Herefordshire Council

AGENDA

Audit and Governance Committee

Date:	**Thursday 22 September 2016**
Time:	**2.00 pm**
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: **Clive Lloyd** Tel: 01432 260249 Email: clive.lloyd@herefordshire.gov.uk

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Agenda for the meeting of the Audit and Governance Committee

Membership

Chairman	**Councillor PD Newman OBE**
Vice-Chairman	**Councillor FM Norman**
	Councillor ACR Chappell
	Councillor EPJ Harvey
	Councillor JF Johnson
	Councillor RL Mayo
	Councillor RJ Phillips
	Councillor J Stone
	Councillor LC Tawn

AGENDA

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HEREFORDSHIRE COUNCIL

SHIRE HALL, ST PETERS SQUARE, HEREFORD HR1 2HX.

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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 Monday 4 July 2016 at 10.00 am

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

Councillors: EPJ Harvey, RI Matthews, PD Newman OBE, AJW Powers, PD Price and J Stone

Officers: **Claire Ward, Clive Lloyd, Josie Rushgrove, Charlotte Collins, Martin Samuels, Dr Arif Mahmood, Sukhdev Dosanjh, Jacqui Gooding (SWAP), Zoe Thomas (Grant Thornton) and Phil Jones (Grant Thornton).**

142. APOLOGIES FOR ABSENCE

Apologies were received from Councillors LC Tawn, and ACR Chappell

143. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the council's constitution, Cllr AJW Powers attended the meeting as a substitute member for Cllr LC Tawn and Cllr RI Mathews as substitute for Cllr ACR Chappell.

144. DECLARATIONS OF INTEREST

There were no declarations of interest.

145. MINUTES

Resolved:

That the minutes of the meeting held on the 9 May 2016 be confirmed as a correct record and signed by the chairman.

146. CHAIRMANS ANNOUNCEMENTS

The chairman referred to the fact that the report to cabinet on risk was not on the June cabinet agenda,

The directorate services team leader explained that the delay was due to the change in cabinet member and further work proposed from management board to enhance and provide clarity to the cabinet report (rather than the audit and governance report).

147. 2016/17 EXTERNAL AUDIT PLAN AND FEE

Representatives from external auditors Grant Thornton presented the report and letter from the external auditors detailing the planned audit fee for 2016/17. The fees which are set within a national framework are the same as last year. The audit timetable was outlined to the committee with confirmation that the final accounts audit work would be completed by July 2017.

In response to a members query as to how the auditors satisfy requirements that the council decisions have followed correct procedures. It was explained that the auditors look to confirm that broad processes are in place but that auditors could not give assurances that every council decision had followed the correct procedures.

Resolved

That the external audit plan and associated fee for 2016/17 be approved.

148. EXTERNAL AUDIT PROGRESS REPORT AND UPDATE YEAR ENDED 31 MARCH 2016

Representatives from external auditors Grant Thornton provided an update report on their work to June 2016. Interim work on the final accounts had been completed with the aim to complete the final accounts audit by the end of July. External auditors were working closely with the finance team in developing improvements in accounts production efficiency and project management of future audit visits.

An amendment to the audit plan was highlighted in regard to the valuation of the pension fund net liability. This does not reflect any new risk at Herefordshire but merely the national view that pensions were a significant risk area in local government accounts.

It was explained that the scope of work in terms of the value for money (vfm) conclusion had changed. The code requires that auditors satisfy themselves that the council had made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Three sub criteria for assessment to enable a conclusion were given. These were:

- informed decision making
- sustainable resource deployment
- working with partners and other third parties

A member noted reference to emerging accounting issues and it was confirmed that there was nothing contained in this year’s accounts that required attention however very often new accounting issues arise due to changes in legislation.

A member raised a concern that the council was retaining its asset base but changing its assets holding from smallholdings to roads. It was confirmed that the council would be required to place a higher value on highways assets and that if this results in a key decision then auditors will look at it.

Resolved:

That the report be noted

149. ANNUAL GOVERNANCE STATEMENT 2016/17

The head of corporate finance presented the draft annual governance statement and explained that there was a requirement to review the governance framework which was published with the annual accounts in September.

The committee were informed that following changes to the regulations governing the timeframe for approval of the accounts, the draft annual governance statement must be published by the end of May. The views of the committee were sought at its meeting in May prior to publication and have informed the development of the statement and action plan. Since that draft a further review of the effectiveness of the governance framework had been carried out by management board and the proposed action plan for the year was now more focussed on improvement which will strengthen the governance framework.

A member raised concerns regarding evidence of slippage in terms of completion timescales and sought assurances that timescale targets would be met. In reply, assurance was given that the actions would be pursued with every effort made to adhere to stated time scales, however, it was also recognised that further actions can arise which can effect timescales.

Concern was raised that members in full time employment were not discriminated against in enabling them the carry out the full range of member's duties with confirmation that this area would be addressed in the constitution review.

In response to a members query as to when the adults and wellbeing directorate performance will be added to the periodic performance reviews. It was confirmed that this was due to commence soon.

In reply to a members question as to what protocols had been developed with local councils and the voluntary and community sectors, it was confirmed that available framework and guidance details would be circulated to the committee.

In reply to a question regarding scrutiny committees and adequate resources, the monitoring officer was not aware that resources were restricting scrutiny committees in their ability to perform the duties required of them.

Resolved:

That the annual governance statement be signed by the chairman of the audit and governance committee, the chief executive and the section 151 officer.

150. INTERNAL AUDIT REPORT AND OPINION 2015/16

Representatives from SWAP presented a report giving a summary of the internal audit work undertaken in 2015/16 and the overall internal audit opinion based on this work.

The report showed the level of assurance for audits completed to draft or final report stage with only eight of 62 reviews being drafted or are in progress, these reviews remain a priority for completion. It was reported that over 50% were of reasonable assurance and 9% receiving a commendable substantial assurance. It was also noted that there were no reviews that attracted no assurance opinion.

Risks were viewed as well managed but some areas required the introduction or improvement of internal controls to ensure the achievement of objectives.

The report reflected challenges as well as the noted commitment from senior management to the audit process.

In reply to a members question whether the number of reasonable assurances given was typical in comparison with other councils, the SWAP representative believed that due to the complexity of work, comparisons would vary, although the aim was for all audits to achieve a reasonable assurance. It was also the opinion that progress was being made where an opinion of partial assurance had been returned.

It was noted that of the audits which had reached report stage through the year, three had been assessed as high risk, these being, payroll, public health investment outcomes and Shaw Healthcare provision (contract management).

A member raised a concern in the apparent weakness in data collection in relation to public health and the possible risk on public health. The director for adults and wellbeing believed that although he was confident that funding was being spent wisely, concern remained that the lack of robust data might result in spending not being targeted on the most effective areas.

Resolved:

That the report be noted

151. PROGRESS REPORT ON 2015/16 INTERNAL AUDIT PLAN

The report was presented by representatives from SWAP.

It was noted that a total of 13 audits had been completed to final reports since the last update was received.

Four audit reports given a partial assurance were highlighted, these were:

- Shaw Health Care (SHC) provider contract
- public health investment and outcomes
- direct payments
- midland heart care provision

In response to members concerns regarding the ability to renegotiate the SHC contract. It was confirmed that the contract was not a standard council contract but was a standard contract used by SHC. It was recognised that the contract was a ‘legacy contract’ and that challenges do exist around the flexibility in managing the contract.

Resolved:

That the report be noted

152. HEREFORD CITY CENTRE TRANSPORT PACKAGE (HCCTP) - LINK ROAD SCHEME

The head of corporate finance informed members of the outcome of a review of reported spend in relation to the hereford city link road project.

It was explained that a member had noted discrepancies between the 2015/16 medium term financial strategy (mtfs) approved by council in February 2015 and the report in the 2016/17 mtfs approved by council in February 2016.

Following a review of two relevant tables, it was identified, that the figures used in the 2015/16 mtfs had inadvertently included projected spend as well as spend to date. A corrected table was published on the council’s website for clarification. However, to provide additional assurances internal audit were asked to carry out an independent review of the accuracy of spend figures relating to the link road project, hence this report. In summary, the review has confirmed that the total actual expenditure up to 31 March 2015 was £10,658k which matched the £10,658k reported in the mtfs of February 2016.

A member commented that he planned to discuss the matter further with the relevant director

A member commented that although the report finding was understood, the confusion did little to assist transparency and openness.

Concern was expressed that the role of SWAP as internal auditors can appear confusing and it would provide greater clarification if the council were to issue a statement on the relationship between SWAP and the council and how they can be described as independent.

It was agreed that communications be requested to issue a statement clarifying the relationship between SWAP as internal auditors and the council.

RESOLVED:

The report is noted

153. WORKING GROUP UPDATE - GOVERNANCE IMPROVEMENT

The monitoring officer outlined the progress of the governance improvement working group and the redrafting of the constitution.

It was confirmed that the working group will meet on the 5 August and again on the 9 September. The working group will then report to this committee in September before progression to council.

