service which, when it becomes fully operational in January 2015, will begin to change the models of delivery for some of the most vulnerable children in the County.	Service planning workshops have identified operational focuses for development in 2015/16.

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
					The CCG is leading on mental health needs assessment work to identify further programmes of change. The council has acted as lead commissioner for changes in short breaks services for families of children with disabilities and is currently working with the CCG to further develop the model to move away from residential and institutional forms of support.	
23.	Decisions supported by more informed options appraisals including assessment of risks/opportunities – the number of legal challenges indicates a need for greater consistency/robustness in this area. Internal risk management processes are not sufficiently clear.	<p>a) High value cases regularly reviewed by senior legal services officers; evolving risks evaluated and relevant colleagues and Members kept informed.</p> <p>b) Legal services restructured to address capacity/skills gaps; recruitment to populate new structure.</p>	BN	Ongoing	Completed. Deputy Solicitors to the Council now involved routinely in leading legal input and advice on high value cases.	There has been improvement in the quality of reports informing decision makers; continued inclusion on the action plan is not required
			BN	90% completed July 2014	Completed. New structure in place that reduces historic spend and ongoing costs on external legal fees by ensuring sufficient skills and capacity are available in the in-house	

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
					legal team. Two posts remain vacant following difficulties experienced in recruiting lawyers of the right calibre.	
		c) Decision reports and options appraisals to follow the principles of good decision making.	BN	Ongoing	Draft reports undergo an internal review (by finance, legal, procurement, equality, governance, communications and risk leads) prior to submission to the decision-maker which includes quality assurance against the principles of good decision-making.	
		d) Internal audit review of risk management scheduled for 2014/15 will inform future improvement actions	RB		Internal audit review completed and action plan agreed by management board including regular review of risk register.	Greater ownership of risk management has been achieved and this is now a regular item on management board agenda with key risks also included in the regular performance reports to cabinet; continued inclusion in the action plan is not required.
Principle 5: Be transparent and open; responsive to Herefordshire's needs and accountable to its people						
24.	Arm's length/partnership	a) Include as part of the review	BN	End March	See 3 a above	

	Area for Improvement	Actions	Owner (see key at end)	Timescale	Progress Update	Improvement outcome
	governance – General Overview & Scrutiny has highlighted the need to ensure future arrangements have strong and clear links back to council governance processes.	of the Council's Constitution (see point 4 above)		2015		
		b) Ensure LEP, West Mercia Energy and Hoople governance is appropriately reflected in the Constitution	BN		See 3a above. In addition, the Marches LEP joint executive committee has approved an accountability framework meeting government requirements; this is published on the Marches LEP website.	
		c) Review of functioning of HWBB and further development of ToR	JD	End December 2014	Health and Wellbeing Board developed new terms of reference and revised membership during 2015. This is now completed although will be subject to regular review to monitor functioning, impact and any changes in statutory guidance.	
		d) Approval of the system wide transformation programme through the governance system to ensure clarity of role of Boards	HC		Completed	

Owner:

RB = Richard Ball, Assistant Director Place Based Commissioning

HC = Helen Coombes, Director Adults and Wellbeing

JD = Jo Davidson, Director Children's Wellbeing

GH = Geoff Hughes, Director for Economy Communities and Corporate AN = Alistair Neill, Chief Executive

BN = Bill Norman, Assistant Director Governance

PR = Peter Robinson, Chief Financial Officer

CT = Carol Trachonitis, Equality Information and Records



Meeting:	Audit and governance committee
Meeting date:	23 September 2015
Title of report:	Community governance review
Report by:	Governance manager

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To agree the timetable to assess the case for undertaking a community governance review (CGR) of parish boundaries and electoral arrangements.

Recommendation(s)

THAT:

- (a) **the timetable as set out at paragraph 9 be agreed.**

Alternative options

1. To do nothing. This is not recommended as periodic CGRs help to reduce the risk of local democracy failing to be appropriately and adequately resourced to meet the needs of the community. The Local Government Boundary Commission for England (LGBCE) recommends that councils review local governance arrangements every 10 to 15 years, and parish arrangements have not been considered since the establishment of Herefordshire Council in 1998.

Reasons for recommendations

2. To ensure that appropriate foundations are in place should the council agree to a future CGR in Herefordshire.

Further information on the subject of this report is available from
Annie Brookes, governance manager on Tel (01432) 260605

Key considerations

3. Herefordshire is currently divided into 239 parishes and there are no areas within the county which are not 'parished'. Within the county there are 133 parish councils, (some of which are group parish councils which collectively represent more than one parish), and four parish meetings (where there is no parish council but a parish meeting is held at least twice a year to which all electors are entitled to attend and vote on certain matters).
4. The Local Government and Public Involvement in Health Act 2007 devolved responsibility for determining the governance arrangements of this first tier of local government to principal authorities, and they must do this by way of a CGR.
5. A CGR can consider a number of issues, including:
 - whether to create a new parish
 - whether to alter the boundary of one or more existing parishes
 - whether to group a number of parishes together in a grouped parish council
 - whether to alter the number of seats on an existing parish council
6. A community governance review offers an opportunity to remove anomalous boundaries and ensure that boundaries both reflect local identities and facilitate effective and convenient local government. Reviews also offer the chance to principal councils to consider the future of what may have become redundant or declining parishes, often the result of an insufficient number of local electors within the area who are willing to serve on a parish council. Recommendations from reviews should bring about improved community engagement, better local democracy and result in more effective and convenient delivery of local services.
7. CGRs can be undertaken in relation to one or more specified parishes or across the whole of the principal council's area, and may be in response to a community governance petition, or to address a particular identified issue. The council may reject a request for a specific parish CGR if it is already considering undertaking a county wide CGR. Guidance issued jointly by the Department for Communities and Local Government and the Local Government Boundary Commission for England advises that principal councils should regularly review the need for a community governance review and, as a matter of good practice consider conducting a review every 10 to 15 years; there has not been a countywide review since the establishment of Herefordshire Council in 1998.
8. The decision as to whether or not to undertake a review rests with full Council, and the audit and governance committee is responsible for making recommendations on this matter to full Council. To inform the recommendation of the committee, a range of information is being collated including current and projected elector numbers per parish, number of uncontested seats in the recent local elections, issues the parishes would wish a CGR to address, and the costs of resourcing a CGR.
9. It is proposed that the following timetable would be followed:
 - January 2016 - report to audit and governance committee setting out the case for undertaking a community governance review and proposing draft terms of reference for recommendation to full Council

Further information on the subject of this report is available from
Annie Brookes, governance manager on Tel (01432) 260605

- March 2016 – report to full Council to determine whether to undertake a review and if so to agree the terms of reference/timescale for doing so
- Subject to the above, the intention would be to progress a review on the following timescale reporting to full Council in March 2017:

Stage	Action	Timescale
Commencement	Publish terms of reference	Following full Council approval
Preliminary stage	Meetings of working group to consider consultation arrangements	One month
Stage 1	Initial submissions invited	Three months
Stage 2	Consideration of submissions received. Draft recommendations prepared	Two months
Stage 3	Draft recommendations published and consulted on	Three months
Stage 4	Consideration of submissions received. Final recommendations prepared	Two months
Final stage	Recommendations submitted to full Council for approval	One month

Community impact

10. The recommendations support the council to meet its code of corporate governance by ensuring that decisions are taken on the basis of good information, and that the council is transparent, open and responsive to Herefordshire's needs.

Equality duty

11. This proposal does pay due regard to the council's public sector equality duty as set out below as it supports access to local democracy by refreshing the arrangements for local government:
12. A public authority must, in the exercise of its functions, have due regard to the need to:
 - eliminate discrimination, harassment, victimisation and any other conduct ... prohibited by or under this Act;
 - advance equality of opportunity between persons who share a relevant protected

Further information on the subject of this report is available from
Annie Brookes, governance manager on Tel (01432) 260605

- characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Financial implications

13. None associated with this decision.

Legal implications

14. The Local Government and Public Involvement in Health Act 2007 determines the process and timescales to be followed when conducting a CGR. Whilst CGRs are not mandatory, it is recommended by the Local Government Boundary Commission for England (LGBCE) that councils conduct one every 10 to 15 years using the legislative framework.
15. The LGBCE has responsibility for making any changes to ward boundaries following a community governance review. These are called 'consequential changes'. Any proposals for any consequential changes should be consulted on as part of a review and the recommendation made to the LGBCE. The LGBCE is then responsible for making the changes to the wards or divisions.

Risk management

16. Should a countywide CGR not progress, there may be requests for unplanned piecemeal/smaller-scale parish reviews. A countywide co-ordinated CGR would therefore achieve greater economies of scale and would reduce the likelihood of ad-hoc reviews of single or groups of parishes within the county.

Consultees

17. Initial consultation with Herefordshire Association of Local Councils (HALC) has taken place and HALC is supportive of the proposal. All parishes councils have been asked to identify whether they have any specific issues they would wish a community governance review to address and these responses will inform a further report to the committee.

Appendices

None.