Resolved:

That the new timetable be noted

154. FUTURE WORK PROGRAMME

The committee's updated work programme was presented, with the inclusion of the constitution review in September noted.

It was explained to the committee that the work programme is a live document and is presented to the committee for perusal and discussion

RESOLVED

That the updated work programme be agreed.

The meeting ended at 12.25 pm **CHAIRMAN**

Meeting:	Audit and governance committee
Meeting date:	22 September 2016
Title of report:	Tracking of internal audit recommendations
Report by:	Assistant director environment and place and Head of corporate finance

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To agree the process by which the committee will monitor implementation of action plans agreed in response to recommendations made by internal audit.

Recommendation(s)

THAT:

a) **the process for monitoring implementation of action plans as set out in the report be approved; and**

b) **future monitoring reports be provided bi-annually.**

Further information on the subject of this report is available from
Steve Hodges, directorate services team leader on Tel (01432) 261923

Alternative options

1 Although we could choose to 'not monitor', this would not be recommended as this would not provide assurance that actions were being implemented.

2 Whilst a different frequency of monitoring to 'bi-annually' could be agreed, this would need to be proportionate to the risk.

Reasons for recommendations

3 One of the functions of the audit and governance committee as set out in the audit and governance code within the council's constitution is to seek assurance that action is taken on risk related issues identified by auditors and inspectors. The recommendations provide a process by which such actions may be monitored.

Key considerations

4 The internal audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is required to deliver an annual audit plan of work, which is scoped using a risk-based assessment of council activities. Additional reviews are added to the plan where considered necessary to address any emerging risks and issues identified during the year.

5 On completion of each audit review, a formal report is drafted for discussion with service managers. Such audit reports detail the main conclusions of the review, including the opinion, individual findings, as well as the potential risk exposure and an action plan for addressing the risk.

6 Management responses to each audit recommendation are obtained and recorded, along with details of the person responsible and the target date for implementation agreed by management.

7 Each audit review is given one of four levels of assurance, dependent on an evaluation of both the controls in place and testing of the controls identified to ensure they are being correctly and consistently applied. Recommendations are then categorised according to their priority at service level with priority 4 and priority 5 actions being reported to the committee:

Priority	Categorisation
5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
4	Important findings that need to be resolved by management.
3	The accuracy of records is at risk and requires attention.
2	Minor control issues have been identified which nevertheless need to be addressed.
1	Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

8 It is proposed that the committee monitor implementation of actions agreed in response to recommendations made by internal audit by receiving periodic reports which set out:

- the number of priority 3,4 and 5 recommendations agreed by management;

- the number of those recommendations that have been completed;
- the number of those recommendations that have not been fully completed;
- of those, the number of actions underway which have not yet reached their target deadline; and
- the number of actions overdue, including a progress update and revised target deadline. This will enable the committee to explore in more detail those areas of potential risk and seek assurance as necessary regarding mitigating actions.

9 By way of example, work has been undertaken to follow up the highest priority findings and recommendations (priority 4 or 5) contained in individual audit reports issued during the past two years. Schools are responsible for completing any required and agreed actions in relation to audits that have been carried out into their business areas. As this is a new process it has not been possible to make contact with the relevant schools due to the summer break and these actions will be reported in future monitoring reports.

10 All managers within the council directorates, responsible for audit recommendations during 2014/15 and 2015/16 have been contacted to review progress on the implementation of recommendations. Some 103 high priority recommendations were made and accepted during this period. Managers were asked to confirm the action which had been taken.

11 At the time of preparing this report the status of the follow up is as follows:

Recommendations	2014/15		2015/16		Total
	Priority 4	Priority 5	Priority 4	Priority 5	
Made	49	2	50	2	103
Completed	41	2	42	2	87
Not complete	**8**	**0**	**8**	**0**	**16**
Not yet due	0	0	4	0	4
Overdue	**8**	**0**	**4**	**0**	**12**

Further information relating to overdue recommendations can be found in Appendix 1.

12 Subject to the committee's approval of this process, future reports will update on where priority 4 and 5 recommendations have not been fully completed, including the implementation of actions in relation to school-specific audits. Progress on priority 3 recommendations from 2016/17 onwards will also be provided.

Community impact

13 By monitoring the implementation of audit recommendations, assurance is given that risks are being managed effectively, and that the council is taking action to meet its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

14 None.

Financial implications

15 There are no specific financial implications associated with the recommendations.

Legal implications

16 There are no legal implications associated with the recommendations.

Risk management

17 If internal audit recommendations are not implemented, the council will be exposed to the risks set out in the relevant detailed internal audit reports. Internal audit recommendations are raised as a result of control gaps or deficiencies identified during reviews therefore overdue items inherently impact upon compliance and governance.

Consultees

18 None.

Appendices

Appendix 1 – Overdue recommendations.

Background papers

None identified.

Further information on the subject of this report is available from
Steve Hodges, directorate services team leader on Tel (01432) 261923

Appendix 1 – Overdue recommendations

Audit Name	Recommendation	Original target date	Progress update	Revised target date
2014/15				
Adult Social Care	I recommend that the Director of Adults Wellbeing documents and endorses the Council's approach to discretionary payment adjustments, if any; ensures that staff have the necessary authority to make discretionary payment decisions; and ensures that staff are aware of any changes to procedure.	30/11/2015	Paper to be submitted to DLT on 24 October 2016. Charging Policy, guidelines and appeal form will be updated to include approach to be taken for appeals and waivers.	31/12/2016
Data Quality	I recommend that the Principal Information Governance Officer in conjunction with the Adults Well-being Performance Lead ensures that all Adult Social Care Staff sign the Corporate Staff Confidentiality Agreements, and that all third party Frameworki users are re-sent third party agreements to complete.	31/03/2015	All new requests follow an agreed process for third-party access. An audit of all existing cases and whether agreements are in place has started and will look to ensure that all active 3rd party users have signed the confidentially statement required of them.	31/12/2016
Health & Safety	I recommend that the Property Services Manager ensures that the Asbestos, Legionella and Fire Risk Assessment spreadsheet is fully updated and that consistencies occur across the worksheets. Property Services Managers to ensure that all properties deemed high risk in each category are assessed first.	01/11/2015	Fire and legionella assessments completed for all council sites. Asbestos assessments completed for all sites bar a small number of retail premises, which will be completed before the end of December.	31/12/2016
Home Point	The Commissioning Lead - Housing Partnerships includes the requirement for partner organisations to comply with Council access control policies and inform the Council of any leavers in order to support effective administration of the housing allocations software.	31/08/2015	A copy of the original audit has been requested from SWAP, in order to understand the background of the recommendation in order to action.	31/12/2016
Housing & Council Tax Benefits	The Benefit Assessment Team Leaders have agreed to schedule a review of the data matches identified by the NFI data matching exercise.	31/12/2015	Nearly 50% matches completed, realising savings of £14,826.73.	31/12/2016
Procurement	I recommend that the Head of Commercial Services reviews the process for compiling the contracts register prior to the	30/11/2015	The contracts register is intended to be hosted on agresso/sharepoint and will	31/01/2017

Audit Name	Recommendation	Original target date	Progress update	Revised target date
	introduction of Due North, in order to ensure that information covering all ongoing and future contracts will be captured and reported. Purchasing using a framework agreement should also be identified and recorded in the register.		be more of a 'live' document than what currently exists, informed by actual spend data available on agresso and meeting all statutory transparent regulations.	
Procurement	I recommend that the Head of Commercial Services reminds contract managers of the need to retain contract documentation within their team in accordance with document retention guidelines. In the event of staff changes, this documentation needs to be handed over to other staff within the team to ensure compliance with this guidance, and to make it available to managers for the purpose of contract renegotiation, or queries / disputes on current works.	28/02/2015	In tandem with the review of the constitution, contract procedure rules are being updated to include details of retention requirements.	01/12/2016
Procurement	I recommend that following the introduction of a revised and complete contracts register, the Head of Commercial Services implements a procedure to monitor upcoming contract expiries and obtain evidence from Service Managers that re-tendering procedures are undertaken in a timely manner.	30/11/2015	This information is being included in the newly devised agresso and sharepoint-hosted contracts register.	31/01/2017
2015/16				
Coroners Service	I recommend that the Registration Services Manager ensures that Service Level Agreements are in place for each of the service provisions used.	30/04/2016	Work is ongoing between senior WVT managers, the coroner and the head of law governance and resilience to formalise the relationship between the coroner, the WVT mortuary and pathologists when providing coroners post mortems, mortuary facilities etc.	01/12/2016
Licensing	I recommend that the Solicitor to the Council - People and Regulatory provides guidance to the service areas affected by the Openness of Local Government Bodies Regulations 2014 on how to meet the requirements of the regulations, and ensures that service areas are publishing the required	31/07/2016	Being implemented as part of the review of the constitution which is taking longer than anticipated, but due to be completed by the end of December.	31/12/2016

Audit Name	Recommendation	Original target date	Progress update	Revised target date
	information in accordance with that guidance.			
Payroll	I recommend that the Payroll Manager in liaison with the Head of Corporate Finance investigates the cause of the National Insurance error identified and ensures that any employee NI calculation errors are identified and resolved as a matter of urgency. If the cause is a system error then this must also be corrected promptly.	01/06/2016	The calculation issue relates to back pay and the cause has been identified. The team are working with the software supplier to generate a fix.	31/03/2017
Safer Recruitment (Children's)	I recommend that the Director of Resources ensures there is an authorisation and monitoring process in place for all volunteers and that a master list of all volunteers is maintained with the appropriate records kept in the personnel file, including any pre-employment checks conducted.	31/12/2015	Further exercise to be undertaken to collate list of volunteers.	31/12/2016

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Future work programme for audit and governance committee**
Report by:	**Democratic services officer**

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 2016/17.