Background papers

None identified.



Meeting:	Audit and Governance Committee
Meeting date:	23 September 2015
Title of report:	2015/16 bi-annual forecast of revenue and capital outturn
Report by:	Director of resources

Classification

Open

Key Decision

This is not a key decision.

Wards Affected

Countywide

Purpose

To update the committee on the financial position to end of May 2015 as reported to Cabinet on 23 July 2015.

Recommendation(s)

THAT:

- (a) the audit and governance committee note the report and the forecast position.

Alternative options

- 1 There are no alternative options.

Reasons for recommendations

- 2 The forecast outturn for the year, based on spend to the end of May 2015 is a £0.6m overspend. This is to be addressed during the remaining of the year.

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on tel (01432) 261867

Key considerations

- 3 The projected outturn based on spend to the end of May 2015 is an over-spend of £0.6m, 0.4% of net budget. It is anticipated that management action will reduce the over-spend during the year. The risk of non-achievement can be mitigated by using reserves set-aside for overall risk mitigation and the corporate contingency to bring overall spending within budget at the year-end. The projected overspend is due to additional placements and continued reliability on agency staff to fill social work posts that were planned to be reduced in children's safeguarding.
- 4 The over-spend is in the context of having to achieve significant savings, £10m in 2015/16 on top of £15m delivered in 2014/15. Moving forward continued efficiencies and service re-design will become harder to deliver. Savings plans are currently being reviewed to meet projected savings required up to 2019/20. As part of this the realism of reductions already set out will be reconsidered, particularly in children's safeguarding where part of the overspend is due to not being able to meet planned efficiency targets.

Projected Revenue Outturn 2015/16

Service	Budget	May projection	Outturn over/(under)
	£000's	£000's	£000's
Adults Wellbeing	53,546	53,546	0
Children's Wellbeing	23,131	24,406	1,275
Economy, Communities & Corporate	53,061	52,980	(81)
Directorate total	129,738	130,932	1,194
Other budgets and reserves	12,255	11,655	(600)
Total	141,993	142,587	594

Adults Wellbeing

- 5 The forecast shows an overall balanced budget for Adults Wellbeing. There has been higher than expected demand, particularly for domiciliary care during the early part of 2015/16 and it should be noted that client budgets for 2015/16 are over £2.2m lower than they were in 2014/15. This year on year reduction of costs is expected to be achieved through proactive management of placements, financial challenge of all new placements and reviewing all high cost existing packages.
- 6 The forecast assumes that any further demand pressures will be managed within the operational teams, AWB panel, by senior management and all savings plans identified for delivery during the financial year are implemented on time and deliver expected benefits.

Further information on the subject of this report is available from
 Josie Rushgrove, head of corporate finance on tel (01432) 261867

- 7 Government has announced a potential reduction of public health funding of up to 7%, allowing for unallocated public health reserves this could result in a pressure of up to £350k for 2015/16. The annual grant is £7.9m and is allocated to staff costs and contracts for delivering public health outcomes, investment in project opportunities would have to be reduced if this reduction is confirmed.

Children's Wellbeing

- 8 The forecast outturn is an over-spend of £1.3m, due to overspends in children's safeguarding. This is the net position after applying reserves of £200k of set-aside for service redesign in the children with disabilities service. Overall savings in children's wellbeing for 2015/16 are £1.1m, all in children's safeguarding.
- 9 The safeguarding overspend is summarised below:

	£000's	£000's
Placements and Allowances:		
Residential and Fostering	547	
Kinship Carers	190	
Special Guardianship Allowances	168	
Direct Payments	53	959
Agency Staff:		
Children With Disabilities	293	
Multi Agency Safeguarding Hub	150	
Children in Need	101	
16+ Team	64	
Quality Assurance	52	659
Social work Academy		142
Total Overspend		1,760
Children With Disabilities Reserve		(200)
Under spends		(200)
Net Overspend in Safeguarding		1,360

- 10 Residential and Fostering costs £547k
There has been an increase in the number of children placed in external fostering agencies since the 2015/16 budget was set. The average annual cost of one of these placements is £44k.
- 11 To reduce the number of children in high need placements there has be an increase in costs in Kinship care arrangements causing a pressure of £190k this is greater than anticipated in our planning. The Special Guardianship allowances are forecast

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on tel (01432) 261867

as a pressure of £168k, a review of the Councils policy is currently in progress to review allowances and ensure the threshold is fair. We anticipate this will lead to a reduction in costs.

- 12 Agency Staff in teams £659k
The budget was based on an assumption regarding the step down of agency staff from April 2015. However, recruiting permanent members of staff to social workers posts continues to be difficult. We have been able to successfully move staff from the new qualified programme to permanent roles and recruit social workers both local and internationally. However, the ratio of permanent to agency is 55%:45% causing an overall budget pressure of £659k across a number of teams.
- 13 The children's with disabilities reserve was created to fund agency staff to resolve the backlog of cases and support while a service redesign was completed.
- 14 The Social work academy is overspending by £142k due to an accelerated recruitment of Newly Qualified social workers, to support further reductions in agency staff in future years.
- 15 The recruitment strategy is expected to deliver 18 permanent social workers within the financial year which is anticipated to reduce the overspend and will deliver savings plans in place for 2016/17.
- 16 There are some underspends in the early help and family support. In addition there is an underspend Education and Commissioning and staff vacancies.

Economy, Communities and Corporate

- 17 The forecast outturn is an underspend £81k. This reflects pressures for property maintenance of £200k, the impact of inflation on energy costs of £116k, a delay in the restructure of Parks and Countryside's of £85k and an increase in the Coroners external fees of £55k.
- 18 These pressures have been off-set by the early delivery of savings plans for 16/17, £148k, Waste Contract £300k and additional Hoople Sla savings of £100k.

Other Budgets and Reserves

- 16 The forecast outturn is to underspend by £600k compared to the budget. The underspend is in two areas, managing change is expected to underspend by £100k based on current redundancy estimates and a one off contribution to the general fund reserve of £500k is not required due to the £600k underspend in 2014/15 being transferred to reserves last year.

Collection Fund

- 17 The first review of 2015/16 business rate and council tax income is showing a forecast income in line with the budget projections of £22m and £84m. There has been no unexpected growth or decline to date however business rate income is subject to the risk of appeals. Funds have been set aside for lodged appeals and the risk of unknown appeals has been reduced following the national implementation of restricted back dating.

Capital Forecast

- 18 The forecast capital outturn is £73.3m compared to an original budget of £67.9m with the increase due to the re-profiling of spend and additional funding announcements.

Treasury Management

- 19 Treasury Management is expected to spend within budget, no new fixed term borrowing has been taken to date.

Community impact

- 20 The budget monitoring report helps the council demonstrate how its resources are being directed to meet corporate priorities.

Equality duty

- 21 The content of the report has not direct impact on equality or human rights.

Financial implications

- 22 These are contained within the report.

Legal implications

- 23 The Local Government Finance Act 1988 makes it a legal requirement that the council's expenditure (and proposed expenditure) in each financial year must not exceed the resources (including sums borrowed) available to the authority. If this principle is likely to be breached, the Chief Financial Officer is under a statutory duty to make a formal report to Members.

Risk management

- 24 Monthly reporting gives the Chief Finance Officer assurance on the robustness of budget control and monitoring, highlighting key risks and identifying any mitigation to reduce the impact of pressures on the council's overall position.

Consultees

- 25 None

Appendices

Appendix A – revenue forecast.

Background papers

None identified.

Further information on the subject of this report is available from
Josie Rushgrove, head of corporate finance on tel (01432) 261867

Appendix A

Directorate Net Budget	Net Budget	May	May	May
	£000's	£000's	Outturn	Variance
			£000's	Adv/(fav)
				£000's
Adults and Wellbeing	53,546	53,546	(0)	
Children's Wellbeing	23,131	24,406	1,275	
Economy, Communities & Corporate	53,060	52,980	(80)	
DIRECTORATES TOTAL	129,737	130,932	1,195	
Other budgets and reserves	12,255	11,655	(600)	
TOTAL	141,992	142,587	595	

Adults & Wellbeing

Service	Annual Budget			May Forecast Outturn £000's	May Projected Over/ (Under)spend £000's	Main reasons for change
	Budget Expenditure £000's	Budget (Income) £000's	Net Budget £000's			
Learning Disabilities	17,052	(1,871)	15,181	15,775	594	Increase in client numbers partially due to the number of children transitioning into adulthood. Forecast expenditure is similar to 2014/15 actuals but a CHC assessment backlog in the CCG has delayed funding decisions on a number of care packages which were assumed in the 2015/16 savings plans.
Memory and Cognition/Mental Health	10,053	(1,908)	8,145	7,639	(506)	Change in client mix which has reduced the average package cost.
Physical Support	25,359	(5,604)	19,755	20,419	664	There has been an increase in the number of personal budgets and domiciliary care packages compared to the assumptions made in the 2015/16 budget. Although spend is approximately £500k lower than actuals for 2014/15 the increased volume of packages mentioned above together with savings built into the 2015/16 budget relating to high cost placement reviews that have not yet been fully delivered have led to a forecast overspend at the end of May.
Sensory Support	873	(191)	682	513	(170)	Reduction in client numbers.
Client Sub-Total	53,337	(9,573)	43,763	44,345	582	
Operations	8,341	(826)	7,516	7,265	(251)	Holding staff vacancies.
Commissioning	6,440	(497)	5,942	5,868	(74)	
Directorate Management	726	(6,202)	(5,475)	(5,523)	(48)	
Children's Wellbeing	8,090	(7,970)	120	120	(0)	
Transformation and Safeguarding	1,685	(5)	1,680	1,471	(209)	Holding staff vacancies.
Use of one off reserves/grants	0	0	0	0	0	
Non Client Sub-Total	25,282	(15,500)	9,782	9,201	(582)	
Adult's Wellbeing	78,619	(25,073)	53,546	53,546	(0)	

Service	Annual Budget				May Forecast Outturn £000's	May Projected Over/ (Under) spend £000's	Main reasons for change
	Budget Expenditure £000's	Budget (Income) £000's	Net Budget £000's				
Directorate	64,364	(64,721)	(357)	(350)	7		
Directorate	64,364	(64,721)	(357)	(350)	7		
Additional Needs	2,455	(46)	2,409	2,409	0		
Children's Commissioning	1,245	(36)	1,209	1,147	(62)	Holding staff vacancies	
Commissioning Management	471	(78)	393	394	1		
Development and Sufficiency	3,374	(1,976)	1,798	1,767	(31)		
Education Improvement	254	(93)	161	161	0		
Education & Commissioning	7,799	(2,228)	5,971	5,879	(92)		
Safeguarding and Review	780	(81)	698	736	38	Cover for long term sickness and vacancies in statutory duties	
Early Help and Family Support	2,289	(478)	1,811	1,898	87	Interim management costs	
Fieldwork	2,958	(5)	2,953	3,339	386	Agency staff costs covering vacant posts. £200k reserve included for Children with Disabilities	
Looked After Children	7,408	(235)	7,173	7,761	588	Increase in number of children plus step down of placements from residential	
LAC External placements	2,907	(30)	2,877	2,915	37	Increase in number of IFA placements	
Safeguarding Development	871	0	871	1,065	194	Increase in number of NQSW placements to support the Recruitment & Retention Strategy	
Safeguarding and Early Help Management	1,169	(23)	1,146	1,176	30	Business support review recognised pressure	
Safeguarding & Family Support	18,383	(854)	17,529	18,889	1,360		
Children's Wellbeing excluding DSG	90,546	(67,803)	23,143	24,418	1,275		
Autism, Communities and Corporate	72,742	(72,754)	(12)	(12)	0		
Children's Wellbeing	163,288	(140,557)	23,131	24,406	1,275		

Service	Annual Budget			May Forecast Outturn £000's	May Projected Over/ (Under)spend £000's	Main reasons for change
	Budget Expenditure £000's	Budget (Income) £000's	Net Budget £000's			
Economic, Environment and Culture Placed Based Commissioning	9,224 41,325	(9,630) (3,662)	(406) 37,663	(386) 37,491	20 (172)	Parks and Countryside £85k - delay to staff restructure. Energy £116K inflation. Waste Disposal WCC (£300K), Hoople SLA (£100K).
Resources	62,682	(56,282)	6,400	6,625	225	Property Maintenance commitments creates a £200k pressure. Insurance £50k - forecast expenditure in line with 14/15 expenditure.
Community and Customer Services	4,276	(1,101)	3,175	3,179	4	
Governance	4,218	(709)	3,509	3,500	(9)	Coroners £55k - forecast based upon pro-rata of actual costs to date - demand for service is not within Authority control. Committee Services (£69k) - vacant posts.
Directors	2,774	(54)	2,719	2,571	(148)	(£148k) underspend in respect of budget savings initiatives achieved earlier than planned (2016/17) - these include waste management, economic development and communications and web team savings
Total ECC and Chief Executive	124,498	(71,438)	53,060	52,980	(80)	



Decision maker:	Audit and governance committee
Decision date:	23 September 2015
Title of report:	Whistle blowing policy
Report by:	Head of law, governance and resilience

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

The purpose of this report is to agree the proposed changes to the whistle blowing policy and procedure.

Recommendation(s)

THAT:

- (a) **the revised whistle blowing policy at appendix A be approved, effective 1 October 2015.**

Alternative options

- 1 To defer changes to current policies to another time, or partially recommend. This is not recommended because we know that the current policy contain aspects that do not reflect legislative requirements or need clarity.

Reasons for recommendations

- 2 The council's audit and governance code within the constitution requires that the audit and governance committee review and approve the whistle blowing policy on a biennial basis.

Further information on the subject of this report is available from
 Claire Ward, Interim Monitoring Officer on Tel (01432) 260657

Key considerations

- 3 The council's whistle blowing policy is intended to encourage and enable employees to raise concerns with the council without fear of victimisation, subsequent discrimination or embarrassment.
- 4 The policy plays an important part in meeting the council's commitment to openness, honesty and ethical propriety and compliments the objectives of a number of other council policies and supports the council's anti-fraud and bribery policy and the code of conduct for qualifying employees of the council.
- 5 It was therefore considered necessary that the council's existing whistle blowing policy was reviewed in order to ensure that it reflects recent legislative changes, up to date contact details.
- 6 The revised draft policy is attached at Appendix A. It reflects the changes implemented by the Enterprise and Regulatory Reform Act 2013. A summary of these changes is listed below:

Legislative changes	Revision made to draft policy
A change in the definition of Co-worker	Policy amended to include reference to temporary employees, trainees and those workers employed through an agency and "independent contractors".
<p>The implementation under the legislation of a "public interest test", the previous requirement that a "disclosure" clearly afforded legal protection if the worker made the qualifying disclosure in "good faith" is removed. The current test applicable on or after 25th June 2013 requires a concern reported by the worker in the public interest which in the reasonable belief of the worker tends to show one or more of the following:</p> <ul style="list-style-type: none"> - Illegal practices; - A failure to comply with the legal obligation; - The health and safety of an individual whether this is a member of public or staff being endangered; - Damage to the environment; - Miscarriage of justice; - Deliberate concealment of any of the above. 	All references to disclosures have been amended to comply with the legislation so that a qualifying or protected disclosure is a disclosure of information made in the public interest, the worker reasonably believing that the disclosure is made in the public interest.
Provisions implemented under the new legislation which introduces employer liability for victimisation of "Whistle Blows" by co-workers and / or an agent of the employer.	The new draft Policy has been revised to include the following co-employees who victimise whistle blowers can be made personally liable for their own conduct, and the Council could be held vicariously liable if it has not taken all reasonable steps to prevent victimisation.

Further information on the subject of this report is available from
 Claire Ward, Interim Monitoring Officer on Tel (01432) 260657

7. The new draft policy includes additional provisions including guidance for workers and their line managers to assist them in reporting their concerns under the whistle blowing policy and progressing this within the council. The monitoring officer's annual report to audit & governance committee includes monitoring levels of whistle blowing and the effectiveness of this policy.
8. The whistle blowing policy will provide the means for all workers to raise suspicions of any concerns including potential criminal matters through an open and transparent process without fear of repercussions.

Community impact

9. The council, as a large local employer, has a significant role to play in the local community, for example policies such as flexible working provide flexibility to assist people with care and other responsibilities to be in employment.
10. The council continues to ensure that the resources available are used in the most effective way.

Equality duty

11. The council is committed to equality and diversity using the Public Sector Equality Duty (Equality Act 2010) to eliminate unlawful discrimination, advance equality of opportunity and foster good relations.
12. The equality duty covers the following nine groups with protected characteristics: age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
13. The proposed review of these policies will have no impact on employees with protected characteristics.

Financial implications

14. There are no direct financial implications associated with the proposed policy changes contained in this report or the summary.

Legal implications

15. The law on whistle blowing was previously contained in the Employment Rights Act 1996 which was amended by the Public Interest Disclosure Act 1998 and affords employment protection to any worker who makes a "protected disclosure". The legislation provides protection to the worker against victimisation and additional protection for those workers who report their concerns outside of the authority where there is no existing whistle blowing policy or effective whistle blowing arrangements in existence within the authority.
16. The draft policy takes account of the changes necessary to respond to the requirements within the Enterprise and Regulatory Reform Act 2013.

Risk management

17. Failure to maintain a legally compliant whistle blowing policy could contravene employment law and leave the council open to challenge with associated financial penalties and bring the council into disrepute.

Consultees

18. Consultation has been conducted with the trade unions about the proposed policy changes. Comments have been considered and incorporated; there is not a requirement to gain agreement.
19. Management board, trade unions, managers and employees will continue to be engaged as appropriate on future thinking and associated plans to make any further changes to employment policies.

Appendices

Appendix A: Draft updated whistle blowing policy wording

Appendix B: Draft whistle blowing procedure

Background papers

None identified.