Recommendation(s)

THAT:

Subject to any updates made by the committee, the updated work programme for 2016/17 for the Audit and Governance Committee be agreed.

Alternative options

1 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.

2 The programme was discussed and agreed by the committee in May 2016. However, following discussion, adjustments to timescales and content may be required and amended form time to time. .

Further information on the subject of this report is available from
Clive Lloyd, Democratic Services Officer on Tel (01432) 260249

Reasons for recommendations

3 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.

4 The Committee is asked to consider any further adjustments.

Key Considerations

5 The routine business of the committee has been reflected as far as is known, including the regular reporting from both internal and external auditors.

6 The report on internal audit recommendations (SWAP) will be a standing item on future agenda and is reflected in the work programme.

Community impact

7 A clear and transparent work programme provides a visible demonstration of how the committee is fulfilling its role as set out in the council's constitution.

Equality duty

8 This report does not impact on this area.

Financial implications

9 There are no financial implications.

Legal implications

10 The work programme reflects any statutory or constitutional requirements.

Risk management

11 The programme can be adjusted in year to respond as necessary to risks as they are identified; the committee also provides assurances that risk management processes are robust and effective.

Consultees

12 Internal and external auditors, head of corporate finance, monitoring officer and governance manager have contributed to the work programme

Appendices

Appendix A – A&G work programme 2016-17

Background papers

- None identified.

Further information on the subject of this report is available from
Clive Lloyd, Democratic Services Officer on Tel (01432) 260249

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Audit and Governance Work programme 2016-17		
Meeting	Items	Previously before the committee/comment
November 2016	• Monitoring Officer's Annual report. • Internal audit progress report • Annual audit letter (Grant Thornton).Performance report (audit recommendations) • Annual report of the monitoring officer	November 2015 September 2016 November 2015 September 2016
January 2017	• Annual governance statement progress • Internal audit progress report • Performance report (audit recommendations	
March 2017	• Internal audit plan 2017/18. • External Audit update. • Future work programme 2017-18. • Biannual forecast of revenue and capital outturn. • Internal audit charter • Internal audit progress report. • Performance report (audit recommendations	
May 2017	• Annual governance statement. • Internal audit progress report. • Performance report (audit recommendations	

Meeting:	**Audit and governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Working group update - governance improvement**
Report by:	**Solicitor to the council**

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To outline the current work and progress of the working groups.

Recommendation(s)

THAT:

a) **the progress reports and future actions be noted**

Alternative options

1 None

Reasons for recommendations

2 The committee has three working groups that have been assisting the committee with the work programme. This summary report provides an update of their work.

Further information on the subject of this report is available from
Claire Ward, monitoring officer on Tel (01432) 260657

Key considerations

3 Standards: It was resolved at audit and governance on the 9 May 2016 that subject to the views of parish councils, the revised procedure as amended for standards matters in appendix 1 and 2 be adopted. The revised procedure was sent to all parish councils on the 1 August 2016 for consultation with the 7 October set as a deadline for comments. To date, there has been no comments received from parishes. If any consultation responses are received these will be considered by the working group.

4 Risk management: Since being approved for implementation at cabinet on 21 July, the performance, risk and opportunity management framework has been uploaded to the Herefordshire Council website. The framework will be further promoted internally as part of the annual service planning process which is due to commence during October/November.

5 Constitution review: the working group has devised a questionnaire procedure to enable all members to see the questions which the working group will be answering in formulating a recommended constitution. A revised timetable of events and engagements has been approved by the group which anticipates recommendations from the group coming to this committee in November for recommendation to council in December.

Community impact

6 Having a redrafted constitution supports the council in achieving its aim to be open transparent and accountable. The communications team will be engaged to ensure the public are aware of the progress we are making.

The public expectancy is that the council has adequate, objective and transparent measures in place to deal with standards complaints.

A robust PROM framework is essential to support the delivery of the council's priorities.

Equality duty

7 The report does not impact on this area.

Financial implications

8 There are no financial implications.

Legal implications

9 There are no legal implications.

Consultees

None at this stage.

Appendices

- Constitutional working group proposed timetable

Background papers

None identified.

Date	Activity	Who
9/9/16	Briefing re proposed timetable	Group leaders/Annie Brookes
9/9/16	Agree recommendations in response to questions circulated and agree timetable for adoption	Working group/Claire Ward
w/c 26/09/16	Agree any outstanding recommendations and plans for workshops with specific focus as below including working group representation at these sessions.	Working group/Claire Ward
w/c 03/10/16	Focus workshop for planning and regulatory members on operation of planning and regulatory rules, balance o functions, and planning code	Planning and regulatory members/Claire Ward/Richard Ball
w/c 10/10/16	Focus workshop for scrutiny members on operation of scrutiny rules/remits etc	Scrutiny members/Claire Ward/Geoff Hughes/governance
20/10/16	Focus session at leader's briefing on cabinet functions, rules etc	Cabinet members/Claire Ward
w/c 24/10/16	Focus workshop for AGC members on Code of corporate governance, financial procedure rules, and contract procedure rules	AGC members/Erica Hermon/Josie Rushgrove/Annie Brookes
W/c 31/10/16	Review drafts for presentation at all member seminar and agree arrangements	Working group
8/11/16	Publish papers for all member seminar	Claire Ward/governance
15/11/16	All member seminar on proposed changes	Working group to lead
28/11/16	Working group present recommendations/draft constitution to be recommended to Council and agree timetable for any further work (eg on code of conduct which requires consultation with all parish councils before any changes can be made; and employee code which requires consultation with staff side representatives.)	Working group and AGC
16/12/16	Adopt new constitution	Council

Herefordshire Council

Meeting:	**Audit and Governance Committee**
Meeting date:	**22 September 2016**
Title of report:	**2015/16 audit findings report**
Report by:	**Head of corporate finance**

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

Countywide

Purpose

To update the committee on the external audit findings for 2015/16.

Recommendation(s)

THAT:

(a) The content of the 2015/16 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 approach to financial control.

4 The overall conclusion is green in all of these areas, the same as 2014/15, meaning adequate arrangements are in place.

5 The audit findings report includes an agreed action plan to continue to improve the fixed asset register, review legislative updates, adopt best practice in capital reporting and include a disclosure note in relation to transactions with the Local Enterprise Partnership in the 2016/17 statement of accounts.

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

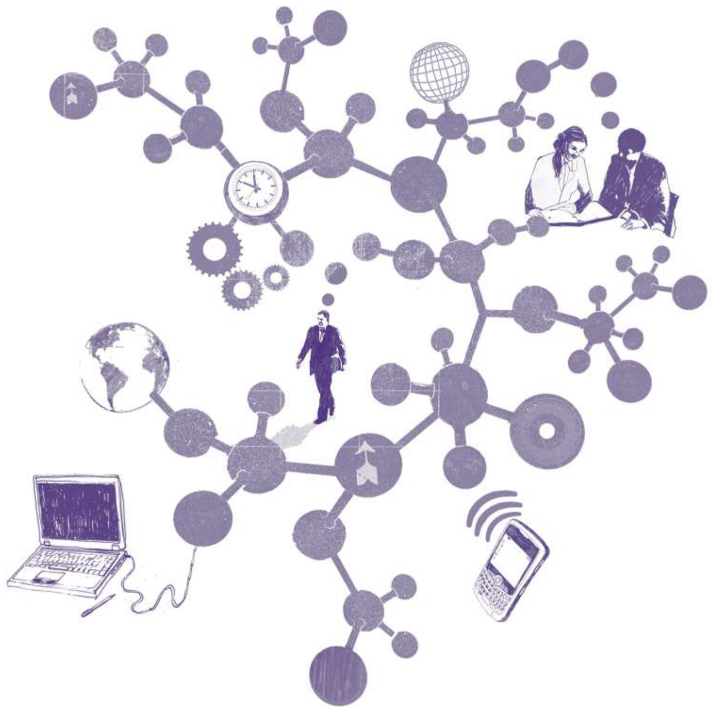
None identified.