1.1 Whistleblowing

- The policy and procedures apply to employees of Herefordshire Council (excluding those employed at a school by a School Governing Body where separate arrangements will apply), temporary employees, trainees and independent contractors. The policy also applies to those engaged through an external agency.
- Everyone should be aware of the importance of preventing and eliminating wrongdoing at work. Employees should be watchful for illegal or unethical conduct and report anything of that nature that they become aware of.
- Even where safeguards are already in place, poor practice can still exist. As a safeguard for the Council and in keeping with our legal duties and obligations¹, this policy and procedure sets out a framework within which staff can make a “protected disclosure” without fear that they will be subjected to victimisation or dismissal (and selection for redundancy) provided that the disclosure is made in accordance with the Public Interest Disclosure Act 1998 (“The Act”) and (amendments in accordance with the Enterprise Regulatory Reform Act 2013). It is important for staff to be aware that they can only make a protected disclosure in certain circumstances. A “protected disclosure” must be of a certain type of information known as a “qualifying disclosure” and the disclosure must be made in a way which is described in the Act.
- A qualifying or protected disclosure is a disclosure of information made in the public interest which in the reasonable belief of the member of staff making the disclosure tends to show one or more of the following:
 - illegal practices (for example, a criminal offence).
 - a failure to comply with a legal obligation.
 - the health and safety of an individual, whether this is a member of the public or staff being endangered.
 - damage to the environment.
 - miscarriage of justice.
 - deliberate concealment of any of the above.
- This policy is intended to cover concerns that fall outside the scope of other existing procedures and policies of the Council. Where you have a concern which is personal and relates only to yourself rather than wrongdoing of a more general nature this will be treated as a grievance and the Grievance Policy will apply. The Anti-fraud, Bribery and Corruption policy which states the council’s zero-tolerance position on such matters is also to be observed in conjunction with this policy.

¹ The Public Interest Disclosure Act 1998 and amendments in accordance with the Enterprise and Regulatory Reform Act 2013

- Any matter raised under this procedure will be investigated thoroughly, promptly and confidentially, and the outcome of the investigation reported back to the employee who raised the issue.
- All concerns will be treated in confidence and every effort will be made not to reveal their identity if an individual wishes. At the appropriate time, however, the individual may need to come forward as a witness. This should be discussed with the individual early on to establish if this is possible, but should not be regarded as a barrier to investigating the matter.
- Concerns expressed anonymously will be considered at the discretion of the council, but may not be regarded as "protected" under the Public Interest Disclosures Act 1998.
- All reasonable steps will be taken to ensure that no employee will be victimised or suffer any detriment for raising a matter under this procedure. This means that continued employment and opportunities for future promotion or training of the employee will not be prejudiced because he/she has raised a legitimate concern.
- In exceptional circumstances, and in order to protect someone who has raised a qualified disclosure, or to facilitate thorough investigation, a whistle blower may be redeployed. This may be on a permanent or a temporary basis and will always be subject to mutual agreement with clear terms, under which there will be no detriment to that individual.
- Harassment or victimisation of an employee for raising a qualified disclosure will be a disciplinary offence. Co-employees who victimise whistle blowers can be made personally liable for their own conduct, and the Council could be held vicariously liable if it has not taken all reasonable steps to prevent victimisation.
- If misconduct is discovered as a result of any investigation under this procedure the council's disciplinary procedure will be used, in addition to any appropriate external measures.
- No action will be taken if an allegation is made but is not confirmed by an investigation.
- Maliciously making a false allegation is a disciplinary offence. Allegations made in similar spirit for personal gain may also be treated similarly and neither action would be protected.
- An instruction to cover up wrongdoing is itself a disciplinary offence. If told not to raise or pursue any concern, even by a person in authority such as a manager, employees should not agree to remain silent. They should report the matter to the Monitoring Officer.



Whistleblowing Procedure

This procedure applies when you have a concern about any aspect of service provision or the conduct of officers, members of the council or others acting on behalf of the council. This may be about something that:

- Makes you feel uncomfortable in terms of known standards, your experience or the standards you believe the council subscribes to; or
- Is against the council's standing orders and policies; or
- Falls below established standards of practice; or
- Amounts to improper conduct.

It does not cover matters concerning your own employment, for which the council has a grievance procedure (insert link).

Colour key:

Employee responsibility
investigating officer responsibility

Actions	Responsibilities and Duties
1 Raise concern	<p>In the first instance, anyone with a concern should normally raise this with the line manager. This depends on the seriousness and sensitivity of the issues involved and who is suspected of the malpractice, so as an alternative, a concern may be raised with:</p> <ul style="list-style-type: none"> • The Chief Executive (tel 01432 260044) • The Monitoring Officer (tel 01432 260657) • The Chief Financial Officer (01432 383514) • Internal Audit Manager (01432 260294) <p>A concern may be made orally or in writing and the earlier it is raised, the easier it is to take action. Advice and guidance may be sought from:</p> <ul style="list-style-type: none"> • Monitoring Officer; or • A trade union; or • Public Concern at Work – an independent charity http://www.pcaw.org.uk/adviceline Tel 020 7404 6609 <p>It is not the role of the individual to attempt to investigate any suspected malpractice.</p>

Actions	Responsibilities and Duties
	A Whistle blower may be interviewed further as part of an investigation – see Being a Witness and Confidentiality of Witness Statements
2 Acknowledge concern	<p>Inform the Monitoring Officer and Internal Audit of the concern. Within 5 working days, write to the person raising the concern:</p> <ul style="list-style-type: none"> • Acknowledge that the concern has been received; • Indicate how it is proposed that the matter will be dealt with; • Give an estimate of anticipated timescales; • Advise of any initial actions or enquiries thus far; • Explain if further investigations will take place, including any possible interviewing of the whistle blower as a witness, and if not, why not; • Reassurance of support and safeguards in place to protect them; • Signpost to further support e.g. Employee Assistance Programme.
3 Investigate concern	<p>It may be possible to resolve some concerns without the need for investigation.</p> <p>If an investigation is required, it may be investigated through the following channels, as appropriate:</p> <ul style="list-style-type: none"> • by management, internal audit or through the disciplinary process; • referral to the police; • referral to the external auditor; • an independent inquiry. <p>See conducting an investigation guidance - further guidance, where relevant to the particular case, is listed below. Guidance is also available from the Monitoring Officer and/or HR if required.</p> <p>Any urgent action, if required, will be actioned before an investigation commences. Concerns or allegations which fall within the scope of specific procedures (e.g. safeguarding) would normally be referred for consideration under those procedures.</p>

Actions	Responsibilities and Duties
4 Determine outcome	<p>The outcome of any investigation will be unique to each case and subject to determination by the requirements of any specific procedure followed.</p> <p>Outcomes may include, but not be exclusive to, reviews of policy and practice, or formal disciplinary action against one or more officers.</p> <p>If it is found that the concern was found to be unfounded and/or raised with malicious or mischievous intent, then formal action will be taken against the person raising that concern.</p>
5 Notify person raising concern	<p>Write to the person to let them know the outcome. Depending on the nature of the matter, there may be limitations to what may be disclosed.</p> <p>Advise them of any further action they could take if they are not satisfied with the outcome (see taking matters further, below)</p>
6 Taking matters further	<p>If the outcome is not considered satisfactory, the matter may be raised with appropriate/relevant external statutory or regulatory bodies e.g.:</p> <ul style="list-style-type: none"> • Health & Safety Executive • Ofsted • Care Quality Commission • External Audit • Local Government Ombudsman • The police

Document links	<p>Being a Witness Conducting Investigations Confidentiality of Witness Statements Failure to Participate in a Formal Process Effective Interview Guidance Suspension Guidance Guide to Behaviour Harassment and Bullying Guidance Employee Health, Safety and Wellbeing policy and related guidance Disciplinary Procedure Safeguarding Adults policy Safeguarding Children Board policies and procedures Anti-fraud, Bribery and Corruption Policy</p>
-----------------------	--

Document Control

Version	Date issued	Description of change	Pages affected	Updated by
Draft 1	6 Aug 2014	1 st Draft	All	Assistant Director, Governance
Draft 2	27 March 2015	Updated/2 nd draft	All	Governance Services / Assistant Director, Governance
Draft 3	8 Sep 2015	Updated/3 rd draft	All	Head of Law, Governance & Resilience

DRAFT



Meeting:	Audit and Governance Committee
Meeting date:	23 September 2015
Title of report:	2014/15 audit findings report
Report by:	Director of resources

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To update the committee on the external audit findings for 2014/15.

Recommendation(s)

THAT:

- (a) The content of the external audit findings report be noted.

Alternative options

- 1 There are no alternative options.

Reasons for recommendations

- 2 The external auditors are required to produce an annual audit findings report on the financial resilience, value for money and statement of accounts of the council.

Key considerations

- 3 The auditors reviewed the financial resilience, value for money and statement of accounts of the council by looking at key indicators of financial performance, its approach to strategic financial planning, its approach to financial governance and its

Further information on the subject of this report is available from
 Josie Rushgrove, head of corporate finance on tel (01432) 261867

approach to financial control.

- 4 The overall conclusion is green in all of these areas, the same as 2013/14, meaning adequate arrangements are in place.
- 5 The audit findings report includes an action plan to implement improvements to support the earlier sign off of the accounts and the records held on the councils asset register. These actions have been agreed and will be progressed during 2015/16.

Community impact

- 6 There is no community impact arising from this report.

Equality duty

- 7 The content of the report has not direct impact on equality or human rights.

Financial implications

- 8 There are no financial implications arising from this report.

Legal implications

- 9 This report has no legal implications.

Risk management

- 10 The audit findings report reviews the risk management arrangements of the council's finances.

Consultees

- 11 None

Appendices

Appendix A - audit findings report.

Background papers

None identified.



The Audit Findings for Herefordshire Council

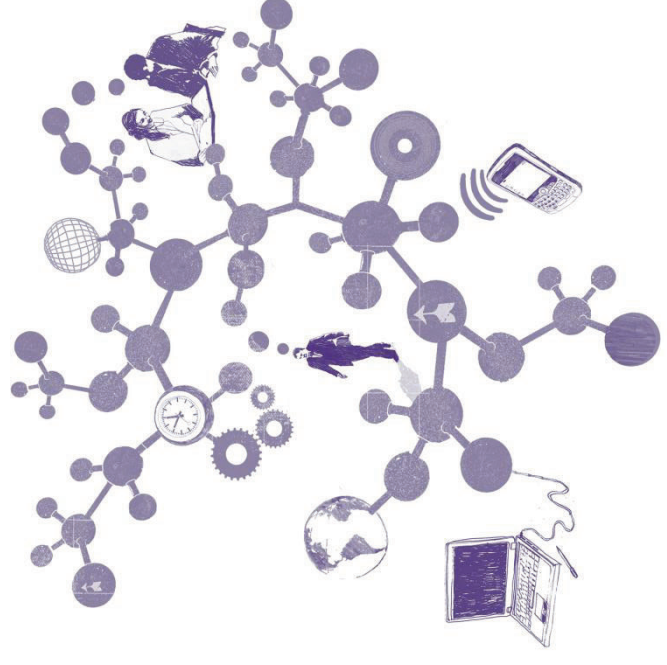
Year ended 31 March 2015

September 2015

Phil Jones
Engagement Lead
T 0121 232 5232
E phil.w.jones@uk.gt.com

Terry Tobin
Senior Manager
T 0121 232 5276
E terry.p.tobin@uk.gt.com

Sarah Good
Audit Executive
T 0121 232 5334
E sarah.l.good@uk.gt.com





Herefordshire Council
Plough Lane
Hereford

14 September 2015

Dear Members

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Place
Birmingham
B4 6AT

[T +44] (0)121 212 4000
www.grant-thornton.co.uk

Audit Findings for Herefordshire Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Herefordshire Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely,

Phil Jones, Director

Chartered Accountants
Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales No: OC307742.
Registered office: Grant Thornton House, Mellon Street, Euston Square, London NW1 2EP.
A list of members is available from our registered office.
Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	7
3. Value for Money	18
4. Fees, non audit services and independence	24
5. Communication of audit matters	26

Appendices

A Action plan

 Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Herefordshire Council's (the Council's) financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (ISA) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, the Value for Money (VFM) conclusion.

Introduction

We communicated our planned audit approach to you in our Audit Plan on 18 March 2015. Since this Plan was issued, we have made only one change to the strategy to no longer classify the risk on welfare expenditure. We have also carried out additional work on the Council's accounting treatment for maintained schools following recent changes to national guidance.

Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

This year the Council committed to producing its statement of accounts considerably earlier than in previous years. We received draft financial statements in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements. We identified some material adjustments affecting the Council's Balance Sheet. The adjustments mainly relate to incorrect valuations of schools and the omission of school assets (details are recorded in section 2 of this report). Net Assets and Total Reserves in the balance sheet have both increased as a result by £9.082 million. We have also identified a number of adjustments to improve disclosure in the financial statements. There are no non trivial unadjusted misstatements.

Most working papers to support the figures in the accounts were received early and were fit for purpose. There were still a few areas where it took too long to obtain satisfactory support for account balances. We are pleased to see that the Council is very keen to continue its improvement process and change processes for next year and we are happy to help in this process. This will be important as the audit accounts timetable is moved forward to the end of July in future years.

In view of the significance of the judgement needed to be exercised in relation to the accounting for school land and buildings this year, our audit work considered in some detail the basis for and evidence underlying the exercise of management judgement applied. The judgement applied has led to the Council recognising an additional net £35.4 million of assets on the balance sheet this year. Based on our work, we can confirm agreement with Management's treatment. Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

The Council reported a surplus of £600,000 in 2014/15. This has been achieved by a strategic approach to service provision supported by careful financial management. The Council now faces another significant challenge to deliver a further savings over the three years from 2015-16 and planning for this is well advanced.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention. Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

Acknowledgment

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.

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 18 March. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We communicated our planned audit approach to you in our Audit Plan on 18 March 2015. The change to the plan presented is explained on page 5.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion. Our audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>1. Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Herefordshire 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>Our audit work has not given us any cause to change that assumption.</p>
<p>2. Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
<p>3 Financial statement level risk On the 1st April 2015 the Authority upgraded its accounting system , which involved data transfer from one system to another</p>	<p>We reviewed the data transfer process to ensure that the data transfer was accurate and complete</p>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • reconciled the operating expenses figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and the subsidiary accounts system • reviewed for unrecorded liabilities through, for example, review of payments made before and after the year end • reviewed of the accruals process and a sample of creditor balances as at 31 March 2015. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Employee remuneration accrual understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively • reconciled the payroll figure in the Comprehensive Income and Expenditure Statement (and supporting notes) to the general ledger and payroll subsidiary system • reviewed monthly trend analysis of payroll 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

New issues and risks identified during the course of the audit

In this section we detail our response to the new risks of material misstatement which we identified during the course of the audit.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Accounting for schools</p>	<p>Clarification on accounting for school buildings has been published by CIPFA in their "LAAP bulletin 101:-Accounting for non-current assets used by Local Authority maintained schools".</p> <p>The guidance refers to the considerations in relation to determining whether school land and buildings should be recognised on the Council's balance sheet. The guidance covers community, voluntary aided, voluntary controlled and foundation schools.</p> <p>A key determinant of the assessment for inclusion of land and buildings is whether the rights to use the asset have been transferred to the Council from the entity which owns the asset or whether the Council owns the asset.</p> <p>The assessment requires management to exercise judgements. As a result of this exercise management identified that £35.4 million of school land and buildings should be recognised on the Council's balance sheet.</p> <p>Due to the material nature of this judgement, it was necessary for us to perform work to determine whether the judgements were appropriate.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Tested whether the Council has identified all maintained schools within its area • Considered the Council's application of the relevant accounting principles to account for these and challenged assumptions where necessary • Reviewed whether the financial valuations of those assets to be brought onto the balance sheet at 1 April 2013 is appropriate and the valuations are undertaken by qualified valuers. • Confirmed transactions have been appropriately recorded as a prior year adjustment, as any changes in the accounting for these assets has been deemed to be a change in accounting policy 	<p>Based on the evidence made available to us and the application of the principles in the Code and other accounting guidance, we can confirm that we agree with management's exercise of judgement. Our audit found errors on both the omission of schools and valuation of schools which have now been corrected. Further details are set out on page 14.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.



Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Revenue from provision of services is recognised when the council can measure reliably the level of completion of the transaction and it is probable that benefits will flow to the council. It is accounted for in the year that it takes place and not when the payment is made.</p> <p>Revenue grants received are accounted for on an accruals basis when the conditions of their receipt are met.</p>	<ul style="list-style-type: none"> The accounting policy is appropriate and complies with Code of Practice on Local Authority Accounting (the Code). Income is not an area that requires significant judgement or estimation. The disclosure of the accounting policy is adequate 	●
Judgements and estimates	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> PPE valuations and revaluations impairments useful life of capital equipment pension fund valuations and settlements Contingent liabilities. 	<p>The other estimates and judgements made by management are in line with the Code's expectations. See Property Plant and Equipment estimates below for further details.</p>	●

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates - PPE</p>	<ul style="list-style-type: none"> The council undertakes a five year rolling programme of revaluations. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2015. The Council is moving towards full compliance with the Code's requirement in paragraph 4.1.2.35 to value all items within a class of property, plant and equipment simultaneously. 	<p>For assets not valued in the year, assurance has been gained from the Council's in-house valuer, external valuer and the finance team that the value of Property, Plant and Equipment held in the accounts remain materially correct.</p> <p>The evidence provided to support the valuation of assets not valued in the year to demonstrate that the carrying values in the accounts were materially correct was robust.</p>	
<p>Other accounting policies</p>	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 Not all of the recent PPE Valuations had been included in the asset register. This has resulted in an increase in the land valuations of £6,066,000 and a decrease in land of £173,000.		5,893	
2 Not all of the school assets had been brought onto the balance sheet per the Council's accounting policies. This has resulted in bringing an extra nine schools on the balance sheet at a value of £3,189,000 (£2,087,000 buildings and £1,095,000 land).		3,189	
Overall impact		9,082	

Misclassifications & 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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	NA	Accounting Policies	Accounting policies were amended to remove outdated terminology on pensions and to add accounting policies on charges to revenue for non current assets, the minimum revenue provision, council tax and NNDR, the recognition of schools and the de-recognition of academy schools.
2 Disclosure		Third Balance Sheet	When an accounting policy is applied retrospectively, as is the case with bringing the schools onto the balance sheet, accounting standards require a third balance sheet (2012/13) to be included. This has now been added to the accounts.
3 Disclosure	NA	Various	There were a number of changes to the notes to the accounts to comply fully with Code of Practice including notes to the Cash Flow statement, further disclosures on NNDR provision, amendment to the way audit fees are shown and changes to include the most up to date terminology in note 8.39.3 on pensions.
4 Disclosure	NA	Various	A number of other changes were made to the draft set of accounts including rounding errors, casting issues and typing errors.