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

The Audit Findings for Herefordshire Council

Year ended 31 March 2016

22 September 2016



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22 September 2016

Dear Members of the Audit and Governance Committee,

Audit Findings for Herefordshire Council for the year ending 31 March 2016

This Audit Findings report highlights the key 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, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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 and giving a value for money conclusion. 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

Engagement lead

Contents

Section 1: Executive summary

Purpose of this report

This report highlights the key issues affecting the results of Herefordshire Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have had to alter our audit approach, which we communicated to you in our Audit Plan dated 23 March 2016. This was to incorporate an additional risk in relation to the value of the net pension fund liability due to this representing a significant estimate. This was not a reflection of local risks that came to light in Herefordshire but rather a national view that pensions constitute a significant risk within Local Government.

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

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Completion of our review of the initial discovery testing in respect of the Housing Benefit audit to inform our financial statements audit opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £168.7m. We have recommended a number of adjustments to improve the presentation of the financial statements, however there has been no change to the out-turn net expenditure.

The key messages arising from our audit of the Council's financial statements are:

- The adoption of IFRS 13 in 2015/16 and the associated requirements were not adequately reflected in the accounts resulting in disclosure amendments in a number of areas.
- In certain areas the time taken to respond to queries posed by the audit team was too long. However we acknowledge that this has improved on the previous year. This will become even more important going forward in light of early closedown
- A small number of other disclosure findings were noted during the course of the audit

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

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.

Findings

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Health and Social Care Integration

The Council is currently operating in a challenged health and social care local economy. The Council's main partners in his area continue to report signifcant risk around their financial position. Pooled budget arrangements have been in place for a number of years but this year the CCG and Council established arrangements around the better care fund. We concluded that the Council has adequate arrangements around the financial operation of these pooled arrangement.

The Sustainabilty and Transformation Plan (STP) is being devloped as part of the DOH five year forward view, with an update expected in September. This plan is across Herefordshire and Worcestershire and builds on the Health and Social Care Transformation programme 'One Herefordshire'. The County has struggled to achieve significant 'transformation' to date to address the underlying financial and operational challenges.

Waste Incinerator PFI scheme

The annual accounts reflect further planned commitments to the PFI scheme. We reviewed the financial arrangements and concluded that these were appropriate.

Ofsted inspection of children's services

Ofsted issued a report on the Council's children's services in 2012/13 which rated these as 'inadequate' and the Council was reassessed as requires improvement during 2014/15. A stated Council ambition was that services would be rated 'good' during 2016/17. There are financial pressures around the service with chidrens' services directorate overspending against budget year on year.

Whilst there are on-going financial and operational risks around children's services and 'looked after' children we are satisfied that the Council is taking steps to respond to these risks.

Local Enterprise Partnership

As part of our review of risks, we considered the arrangements the Council has in place around partnership arrangements, specifically those around the Marches Local Enterprise Partnership. We found that whilst there are clearly set out and approved governance and accountability arrangements, in practice these are still evolving. The Joint Enterprise Committee is the principle means for Herefordshire Council to have assurance around financial governance of the LEP. We note that the Board has met relatively infrequently and little of a financial nature has been reported to it. The LEP has issued its first Annual Report this year. which is a positive step. However as Herefordshire Council's financial commitments have not been significant to date, we do not consider this to be a significant matter this year. Whilst it is not a code requirements, disclosure in a specific note to Herefordshire Council's accounts may provide greater transparency to interested parties on this partnership.

Capital monitoring

We reviewed the arrangements that the Council has in place around capital budget monitoring. There have been some well-documented errors in financial reports, however we do not consider that these indicate a weakness in the underlying monitoring arrangements. There is scope to improve both the quality control of committee reports and to improve transparency in reporting around individual schemes.

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

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in January 2017.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Acting S151 Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Acting S151 Officer and the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £6,147k (being 1.8% of gross revenue expenditure in 2014/15). We have considered whether this benchmark remains appropriate during the course of the audit and have only revised our overall materiality to reflect the 2015/16 draft financial statements figures at £6,637k (being 1.8% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £332k based on 2015/16 draft financial statements figures.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	This is treated as a sensitive item and therefore no specific materiality value is set
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£25,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£25,000

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 (UK&I) 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
1.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including Herefordshire Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have performed the following procedures: • Review of the control environment in regards to the journal entry process • Testing of journal entries that are considered to be large or unusual • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions	Our audit work has not identified any evidence of management over-ride 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 judgements

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Accounting for the Better Care Fund** The 2015/16 financial statements included a new material pooled budget under a s75 agreement. The accounting treatment of this arrangement was complex in line with accounting standards in relation to Joint Arrangements (IFRS11)	We have performed the following procedures: • Obtained and reviewed the s75 agreement in place between the Council and Herefordshire CCG • We have established the Council's control environment in relation to the Better Care Fund and performed walkthroughs of key controls to ensure they are operating effectively • We have reviewed the reasonableness of the judgements made by the participants in assessing the control over the funds, and hence the accounting treatment • We have agreed BCF transactions, balances and disclosures in the accounts to the appropriate underlying evidence	Our audit work has not identified any issues in respect of the Better Care Fund and subsequent accounting treatment

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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Performed detailed substantive testing of a sample of employees for accuracy of payment and other assertions • Trend analysis of monthly payroll costs to identify any significant or unusual variances • Reconciliation of the payroll module to the general ledger to ensure completeness of information	Our audit work has not identified any significant issues in relation to the risk identified
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • Documented our understanding of processes and key controls over the transaction cycle • Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • Reconciliation of the creditors purchase ledger to the general ledger • Testing to identify potential unrecorded liabilities at period end • Testing of a sample of goods received not invoiced to identify items which have not been accrued correctly • Documentation of the process in place to accrue for liabilities at month and period end • Substantive testing of creditors balances at 31 March 2016 and a sample of operating expenditure transactions in the period	Our audit work has not identified any significant issues in relation to the risk identified

New issues and risks identified during the course of the audit

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

	Issue	Commentary
1.	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	We have performed the following procedures: • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary Our audit work has not identified any issues in respect of the valuation of the pension fund liability.

Significant matters discussed with management

	Significant matter	Commentary
1.	The adoption of the accounting standard IFRS 13 (Fair Value Measurement) by the CIPFA Code of practice in 2015/16	The standard, which has been applied prospectively from 2015/16, provides a new definition and brings together fair value guidance into one standard that is applicable to almost all fair value estimates. We found that the financial statements were not in compliance with the enhanced disclosure requirements arising from the new standard in any respect The Council have subsequently revised the accounting disclosures and restated the correct fair value valuation of those liabilities stated above **Management response** During the audit increased clarity on generally accepted requirements were shared, agreed and reflected in the accounts.

Accounting policies, estimates and 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	• Revenue and capital transactions are accounted for on an accruals basis where above the de-minimus thresholds • Government grants and other contributions are recognised where reasonable assurance has been gained that the Council will comply with relevant terms and conditions and it is likely the amounts will be received • Income receivable from the sale of good and rendering of services is recognised in line with the relevant conditions • Collection fund income is recognised on an accruals basis	• The accounting policies are appropriate under relevant accounting framework i.e. CIPFA Code of Practice • The accounting policy for revenue recognition has been adequately disclosed in the notes to the accounts • The accounting policies adopted are consistent when benchmarked against other similar Local Government bodies	●
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Group Accounts – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions	• Accounting policies in relation to key estimates and judgements are appropriate under relevant accounting framework • Depreciation of fixed assets based on the useful economic life has been applied consistently between periods and is broadly in line with industry average • Significant impairments have been charged to the CIES in 2015/16 under the new de-minimus policy. This is considered reasonable • The basis on the which the Council conclude that group accounts do not need to be prepared (materiality) is in line with IFRS 11 • See comments on page 13 in relation to the valuation of the pension fund liability • Provisions included in the balance sheet as at 31 march 2016 have been calculated on a reasonable basis in line with statutory requirements where applicable	●

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 and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Acting S151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	●
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	●

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

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures
2.	**Matters in relation to related parties**	• From the work we carried out, we identified one related party which was not disclosed. This was the South West Audit Partnership. The accounts have been updated for this accordingly
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Council
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation request(s) to NatWest, the main banking provider of the Council, other financial institutions with whom an investment deposit is held and various lenders. This permission was granted and the requests were sent. We have received responses to all the request issued
6.	**Disclosures**	• Our review found disclosure omissions in the financial statements with regards to IFRS 13 (Fair Value Measurement). See 'Significant matters discussed with management' for further information

Other communication requirements continued

	Issue	Commentary
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £350m we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the planned timescale for the review is by the October 2016 deadline.

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 considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 13 above.

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee

Unadjusted misstatements

There are no unadjusted misstatements

Misclassifications and disclosure changes

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

	Adjustment type	Value	Account balance	Impact on the financial statements
1	Misclassification	£135k	Grant Income	An amount of £135,000 for 'Supporting People', included in ' Credited to Services' had been incorrectly classified as a government grant as opposed to 'other contributions'
2	Disclosure	£24.4m	Long Term Debtors	Long term debtors have increased from £8.9m to £27m in 2015/16. Included in this total, is an amount of £24.4m which relates to a Loan to Mercia Waste Management (re Waste Incinerator PFI). Whilst total long term debtors are disclosed on the face of the balance sheet and within note 16 (financial instruments), and there is some reference to the loan arrangement under PFI disclosures, given the material value of a single transaction within the balance, we proposed that the Council include a separate disclosure note specifically for this item.
3	Disclosure	Various	Accounting Policies Investment Properties Financial Instruments	As stated above, the Council were required to revise disclosures in line with IFRS 13 for the following areas: - Accounting policies on fair value measurement - Investment properties to include the input level of the fair value hierarchy valuation of assets fall within - Financial instruments to include the input level of the fair value hierarchy valuation of liabilities fall within - Property, plan and equipment to replace references to fair value where this was no longer correct and replace with current value.
4	Disclosure	Various	Financial Instruments	The fair value calculation of PWLB loans, bank loans and loan with other local authorities was disclosed using the early repayment method which is no longer applicable under the Code. The disclosure was updated to reflect the new loan rate.

Misclassifications and disclosure changes

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

	Adjustment type	Value	Account balance	Impact on the financial statements
5	Disclosure	£39.5m	Financial Instruments	The Council initially opted to not disclose the fair value of PFI liabilities on the grounds that the concession arrangement will not be terminated early and therefore carrying amount was a reasonable proxy for fair value. CIPFA Code paragraph 7.4.1.11 requires disclosure of fair value at each reporting date regardless of the fact these liabilities are held at amortised cost. Therefore we proposed an adjustment to amend the table with the fair value calculated of £39.4m
6	Disclosure	£2.2m	Financial Instruments	The Authority incorrectly excluded an accrual for £2.2m relating to holiday pay from the financial instruments disclosure, as a valid instrument (contractual obligation to pay cash) this was amended accordingly.
7	Disclosure	Various	Employee Remuneration	Disclosure note 30 (Officers Remuneration) and 31 (Termination Benefits) were revised from the draft accounts to agree to internal working papers and information
8	Disclosure	£200k	Related Parties	The disclosure of related party transactions has been revised to include the South West Audit Partnership.
9	Disclosure	N/A	Various	We have proposed various minor changes to the format and disclosure of the financial statements in order to improve presentation.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January to February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated March 2016.

- Health and social care integration
- Ofsted inspection of children's services
- PFI scheme – waste incinerator

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

In response to questions from members we also considered the following additional matters which we judged fell under the specified VFM code criteria:

- Reporting of the capital programme (sub criteria 'informed decision making')
- Financial reporting of LEP (sub criteria 'working with partners')

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

Significant qualitative aspects

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

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

- **Health and social care integration:** how the council is managing the complex partnership arrangements around integrating care
- **Ofsted inspection of children's services**: progress the council is making against its improvement plan following the 2014 inspection
- **PFI scheme** – waste incinerator: progress with project and how the financial implications are being factored into financial plans

Other considerations:

- **LEP project:** financial reporting and governance of HUA commitments to the LEP
- **Capital reporting**: accuracy and effectiveness of capital programme reporting to members.

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

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

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

Significant risk	Work to address	Findings and conclusions
Health & Social Care Integration The Council is working in a challenged health and social care economy. The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services through its transformation agenda and through working with partners in health.	We will review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.	The Council is operating in a particularly challenged health and social care economy. There are considerable financial challenges particularly at Wye Valley Trust, but also increasingly at Herefordshire CCG and at the Council. Historically, there has not been sufficiently effective working between partners in Herefordshire to drive the necessary transformational change in the system. A draft Sustainability and Transformation Plan has been prepared which covers both Herefordshire and Worcestershire and a revised draft is expected to be submitted to NHS England in October. At the time of our review there was still a financial gap across the STP but it is hoped that this will be addressed in the October submission. Within Herefordshire, beneath the STP, sits the 'One Herefordshire' initiative. To manage the 'system transformation', work is being taken forward to establish an alliance between the NHS providers and to extend joint commissioning arrangements between the council and the CCG. It is hoped that the STP plan and new leadership will give much needed impetus to transformational change. The introduction of the better care fund and incentive to pool budgets with partners in the health sector is a complex arrangement and requires robust governance and project management to ensure delivery and VFM is being delivered. We are satisfied from the evidence gathered that the Council has established arrangements effectively around the integration with health services which will provide the appropriate oversight. This is due to the extensive board structure in place taking into consideration representatives of both parties to the s75 agreement, as well as NHS providers that are not party to the agreement, and thus encompassing fully the concept of collaboration. In addition to this, a comprehensive risk sharing agreement has been produced which is underpinned by the specific risk register. It is expected that this risk sharing agreement will be developed year on year. On review of said documents, the risks appear reasonable and appropriate in nature and therefore demonstrate the Council has considered the possible implications of the integration. The Council and its partners will however need to act on these plans to ensure that the STP delivers positive health outcomes for local people and to build long-term financial resilience.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Health & Social Care Integration (cont.) The Council is working in a challenged health and social care economy. The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services through its transformation agenda and through working with partners in health.		Finally, the reporting process is thorough and frequent enough to keep up to date with emerging issues in a timely manner. The breadth of involvement is conducive to informed decision making by the relevant party and as such we consider that appropriate arrangements are being put in place to mitigate the risk, whilst recognising the overarching inherent financial risks within the system. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**
PFI scheme – waste incinerator The council is a party to a significant PFI contract for a waste incinerator. This is a significant financial commitment and has been a high profile matter. This links with arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and to maintain statutory functions.	We will obtain an understanding of where the council are in this project and how the financial implications are being managed and factored into financial plans.	We are satisfied that the Council has adequate arrangements in place to secure value for money in the delivery of the waste incinerator PFI agreement. This is supported by the stable financial position of the partnership, a forecast surplus for the Council and timely management of relationship and dispute issues resulting in limited financial impact. It is evident from our review of documents and through discussions with client personnel that the scheme has been factored in to the long term financial projections of the Council with loan repayments spread up to 2042 or the useful economic life of the plant. The borrowing necessary has also been undertaken in line with the relevant prudential strategy and in a responsible manner. The majority of debt is sourced from PWLB at rates favourable to the council and thus resulting in a surplus on repayment. We have gained assurance that governance procedures are being implemented to a satisfactory level which has included the audit committee discussing the scheme regularly and providing appropriate oversight at their meetings. Finally, the financial and operational aspects of the scheme have also been reported on positively by external third parties, specialising in their respective areas. As such, we do not consider the waste incinerator PFI scheme to pose a threat to our value for money conclusion, no further work is proposed on this matter. **On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in 2012/13 which rated these as 'inadequate'. A re-inspection in 2014/15 took the council to a 'requires improvement' assessment. Until such time as Ofsted has confirmed that adequate arrangements are in place this remains a significant risk to the Council's arrangements.	We reviewed the improvement plan, risk register , financial reports and met with the Children's services financial lead. No follow up inspection has taken place.	The Council has responded to the Ofsted inspections. There has been some change in senior staff which is providing challenge to some of the existing culture and arrangements. Following the inspection there has been a detailed improvement plan developed and we have seen evidence that this is monitored and updated regularly. There has been no follow up Ofsted inspection to assess whether the actions are addressing the underlying problems. Many of the weaknesses are being addressed by further reviews, not all of which have been completed. It would therefore be premature to conclude that the Council will achieve its stated ambition of being 'good' during 2016/17. The Children's Services Directorate continues to overspend as reflected in a £2m overspend on the £24m budget in 2015/16 Quarter 1 financial information was not available at the time of our review, although it is anticipated that this will continue to show budget challenges although the council is taking steps to reduce risks. Discussion with responsible finance officers indicates new measures are being taken this year, for example a fundamental change to the use of agency staff which should have recurring positive financial impact. Any new initiatives will take time to impact on the underlying financial position. **Whilst there are on-going financial and operational risks around children's services and 'looked after' children we are satisfied that the Council is responding appropriately to these risks. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Key findings (continued)