Misclassifications & disclosure changes (continued)

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.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
5 Disclosure	Various	Various	A number of other changes were made to correct typographical, rounding, formatting and note references..

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We identified no significant control weaknesses during the course of our audit that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. We have discussed some less significant issues with management, including the need to ensure that all journals which take place after the year end closedown date are approved by the Deputy Section 151 Officer, as the Council financial procedures require.

Other communication requirements

We set out below details of other matters which we are required by auditing standards 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 other incidents in the period and no other issues have been identified during the course of our audit
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. although our audit did identify amendments to the draft accounts to improve disclosure (slide 15)
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code. These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

The Council, like most others nationally, continues to face challenges in how to balance its budget. The outturn position in 2014/15 shows the budget has been achieved which is a positive achievement. Overall our work highlighted that the Council has satisfactory arrangements in place to secure financial resilience. In particular:

- a robust corporate strategy, medium term financial strategy and savings plan are in place
- the Council delivered its overall savings target
- arrangements for governance processes including risk management and the production of the Annual Governance Statement are satisfactory
- financial management is sound with effective reporting of variances from plans

Value for Money

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has satisfactory arrangements in place to challenge value for money and in particular: the Council:

- understands its priorities and allocates resources appropriately
- continuously considers how best to achieve value for money.
- understands the risks in relation to the waste contract and has made appropriate arrangements to mitigate these
- is continuing to respond to the risks associated with Adults and Children's Social care

The Council has further strengthened its arrangements to challenge value for money by improving how savings schemes are monitored and reported in the year.

We reported to the July Audit and Governance Committee our response to an objection we received in relation to the variation to the waste PFI scheme to build an energy from waste plant in Hartlebury. Whilst we identified areas where processes could be improved, we concluded that the Council had taken appropriate advice and that a report in the public interest was not appropriate in the circumstances.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Value for Money

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Key indicators of performance	We reviewed the Council's including performance against budgets and level of reserves. The Council's general fund reserve increased again to £7.1 million due to the £600,000 underspend and this now equates to 5% of net budget. The overall level of non school reserves has risen in 2014/15 and working capital has been maintained within expected levels when the effect of LOBOs are taken into consideration. School reserves also increased during the year.	Green	Green
Strategic financial planning	The Council's medium term financial strategy takes into account the factors we would expect and is updated sufficiently regularly and is responsive to significant events in the annual financial cycle. Budget papers to Members have been updated and improved to show a clear link to Council key priorities. The Council consulted with the public on the proposed budget including using an online budget setting tool. The budget proposals were considered by General Overview and Scrutiny Committee. The Council continues not to have a 10 year financial plan but in the current climate we believe this does not adversely affect medium to long term planning. Although some planned savings were not achieved in 2014/15 compensating savings were made which meant the Council achieved its savings target. The savings needed for 2015-16 are forecast to be £10m and work is well advanced for how these savings will be achieved.	Green	Green
Financial governance	The Council understands its financial environment and there is leadership and challenge from members. Financial reporting to members is sound and, in particular, both the explanation of the financial strategy and reporting of the revenue out-turn for the year was clear and comprehensive.	Green	Green

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Financial control	<p>The Council continues to manage its finances effectively. The revenue budget was £600,000 underspend in 2014/15. Children's Well-being was the only directorate overspend with a £529,000 overspend and this is also currently forecast to overspend in 2015/16. Budget monitoring and reporting throughout the year was comprehensive and enabled members to understand the ongoing financial position. It is pleasing to note that Adults and Well-Being underspent as a directorate in 2014/15 given that this was a major overspending area until fairly recently. The Council had previously taken a significant step by returning the management of social workers to its direct control.</p>	Green	Green
Prioritising resources	<p>The Council has a good understanding of the available resources and the priorities for spending. Arrangements to challenge value for money continue to be developed.</p>	Green	Green
Improving efficiency & productivity	<p>Costs and performance of services are monitored through the Council's performance management system. The Council is continuing to focus effort on demand led services such as Social Care. The Council is continuing to improve its arrangements by improving the monitoring of savings schemes. Children's Well-Being was the only directorate overspend in 2014/15. In March 2015 the Parliamentary Under Secretary for State for Children and Families wrote to the Council lifting the improvement notice previously in place in Children's services. Ofsted identified areas for improvement and these are reflected in the Council's own improvement plan. The July 2015 Cabinet report showed an overall forecast overspend in Children's and Well-being of £1.3m which was contributing to an overall forecast deficit for the Council of £595,000. The overspend in Children's was due to additional safeguarding costs and in particular the use of agency staff and higher than expected placement costs.</p>	Green	Green

Section 4: Fees, non audit services and independence

01. Executive summary
02. Audit findings
03. Value for Money
04. Fees, non audit services and independence
05. Communication of audit matters

Fees, non audit services and independence

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

Fees	Per Audit plan	Actual fees
	£	£
Council audit	164,803	164,803
Grant certification	6,420	6,420
Total audit fees	171,223	171,223

Fees for other services

Service	Fees £
Certification of Teachers pensions Agency return	4,200
Forensic assistance with contractor	4,000

Independence and ethics

We confirm that there are no other 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

We are also satisfied that there is informed management and that there are appropriate safeguards in place to ensure that the certification of the teachers pension agency return and forensic assistance did not present an unacceptable threat to the independence of current and future audits of the financial statements.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should continue to redesign the process for closedown and audit of the accounts to ensure a more efficient approach and the Council is ready for the revision of the audited accounts deadline.	●	This is underway with earlier closedown planning meetings already scheduled, the revised deadline is considered achievable	31.01.2016 Head of Corporate Finance
2	Controls should be strengthened on the accounting of all PPE assets by ensuring that: -all valuations in the asset register and accounts agree to most recent valuations carried out -all assets are included in the balance sheet.	●	A comprehensive review of the fixed asset register including the agreement of entries therein has begun. Improvements have already been identified and completed.	31.12.2015 Head of Corporate Finance

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Herefordshire Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the Collection Fund and the related notes. 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 2014/15.

This report is made solely to the members of Herefordshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Responsibilities, the Director of Resources 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Herefordshire Council as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2015.

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 form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, we are satisfied that, in all significant respects, Herefordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

We certify that we have completed the audit of the financial statements of Herefordshire Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Phil Jones
 Director
 for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
 Colmore Plaza
 20 Colmore Circus
 Birmingham B46AT

September 2015



© 2015 Grant Thornton UK LLP. All rights reserved.
'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grantthornton.co.uk



Meeting:	Audit and governance committee
Meeting date:	23 September 2015
Title of report:	Public Interest Disclosure Act (PIDA) working group update
Report by:	Governance manager

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To inform the committee of the activities of the working group formed to review the actions taken in response to the recommendations made by Grant Thornton following their review of the customer relationship management system implementation.

Recommendation(s)

THAT:

- (a) **the report be noted.**

Alternative options

- 1 There are no alternative options as the report is for information only.

Reasons for recommendations

- 2 To provide assurance that agreed actions have been implemented and had an appropriate impact.

Key considerations

- 3 In January 2014 Grant Thornton received a disclosure under the Public Interest Disclosure Act 1998 (PIDA) from a member of staff of the council. The disclosure

Further information on the subject of this report is available from
Annie Brookes, governance manager on Tel (01432) 260605

concerned the implementation of the council's IT-based customer relationship management (CRM) system implemented in 2011. Grant Thornton undertook an investigation of the areas of concern raised in the disclosure and produced a report which was considered by the audit and governance committee in September 2014 (see agenda item 16 at <http://councillors.herefordshire.gov.uk/AGC>).

4 In summary, the investigation found no evidence of impropriety in the procurement process, but did find some areas where lessons could be learned for future major project implementation. These recommendations and the management actions in response are attached at appendix 1. Having reviewed the report, the committee resolved to establish a working group to scope and research work on governance structures systems and procedures relating to procurement and projects. Following a further report to the committee in November ([http://councillors.herefordshire.gov.uk/further report](http://councillors.herefordshire.gov.uk/further_report)) it was agreed that the digital strategy task and finish group, established by the general overview and scrutiny committee (GOSC), be asked to review the way forward for the CRM system and whether any further financial benefits could be delivered. This request was forwarded to GOSC but the digital strategy task and finish group has not been active in the past year. It was also agreed that the following issues form the focus of activity for the working group:

- management and monitoring of savings schemes
- concerns about the timing and pace of decisions; the level at which decisions are made; decision-making during the pre-election (or 'purdah') period
- collective working of members and officers to be embedded into the governance structure
- reports and statistical data concerning staff issues such as bullying, harassment and whistleblowing

5 The working group met in December and reviewed financial reporting arrangements for the management and monitoring of savings schemes and were satisfied that the arrangements were robust. They recommended that reports could be strengthened by the inclusion of hyperlinks to additional information and these are now routinely included.

6 The working group agreed five further areas where further information would be welcomed; these are set out in the table below together with the activity areas agreed initially (as set out at paragraph 4) and an update on progress is given.

	Action	Update
1	Management and monitoring of savings schemes	Addressed at the working group meeting in December 2014. No further action identified.
2	Concerns about the timing and pace of decisions; the level at which decisions are made; decision-making during the pre-election (or 'purdah') period	Pre-election period guidance was published on the council's website and circulated to all members and staff. Information on the decision making process has been collated on a dedicated page of the intranet (internal only) at: forward plan . The level at which decisions are made is determined by the functions scheme within

Further information on the subject of this report is available from Annie Brookes, governance manager on Tel (01432) 260605

	Action	Update
		the constitution and will be reviewed as part of the ongoing review of the constitution.
3	Collective working of members and officers to be embedded into the governance structure	How this is best achieved, whilst maintaining transparency in relation to accountability and clarity regarding the respective roles of members and officers will be considered as part of the ongoing review of the constitution.
4	Reports and statistical data concerning staff issues such as bullying, harassment and whistleblowing	Whistleblowing data is reported to the committee in the annual report of the monitoring officer. The annual staff survey provides an overview of staff views regarding bullying and harassment (see 7 below).
5	Report process: officers to explain the process in full, how the report template goes through different departments, and the process by which decisions are taken through the governance structure	This information has been collated on a dedicated page of the intranet (see 2 above)
6	Induction of members post election: officers to give further information about the plans for induction of members to ensure that incoming committee members were aware of the committee's work plan	Online handbooks were developed, in consultation with the outgoing committee chairman. These remain available on the councillor handbook pages of the intranet.
7	Staff survey: data on the latest staff survey	The chief executive attended a meeting of the committee in January and provided a briefing on the key issues arising from the latest staff survey. It was agreed that in future the committee would receive this information annually and this is included in the annual work programme.
8	Staff statistics: data on staff sickness and grievances.	Sickness absence rates for the organisation are reported to Cabinet as part of the quarterly corporate performance reporting process (see databooks). Information on HR case management (covering conduct, capability and performance, absence management, grievance and other issues) is reported monthly to the management board. In the

Further information on the subject of this report is available from Annie Brookes, governance manager on Tel (01432) 260605

	Action	Update
		first seven months of this calendar year, six new grievances were opened.
9	Decide any subjects that need further work by the working group	No further meetings were held.

Community impact

- 7 The council's corporate plan includes clear commitments both to maintaining openness and accountability for decision making, service delivery and impact and to making the best use of resources available in order to meet the council's priorities. The areas for improvement identified in the report and the actions agreed in response support achievement of those.

Equality duty

- 8 No implications identified; the report is for information only.

Financial implications

- 9 No implications identified; the report is for information only.

Legal implications

- 10 There are no legal implications.

Risk management

- 11 As the report is for information only there are no direct risks in relation to the recommendations. Ensuring robust governance processes are in place and understood mitigates against the risk that decisions are not taken in accordance with the principles of good decision making.

Consultees

- 10 None.

Appendices

Appendix A – Recommendations and management response.

Background papers

- None identified.

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The council should ensure that any future major project has detailed input from the Finance department around the projected costs and benefits of the business case.	H	Accepted. The finance team are responsible for completion of this element in any business case.	Ongoing. Chief finance officer
2	The council should seek as far as possible to future proof major projects or contracts and be clear about the external circumstances which could change during the life of the project or contract.	H	Accepted. The lessons learned exercise completed by the council in relation to this (and other major change programmes) are used to inform future programme development and implementation, and future commissioning.	Ongoing. Chief finance officer/head of commercial services
3	The council should ensure that any council-wide initiative has full buy-in from all parts of the council as part of preparing the business case.	H	Accepted. Although there is little evidence to suggest there was not buy in from across the council in relation to this particular project, the business case development and sign-off process involves management board and member engagement as an integral part of the governance process.	Ongoing. Management board
4	The council should develop a clear view about the scope and ambition of its customer vision and what this means for the way it engages with all customers in future and the digital and other channels it needs to deploy to support that vision.	H	Accepted. Recent cabinet reports relating to customer services and digital strategy outline the clear direction of travel. These will be supported by additional communications to ensure this direction of travel is consistently communicated to customers, members and employees.	Ongoing. Head of community and customer services

APPENDIX A

<p>5</p>	<p>The council should ensure that its internal processes to deal with complaints raised informally are well understood and applied consistently.</p>	<p>M</p>	<p>Accepted. Information on the processes to be followed for both formal complaints and informal concerns raised by staff will be provided to all members regularly and included in new member induction. All managers are periodically reminded to the processes to be followed when concerns or complaints are raised by members of staff or members of the public. All staff are reminded periodically of the appropriate processes to be followed when raising concerns whether informally with managers or formally through the grievance or whistleblowing processes.</p>	<p>Ongoing. Assistant director, governance</p>
-----------------	--	----------	---	--



MEETING:	AUDIT & GOVERNANCE COMMITTEE
MEETING DATE:	Wednesday 23rd September 2015
TITLE OF REPORT:	Progress report on 2015/16 internal audit plan
REPORT BY:	Internal audit – south west audit partnership

Classification

Open

Wards Affected

County-wide

Purpose

The purpose of this Internal Audit Report is to update Members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

The attached report (Appendix A) is a summary of the activity completed at 31st August 2015 for the 2015/16 audit plan.

Recommendation

That subject to any comments the Committee wishes to make the report be noted.

Alternative Options

1 This report is for information and therefore alternative options are not applicable.

Reasons for Recommendations

2 To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS)

Key Considerations

3 See Appendix A

Further information on the subject of this report is available from
Jacqui Gooding – Assistant Director (SWAP) on Tel: 01432 260294 or 07872500675

Community Impact

4 The report does not impact on this area.

Equality and Human Rights

5 The report does not impact on this area.

Financial Implications

6 There are no financial implications.

Legal Implications

7 There are no Legal implications.

Risk Management

8 There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.

Consultees

9 The Director of Resources (Section 151 Officer) was consulted in the drafting of this report.

Appendices

Appendix A – SWAP Plan Progress Report 2015/16

Background Papers

- None identified.



Herefordshire Council

Report of Internal Audit Activity
Plan Progress 2015-16 Quarter 1

Contents

The contacts at SWAP in connection with this report are:

Gerry Cox
Chief Executive
Tel: 01935 385906
gerry.cox@southwestaudit.co.uk

Ian Baker
Director of Quality
Tel: 07917628774
ian.baker@southwestaudit.co.uk

Jacqui Gooding
Assistant Director
Tel: 01432 260426 or 07872500675
Jacqui.gooding@southwestaudit.co.uk

Summary:

Page 1

Role of Internal Audit
Overview of Internal Audit Activity

Internal Audit Work Plan 2015/16:

Pages 2

Pages 3-5

Pages 6

Report on Significant Findings
Audit Plan Progress
Future Planned Work }
Conclusions }

APPENDICES:

Appendix 'B'
Appendix 'C'

2015-16 Annual Plan Progress
Audit Framework Definitions



Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 19 March 2015.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Director of Resources (Section 151 Officer) following consultation with the Senior Management Team. This year's (2015/16) Plan was presented to this Committee on 19 March 2015.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.



These are actions that we have identified as being high priority or corporate risks that have been assessed as “Very High” or “High” and that we believe should be brought to the attention of the Audit Committee ‘

Report on Significant Findings/Risk

Appendix B is a summary of the Annual Plan for 2015/16 – a list of all audits as agreed in the Annual Audit Plan 2015/16. It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Where a review has a status of ‘Completed’ and has been assessed as ‘Partial’ or ‘No Assurance’ or with a ‘High’ or ‘Very High’ corporate risk, I will provide further detail to inform Members of the key issues identified. For the audits completed to date for 2015-16 none have been assessed as ‘Partial’ or ‘No Assurance’ and no ‘High’ or ‘Very High’ corporate risks identified. .

Completed Audit Assignments in the Period

Audit Plan Progress

The summary of the Annual Plan for 2015/16 (Appendix B) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to Appendix 'C'.