New risk	Work to address	Findings and conclusions
Governance arrangements, from Herefordshire Council perspective around the Local Enterprise Partnership	We will review the governance arrangements around the LEP to assess whether or not these are adequate and whether adequate information is supplied to those Charged with Governance (TCWG) to fulfil their responsibilities.	In 2015/16 the LEP received around £16m of income. Transactions that related to Herefordshire Council were not material but are expected to increase in future periods. Accounting arrangements for the LEP are proper and reflect the fact that the LEP is not an entity. Shropshire Council is the accountable body fro the LEP so all external funding etc. is reflected in its financial ledger. The accounting arrangements ordain that Shropshire Council acts as an agent and thus any LEP income and expenditure which relates to Herefordshire Council is reflected in Herefordshire Council's accounts and audited as part of the audit of its accounts. There are no specific notes on the LEP within Herefordshire Council's accounts and due to the value of transactions, this is not required in 2015/16. For transparency purposes, public interest, and in view of the expected increases in projects the Council may wish to consider including a specific note in future statements of accounts. The LEP has produced an annual report in 2015/16 which is important in view of the increasing amount of projects and funding going through the organisation. As the LEP is not an entity it is not required to produce any year end financial reports, though the annual report does contain some financial context. Shropshire Council's statutory accounts now do include a note (note 37) which sets out all the LEP related transactions. The LEP does have an agreed accountability framework which sets out the decision making and governances responsibilities of the Board, joint committee etc. Governance arrangements in practice have been evolving over the last 2 years. It is the responsibility of the joint committee for 'ensuring accountability of budget making and policy decision'. However the committee has not met frequently (the committee website indicates that numerous committees have been cancelled and postponed) and we have seen little financial information being reported to it. In March 2016 the NAO issued a report which highlighted a lack of accountability in relation to LEPs as a national issue. Whilst Shropshire Council is the accountable body, as described above relevant income and expenditure is reflected in Herefordshire Council accounts - and thus Herefordshire council is ultimately accountable for those transactions. It is therefore important that TCWG at Herefordshire Council are appropriately engaged with, and sighted on, the activity of the joint committee - as this is the main vehicle of assurance over LEP governance. **Appropriate accountability and reporting arrangements are in place in relation to the LEP. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

Key findings (continued)

New risk	Work to address	Findings and conclusions
Adequacy of the Council capital reporting	We have reviewed reports to council in relation to the 2015/16 capital programme.	The capital budget for 2015/16 as presented in the revised 2015 MTFS differs to that presented in the 2016 MTFS, both in total and by a number of individual schemes. The revised presentation of the restated 2015/16 capital outturn report makes it difficult to track through what was originally approved in the 2015 MTFS (£67,929 restated total budget) to the 2016 MTFS 2015/16 budget and also to the reported out-turn (both £77,089 budget) by individual project. Over the period of review, it is highly probable that in any organisations there may be revisions to budgets, reclassifications and virements. Development of reports and altering of presentations are also usual. The variations described above may well have been explained at committees. However looking back over the reports, it is understandable that there may be difficulties by users of financial reports tracking through budgets on all individual schemes. The Council has also itself highlighted a number of errors in its reports over the period. The June outturn report was reissued. There are clearly lessons to be learned around quality control of financial reporting to committee. It appears to us that these are errors, omissions and oversights rather then there being a deliberate intention to mislead. The errors and omissions are unfortunate but are not so material as to indicate that there are fundamental weaknesses in the Council's reporting of its capital programme. **We concluded that the risk was sufficiently mitigated and the Council has proper arrangements**

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Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 5: Fees, non-audit services and independence

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

Fees

	£
Council audit	124,405
Housing benefits certification	4,571
Total audit fees (excluding VAT)	**128,978**

68

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pensions Return (tbc)	4,200
• SFA grant certification (tbc)	3,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the 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.

Section 6: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

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 at the time of our appointment. 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 NAO (https://www.nao.org.uk/code-audit-practice/about-code/). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to 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
High - Significant impact
Medium – Moderate impact
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	To continue the positive work undertaken in respect of fixed assets in 2015/16, taking in to account significant developments on highways network assets which will be recognised separately under DRC in 2016/17. We plan to liaise with officers early in the process to ensure the treatment of these assets is appropriate in line with the revised HNA Code when this is released.	High	The corporate finance team has an action plan in place to ensure that the highway network assets are correctly valued and disclosed in 2016/17s statement of accounts. We will work with Grant Thornton throughout this process.	April 2017 Corporate Finance Manager to lead
2	To ensure that prior to the completion of the draft financial statements subject to audit, the Authority have reviewed any notable changes to the Code of Practice or CIPFA LAAP bulletins. This will mitigate any risk of non-compliance with the disclosure requirements of the Code in major areas such as IFRS 13 in 2015/16.	Medium	Agreed, training updates are to be shared as they become available.	March 2017 Head of Corporate Finance
3	Robust quality control measures put in place around financial reporting to members, particularly around the capital programme. We will discuss with officers good practice reporting.	Medium	Agreed, data quality checks are already in place, going forward improved clarity and transparency will be adopted using evidenced best practices.	February 2017 Head of Corporate Finance

Appendix A: Action plan

Priority
High - Significant impact
Medium – Moderate impact
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	Consider including a note on the LEP including the transactions with the LEP within a note to the 2016/17 statement of accounts.	medium	Agreed	May 2017 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 HEREEFORDSHIRE COUNCIL

We have audited the financial statements of Herefordshire Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, 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 2015/16.

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

Respective responsibilities of the S 151 and auditor

As explained more fully in the Statement of Responsibilities, the S151 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 2015/16, which 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 s151 Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:
present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
we issue a report in the public interest under section 24 of the Act; or
we make a written recommendation to the Authority under section 24 of the Act; or
we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

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

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

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

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

26 September 2016

grant-thornton.co.uk

Meeting:	**Audit and governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Signing of 2015/16 statement of accounts**
Report by:	**Head of corporate finance**

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 2015/16 statement of accounts.

Recommendation(s)

THAT:

(a) the 2015/16 statement of accounts (at appendix a) be approved; and

(b) the letter of representation (at appendix b) is signed by the chairman of the committee and the acting S151 officer.

Alternative options

1 There are no alternative options as it is a statutory requirement to approve the accounts and sign the letter of representation.

Reasons for recommendations

2 The local audit and accountability act 2014 requires the council to produce a statement of accounts in accordance with the accounts and audit regulations 2015. The process requires the accounts to be certified by the s151 officer by 30 June and then approved by the audit and governance committee by 30 September.

Key considerations

3 The statement of accounts (appendix a) has been drawn up in accordance with the accounts and audit regulations 2015, 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.

4 The most significant matters in the 2015/16 accounts and a summary of the council's financial position are set out in the narrative report. Key points for 2015/16 include the following:

a) in 2015/16 the council underspent by £0.3m.

b) general fund reserves increased to £7.3m, 5% of its 2016/17 net revenue budget.

c) specific reserves have been set aside totalling £28.5m, this includes £9.4m of school reserves. These reserves will be used to mitigate specific key corporate financial risks, including any settlements required in respect of ongoing litigation.

2015/16 statement of accounts

5 The main financial statements are prepared in accordance with 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

6 This statement shows the movement in the year on the different reserves held by the council, 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

7 Total usable reserves at 31 March 2016 were £37.5m compared with £40.7m at 31 March 2015, 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 2015	7.1	26.7	4.4	2.5	40.7
Balance as at 31 March 2016	7.3	28.5	0.5	1.2	37.5

Increase/(decrease)	**0.2**	**1.8**	**(3.9)**	**(1.3)**	**(3.2)**

8 The general fund reserve balance increased by £0.2 as a result of the 2015/16 underspend. Details of the movements to and from earmarked reserves are shown in note 11 to the accounts.

Unusable Reserves

9 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 £96.2m at 31 March 2016 compared to £78.9m at 31 March 2015, the main movement being an increase in the revaluation reserve of £8.6m, reflecting an increase in fair value of assets held and a decrease of £7.3m in the external valuation of the pension deficit. The estimated pension deficit on Herefordshire's fund as at 31 March 2016 is £205.4m; 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 25 to the accounts.

Comprehensive income and expenditure statement

10 This statement 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. The adjustments to reconcile this statement to the amount to be funded from council tax are included in the movement in reserves statement.

Balance Sheet

11 The balance sheet summarises the council's assets, liabilities and reserves at the end of the financial year.

12 At 31 March 2016 long term assets totalled £564.8m, compared to £537.5m at 31 March 2015. 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 2015/16 which included spend on improvements to our road network of £23m.

13 Current assets totalled £41.8m at 31 March 2016, compared to £29.5m at 31 March 2015. Cash and investment balances increased by £5.8m due to higher cash balances being held at the year end.

14 Current liabilities totalled £83.2m at 31 March 2016, compared to £66.2m at 31 March 2015. Short term borrowing increased by £17.4m in line with the approved treasury management policy to use short term borrowing to fund cashflow need.

15 Long term liabilities totalled £389.7m at 31 March 2016 compared to £381.2m at 31 March 2015. Long term borrowing increased by £14.5m, giving a total borrowing increase of £31.9m which has funded capital investment in 2015/16.

Cash flow statement

16 This statement represents a summary of all cash flowing in and out of the council during 2015/16, during 2014/15 there was a net increase in cash and cash equivalents of £2.1m.

The collection fund

17 Note 45 to the accounts details the collection fund. This fund includes income from council taxpayers and business ratepayers, which totalled £157.9m in 2015/16 compared to £151.0m in 2014/15. Expenditure includes precept payments to West Mercia Police (£12.2m), Hereford and Worcester Fire Authority (£5.5m) and parishes (£3.1m). These are paid from income collected from taxpayers on their behalf. In 2015/16 business rates of £23.8m were paid to central government representing 50% of business rate income collected.

Letter of representation

18 Attached at appendix b is the councils letter of representation confirming that, to the best of the councils knowledge and belief, the financial statements, at appendix a, give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Community impact

19 None arising from the recommendations.

Equality duty

20 No implications arising from the recommendations.

Financial implications

21 Contained in the report.

Legal implications

22 As set out in the report.

Risk management

23 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

24 None.

Appendices

Appendix a - 2015/16 statement of accounts

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

Appendix b - letter of representation

Background papers

- None identified.

Herefordshire Council Statement of Accounts 2015/16

Contents **Page**

1. Introduction

Herefordshire's statement of accounts for 2015/16 set out the council's overall financial position for the year.

2015/16 saw a continuation of the need to deliver significant budget reductions, £10m in addition to those achieved in the previous four years. I'm pleased to report that the council delivered these savings whilst continuing to provide good services to the community. Further savings will be required in the coming years, £28m between now and 2019/20.

Herefordshire is a rural county with an older demographic, facing an increasing demand for services which provides a difficult environment for delivering savings. Despite this the council has set a medium term financial strategy which identifies how savings will be achieved.

2015/16 saw the councils general reserve balance increase by £0.3m to £7.3m, 5% of its 2016/17 net revenue budget. This recognises the need for increased resilience over the coming years. Herefordshire's financial management strategy also includes maintaining specific reserves to deal with expenditure commitments in future years, these totalled £28.5m, inclusive of £9.4m school reserves, as at 31 March 2016.

Councillor Tony Johnson
Leader of the Council

2. 2015/16 Narrative Report

Message from the acting Section 151 Officer

These statement of accounts have been prepared in a timely manner providing the opportunity to report our financial standing and allowing focus to move onto addressing the challenges arising from the continued funding reductions Herefordshire faces.

The accounts demonstrate the robust financial standing Herefordshire has, providing assurances in delivering the medium term financial strategy approved by Council in February.

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

- **Understand the overarching financial position of the Council and the outturn for 2015/16;**
- **Have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and**
- **Be assured that the financial position of the Council is sound and secure**.

An Introduction to Herefordshire

Herefordshire is located just south of the West Midlands bordering Shropshire, Worcestershire, Gloucestershire and the Wales.

Herefordshire covers a land area of 2,180 square kilometres (842 square miles) (excluding inland water), and is a predominantly rural county (95 per cent of land area classified as such), with the 4th lowest population density in England (85 persons per square kilometre).

Herefordshire's population is about 186,100, with approximately one-third of the population living in Hereford city, a third in the market towns and a third in rural areas. The five market towns are Leominster, Ross-on-Wye, Ledbury, Bromyard and Kington.

Herefordshire is a popular destination for visitors, those with holiday homes and second homes and, in some areas, for out-of-county commuters.

As a whole, Herefordshire has relatively low levels of multiple deprivation. In general people are healthy, live longer compared with nationally, and have positive experiences of the things that affect their lives and wellbeing. However, some areas of south Hereford, Leominster and Ross-on-Wye are amongst the 25% most deprived in England.

Although the government's 2010 Index of Multiple Deprivation ranks Herefordshire 145th out of 326 local authorities, there are areas of significant poverty and deprivation within the county.

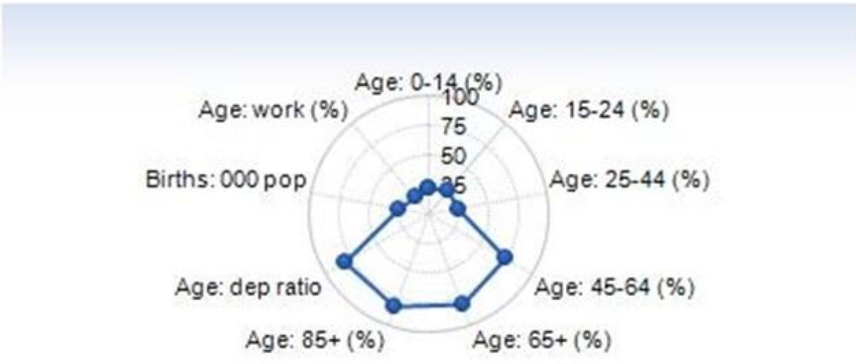
Average wages in the county are significantly below both the regional and national averages. Average house prices are high compared with elsewhere in the region. The affordable housing ratio is the worst in the West Midlands, with houses at the lower end of the market, costing around 8.6 times the annual wage of the lowest earners.

Unemployment in the county is low. Both agriculture and tourism are a more important source of jobs in the county than elsewhere in the West Midlands. Self-employment is more common in Herefordshire than in the rest of the UK.

Herefordshire has improved its performance at GCSE level over the past two years. However, vulnerable groups continue to perform significantly below their peers at all ages. Herefordshire has some very high performing sixth forms with some outstanding results but there is net migration of young adults out of the county in search of wider opportunities for employment and higher education. There are relatively few people in the workforce with higher education-level qualifications. There is limited higher education provision, and knowledge-based industries are underrepresented in the county.

Population

The county's population has a considerably older age profile than that for England and Wales, with 23% of the population aged 65 years or above, compared with 17% nationally. This includes 5,700 people aged 85 years or above, 3.1%, which is very high by national standards.



Demographic characteristics have a fundamental influence on the social and economic development of an area, as well as demand for local services. The age distribution of residents has implications for long-term economic activity rates and current, future service provision and the associated demand led budgets of the Council.

In Herefordshire, the proportion of the resident population aged 0-14 was 15.8% in 2011. This is low by national standards. The proportion aged 15-24 was 10.8% in 2011, which is low by national standards.

In between, 22.6% were aged 25-44 and 28.3% were aged 45-64. Overall 60.4% of Herefordshire's population are of working age.

The dependency ratio (the ratio of economically dependent people to those who are economically active) is very high by national standards: 0.64 compared to a national figure of 0.55.

Population Projections

The projected population growth and the impact this growth will have on the area is vital to a council's forward planning for the provision of services and the expected challenges of demographic change. At the national level, the population of over 65 is expected to increase substantially, placing considerable pressure on council services including care and housing. Alternatively, significant growth of younger age brackets will require greater provision of education, training and employment opportunities and the improvement of access to these services.

In Herefordshire the proportion of the resident population aged 0-14 is projected to change by 2.0% by 2037. This is low by national standards.

The proportion of the resident population aged over 65 is projected to change by 65.7%. This compares to 57.4% in West Midlands and 55.4% nationally.

Age Group	Population Growth to 2037	Proportion in 2037	Regional Population Growth to 2037	Regional Proportion in 2037	National Population Growth to 2037	National Proportion in 2037
0-14	2.0%	14.5%	7.0%	17.3%	3.9%	16.6%
15-24	(6.0%)	9.1%	3.3%	12.2%	0.3%	11.8%
25-44	0.5%	20.5%	3.7%	23.9%	(0.6%)	24.4%
45-64	(8.6%)	23.3%	(0.1%)	22.2%	(1.0%)	23.0%
65+	65.7%	32.7%	57.4%	24.3%	55.4%	24.2%
80+	121.2%	12.1%	103.9%	8.6%	96.3%	8.4%

Corporate Plan

The Council approved its corporate plan for the period to 2019/20 in February 2016 which sets out the vision for Herefordshire to support a strong, diverse and enterprising business base, operating in an exceptional and connected environment where the transfer of technology and skills foster innovation, investment and economic growth.

The council's ambitious plans will accelerate growth and provide opportunities for all who live and work in Herefordshire through strong stewardship and strong partnerships with the private sector.

The council's key priorities are:

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

Medium Term Financial Strategy

The Council approved its medium term financial strategy for the period to 2019/20 in February 2016 which sets out how we will continue to deliver valued services whilst continuing to deliver savings.

£59m of savings have been delivered since 2010 and a further £28m are planned by 2019/20. This will equate to a total of £87m of savings being delivered between 2010 and 2020.

The savings will be achieved by moving to:

- **self-reliant, vibrant communities**
- **growing the economy**
- **supporting the most vulnerable through ensuring their families, friends and communities can support them**
- **people helping themselves through the choices they make**

Pressures and funding reductions anticipated are set out below.

Council Members

The overall political composition of the council is as follows:

Party	Number of councillors
Conservative	29
Herefordshire Independents	8
It's OUR County!	11
Liberal Democrats	2
Green Party	2
Unaffiliated	1
Total	**53**

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

Members Allowances	2014/15 £m	2015/16 £m
Basic allowances	0.4	0.4
Special allowances	0.2	0.2
Total	**0.6**	**0.6**

Financial performance, economy, efficiency and effectiveness of use of resources in 2015/16

Given the level of financial savings required within Herefordshire, we look at everything we do and prioritise accordingly. Whilst some services are statutory and have to be delivered, there are others that we do not have to provide, even though they are valued highly by the community. In order to help maintain some of these important local services we have had to identify different ways of delivering them. We have also identified cross-cutting themes all across the organisation.

As regards enabling residents to be independent and lead fulfilling lives, we have increasingly been focusing upon prevention and early support. The development of community connections and bridging the gaps between voluntary, professional and statutory services has been key to this with examples including Golden Valley Supportive Communities and Leominster Community Connections. We have also worked with families, schools and the community to build resilience so that families are able to help themselves and stop problems from escalating.