As can be seen from Appendix 'B', the following audits have been progressed to date:
Operational:

- Discussion Document, 2 reviews
- Fieldwork completed, 1 review
- In Progress, 6 reviews
- Not Started, 17 reviews

Governance, Fraud and Corruption:

- Complete, 2 reviews (Non-Opinion)
- In Progress, 1 reviews
- Not Started, 1 review
- Contingency, 1 review

Follow Up Reviews: (Non-Opinion)

- Complete, 1 Reviews
- In Progress, 1 review
- Not Started, 5 Reviews

School Themes –: Pupil Premium

- Complete, 1 reviews (Reasonable)
- Draft Report, 5 reviews

Completed Audit Assignments in the Period	Audit Plan Progress
	<p>Key Control:</p> <ul style="list-style-type: none"> • In Progress, 2 Reviews • Not Started, 3 reviews <p>ICT Reviews:</p> <ul style="list-style-type: none"> • Complete, 1 review (Non-opinion) • Draft, 1 review • In Progress, 1 review • Not Started, 5 reviews <p>Grants:</p> <ul style="list-style-type: none"> • In Progress, 1 Claim, <p>Removed:</p> <ul style="list-style-type: none"> • 1 review (Elections)



Completed Audit Assignments in the Period

Audit Plan Progress

Progress against the plan has been good in the number of audits underway however there has been slow progress in moving some audits to the report stage. The audits have had to be reallocated due to a resourcing issue and these audits have now been prioritised for completion. I hope to provide you with a more positive outturn in my next report.

Of the audits completed three have been Non-Opinion reviews - the completion of the Fraud and Corruption Survey, follow up of Main Accounting and review of the Public Services Network pre-submission. There were no significant findings from these three reviews.

The themed review of Pupil Premium has been positively received by the six schools visited. The Pupil Premium was introduced by the Coalition Government in April 2011 to provide additional support for looked after children and those from low income families. The extra funding is made available to schools to help them narrow the attainment gap that may exist between pupils from disadvantaged and more affluent backgrounds.

The Pupil Premium Grant (PPG) is available for disadvantaged pupils from reception to year 11. Pupils are viewed as being disadvantaged if eligible for free school meals at any point during the previous 6 years (free school meals are a measure of deprivation), in care or adopted from care, or if the child of service personnel.

One report is at Final with a Substantial audit opinion and the remaining five reports are all at Draft. A themed report will be issued once all reports have been agreed to Final however the positive findings of the review are:

- All schools had a Pupil Premium Policy
- The required information is published on the website
- Governors are engaged and given sufficient information to be able to contribute and provide challenge
- Pupil progress is monitored and benchmarked with children of similar needs



We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested by the Director of Resources (Section 151 Officer).

No reviews have been requested since my last update.

Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Director of Resources (Section 151 Officer). There have been three changes to the plan since my last report. One audit has been removed – Elections and the following additional work included in the plan:

The Buchannan Trust
Local Transport Block Funding/Pothole Fund.

Conclusion

As stated above progress against the plan has been good in the number of audits underway however there has been slower progress than I would like in moving some audits to the report stage. Some audits have had to be reallocated due to a resourcing issue and these audits have now been prioritised for completion. I hope to provide you with a more positive outturn in my next report.



SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the PSIAS and the CIPFA Code of Practice for Internal Audit in England and Wales.

Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recs	Recommendations							
							1	2	3	4	5			
Adults Wellbeing Service	Operational	Better Care Fund	2	In progress		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Registrar and Coroners	2	In Progress		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Democratic Services 2015 -16	2	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Modern Records	2	In Progress		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Public Health Investment and Outcomes	2	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Road Maintenance	2	Not Started		0	0	0	0	0	0	0	0	0
Adults Wellbeing Service	Operational	Deprivation of Liberty (DOLs)	3	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Licensing	3	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Fastershire BDUK	3	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Waste Collection Contract	3	Not Started		0	0	0	0	0	0	0	0	0
Children's Wellbeing Service	Operational	Education, Health and Care plans	3	Not Started		0	0	0	0	0	0	0	0	0
Adults Wellbeing Service	Operational	Direct Budgets	4	Not Started		0	0	0	0	0	0	0	0	0
Adults Wellbeing Service	Operational	Purchasing Strategy and Market Management - Care service	4	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Commercial Rents	4	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Income review - maximising income - income and charging guidance	4	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Land Charges 2015-16	4	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Planning Applications	4	Not Started		0	0	0	0	0	0	0	0	0
Children's Wellbeing Service	Operational	Contract Management - Children's Wellbeing	4	Not Started		0	0	0	0	0	0	0	0	0
Economy Communities and Corporate	Operational	Energy Supply Contract	4	Not Started		0	0	0	0	0	0	0	0	0
Children's Wellbeing Service	School	Pupil Premium - school theme report	1	Drafting Report		0	0	0	0	0	0	0	0	0
	School	Trinity Primary School	1	Completed	Substantial	2	0	0	2	0	0	0	0	0
	School	The Aconbury Centre	1	Draft Report	Reasonable	0	0	0	0	0	0	0	0	0
	School	Much Marcle C of E Primary School	1	Draft Report	Reasonable	0	0	0	0	0	0	0	0	0
	School	Madley Community Primary School	1	Draft Report	Reasonable	0	0	0	0	0	0	0	0	0
	School	St Marys Church of England Primary School	1	Draft Report	Reasonable	0	0	0	0	0	0	0	0	0
	School	Blackmarston School	1	Draft Report	Reasonable	0	0	0	0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲ ★ ★ ★	I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲ ★ ★ ★	I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲ ★ ★ ★	I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲ ★ ★ ★	I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.



Meeting:	Audit & Governance Committee
Meeting date:	23 September 2015
Title of report:	A&G committee work programme update
Report by:	Governance Manager

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To provide an update on the Committee's work programme for 2015-16.

Recommendation

THAT:

subject to any updates made by the committee, the updated work programme for 2015-16 for the Audit and Governance Committee be agreed.

Alternative options

There are no alternative options as regards whether or not to have a work programme as the committee will require such a programme in order to set out its objectives for the coming year.

The programme was discussed and finalised by the committee in March 2015. However, following discussion, adjustments to timescales and content may be required.

Reasons for recommendations

- 1 The work programme is recommended as the committee is required to define and make known its work for the coming year. This will ensure that matters pertaining to audit and governance are tracked and progressed in order to provide sound governance for the council.

Further information on the subject of this report is available from
Annie Brookes, Governance Manager on Tel (01432) 260605

- 2 The Committee is asked to note the updates to its work programme, subject to any adjustments, and to note progress on current work.

Key considerations

- 3 A number of items considered by the committee will be ongoing and updates are programmed in to the year. Included in this updated programme are a review of the risk register and updates to the annual governance statement.
- 4 The routine business of the committee has been reflected as far as is known, including the regular reporting from internal and external auditors.

Community impact

- 5 The work of the committee supports the council in demonstrating its values, and in particular the commitment to being open, transparent and accountable.

Equality duty

- 6 This report does not impact on this area.

Financial implications

- 7 There are no financial implications.

Legal implications

- 8 There are no legal implications.

Risk management

- 9 The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurance that risk management processes are robust and effective.

Consultees

- 10 Internal and external auditors.

Appendices

Appendix A – A&G Updated Work Programme 2015-16

Background papers

- None identified.

Audit & Governance Work Programme 2015-16		
Meeting	Items	Comment
September 2015	Closed meeting between Committee Members and auditors	
November 2015	<ul style="list-style-type: none"> • Annual Audit letter (TT/PR) • Internal Audit Plan Progress Report (JG/PR) • Risk Register (PR) • Waste Loan Update (JR) • Whistleblowing policy (BN) • Monitoring Officer's Annual Report (AB) • Performance Appraisals for Elected Members (BN/RG) • Governance Improvement Working Group (AB) • Work plan update (RG) 	
January 2016	<ul style="list-style-type: none"> • Staff Survey Report (TJP/PR) • Internal Audit Plan Progress Report (JG/PR) • SWAP training and development Update (JG/PR) • Update on the annual governance statement action plan (PR/AB) • Work plan update (RG) 	
March 2016	<ul style="list-style-type: none"> • External Audit update (TT/PR) • Internal Audit Plan update (JG/PR) • Internal Audit Plan Progress Report (JG/PR) • Internal Audit Charter (JG/PR) • Internal Audit Plan 2016-17 (JG/PR) • Biannual forecast of revenue and capital outturn (JR/AH) • Future work programme 2016-17 (RG) 	
May 2016	<ul style="list-style-type: none"> • Risk Register (PR) 	
July 2016	<ul style="list-style-type: none"> • Draft Annual Governance Statement 2016-17 (AB/PR) 	
Unallocated	<ul style="list-style-type: none"> • Implications of the Grant Thornton 2016 tipping point report ref: Min no 39 (b)if the Chief Financial Officer becomes concerned about the Council's financial resilience in the light of the findings of the "2016 tipping point report" by Grant Thornton a report will be made to the Committee. 	