Whilst parts of the county have different needs and their capacity to respond varies, we recognise the advantages of working with those local communities who want to take ownership of certain services and do more for themselves. This has been evident through the development of community libraries throughout the county.

We have continued to build upon the benefits of public health functions becoming the responsibility of the council, ensuring that services become more outcome focused. This has also extended to other areas through improved educational outcomes and the percentage and the proportion of the county's young people who were recorded as being in full time education and training. Significant refurbishment works have taken place at leisure centres across the county in order to modernise and improve facilities which will enable local people to be more physically active.

Positive progress has been made with regard to maintaining a successful economy. We have continued to focus on growth to support our local economy. Key to this is the adoption by Council of the Local Development Framework Core Strategy which forms the basis for future planning in the county. The Enterprise Zone has continued to contribute to the local economy with the creation of new businesses and jobs. Other important aspects being infrastructure which includes the Fastershire broadband project and our two-year £40m investment programme in the roads.

Key to all of the above is the work we are doing in developing a more integrated approach with those who provide services on our behalf. This includes the unified contract for care homes providers, Herefordshire intensive placement support service and public realm services provided by Balfour Beatty Living Places.

Careful management of council budgets has enabled us to protect council services, whilst safeguarding our vulnerable children and alleviating the rising costs of adult social care for the county's higher than average ageing population. This resulted in a small underspend in 2015/16 in tandem with the delivery of £10m of savings.

Local economy

In recognition of the move towards being 100% locally funded by 2019/20 Herefordshire has approved a medium term financial strategy to secure its future financial viability. During 2015/16 we have seen performance higher than forecast in the delivery of 717 new homes (target 490) and 187 new businesses (target 181), we have included targets that will be monitored over the strategy term. The health of the local economy will impact the council's budget directly in respect of level of business rate retention especially as we move to full retention from 2020. In support of this Herefordshire has a large economy, above the national median. The area has a very large business stock and a very high business density with 69.8 businesses per 1,000 head of population.

The county's business formation rate is very low, with the area ranking in the bottom, 20% of local authorities nationally, but of new business formed the 24 month survival rate is very high by national standards.

Pressures

Herefordshire is the most sparsely populated county in England, incurring extra costs of providing services across rural areas such as:

- domiciliary care in rural parts of the county being approximately £1 per hour above those in urban areas, £0.5m per year
- higher transportation costs – subsidies, maintenance, downtime
- higher fuel costs
- difficulties in providing and accessing services
- difficulties in achieving broadband coverage
- lower earnings

In addition, demand management in social care continues to be a key issue against a demographic backdrop of older people that is rising faster than the national average and some specific areas of inequalities amongst families and young people. Focusing public health commissioning and strategy on growth management through disease prevention and behaviour change in communities, is critical for medium term change.

Risks

The council maintains both corporate and directorate risk registers. The corporate risk register is published routinely as part of the regular corporate budget and performance reporting. In addition, areas for improvement are addressed in the accompanying annual governance statement to these accounts.
The 2015/16 accounts demonstrate financial robustness with reserves proportionately comparable to similar councils, providing resilience as we face the challenges ahead.

Introduction to the accounts

The Statement of Accounts for Herefordshire Council presents the overall financial position for the year ended 31 March 2016, as in 2014/15 the amounts presented in the financial statements and notes have been rounded to the nearest £0.1m.

There were a number of minor changes to the 2015/16 Code of Practice having a minimal impact on the 2015/16 accounts.

Within the accounts, infrastructure assets (highways, footways, bridges) are included within property, plant and equipment on the balance sheet. In 2016/17 the council will need to recognise a new asset category on the balance sheet, the highways network asset. This will be disclosed as a separate line on the balance sheet and separately in the notes to the accounts. This is as a result of changes to the 2016/17 Code of Practice which will require all local authorities to value their highways network asset using a depreciated replacement cost basis rather than the current valuation basis of depreciated historical cost. It is expected that this change in accounting policy will result in a significant increase in the value of these assets and would normally require retrospective restatement of the council's balance sheet from 1 April 2015. However, CIPFA/LASAAC has introduced transitional arrangements so that this will be applied from 1 April 2016 with no requirement to restate the information in the prior year. The council is reviewing its transport infrastructure systems and data to ensure that it can meet the reporting requirements from 1 April 2016.

Revenue expenditure and income

The outturn position on the council's revenue account was a £0.3m underspend after transfers to and from specific reserves.

The following table summarises the overall outturn, with 70% of the council's net budget being spent on adult's and children's wellbeing:

Service	Outturn Budget	Outturn Actual	Outturn over/(under)
	£m	£m	£m
Adults and wellbeing	58.9	58.9	-
Children's wellbeing	38.3	40.3	2.0
Economy, communities and corporate (ECC)	70.8	69.5	(1.3)
Directorate outturn	**168.0**	**168.7**	**0.7**
Corporate	0.8	0.4	(0.4)
Net expenditure outturn per accounts	**168.8**	**169.1**	**0.3**
Other budgets and reserves	(26.8)	(27.4)	(0.6)
Total	**142.0**	**141.7**	**(0.3)**

The table above complies with CIPFA's Service Reporting Code of Practice (SERCOP) which changes the budgets approved, monitored and reported on throughout the year which are set to reflect management responsibilities and accountabilities in line with normal practice. These changes are reflected in the accounts by transferring budget and actual costs to recognised service headings. This ensures that the statement of accounts are comparable to other councils for benchmarking purposes. The adjustments include allocating central budgets and technical accounting movements to comply with International Financial Reporting Standards (IFRS), including pensions, PFIs and holiday accruals. A reconciliation between the directorate totals and amounts included in the Comprehensive Income and Expenditure Accounts is shown on page 54.

Capital Programme

Capital investment for 2015/16 totalled £77.0m and included:

- Road network investment and improvements - £23m
- EnviRecover, energy from waste plant loan to be operational in 2017 - £17.4m
- Fastershire, continued investment in the rural broadband network throughout Herefordshire and Gloucestershire - £10.3m
- Hereford enterprise zone site investment works - £5.1m
- Improvements to Hereford, Ross, Bromyard and Leominster leisure centres - £3.3m

Prudential Borrowing

When capital grants cannot fund a scheme in full then the use of prudential borrowing can be considered. In 2015/16 the council utilised £31.9m of prudential borrowing to fund the capital programme, including:

- Energy from waste plant loan, £17.4m, to be funded by future loan repayments
- Road investment of £5.2m, the cost of borrowing to be financed by revenue maintenance cost savings
- LED street lighting investment of £4.0m, to be financed by energy cost savings
- Investment in leisure centres of £2.8m, to be financed by rental charges
- Purchase of three elms trading estate, £1.8m, to be funded by rental income

Future years' capital programme

The council maintains as 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.

Capital Financing	31/03/17 Estimate £m	31/03/18 Estimate £m
Capital grants	24.4	35.9
Capital receipts	7.9	6.4
Salix loan	0.3	-
Prudential borrowing	42.5	8.4
Total capital investment	**75.1**	**50.7**

Balance Sheet

The net assets on the balance sheet total £133.7m (£119.6m as at 31 March 2015), an increase of £14.1m over the course of the year mainly due to movements in year-end valuations of the pension deficit (decrease of £7.3m) and valuation of fixed assets (increase of £8.6m).

Council borrowing

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

In 2015/16 the council secured £13.0m of new long-term borrowing. Principal debt repayments of £8.6m were paid to the public works loan board under existing annuity and EIP (equal instalments of principal) agreements. Total interest of £5.9m was paid on all council borrowing during the year.

During the year the council continued using short-term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31 March 2016 £46.5m of short-term loans from other local authorities were outstanding.

Total borrowing at the year end, including short-term loans, was £198.1m (compared to £166.3m as at 31 March 2015) with the increase representing capital investment funded by borrowing, the cost of which will be funded by the savings generated.

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

Net borrowing (after offsetting investments) was £189.0m as at 31 March 2016, compared to £161.8m as at 31 March 2015.

Council reserves

General reserves
As at 31 March 2016 the council held general reserves of £7.3m, 5% of the council's 2016/17 net budget requirement, providing resilience for the budget challenges ahead.

Earmarked reserves
As at 31 March 2016 the council held £19.1m of earmarked reserves plus £9.4m school balances, a total increase of £1.8m from 31 March 2015. Earmarked reserves include unused grants of £4.3m carried forward into 2016/17, the largest being the dedicated schools grant of £1.6m. A summary is provided below and detailed in note 11.

Balance as at:	General fund £m	Other specific £m	Total council reserves £m	Schools £m	Total earmarked £m	Total £m
31 March 2015	7.1	20.5	27.6	6.2	26.7	33.8
31 March 2016	7.3	19.1	26.4	9.4	28.5	35.8

Significant provisions, contingencies and write-offs

The council held provisions of £5.7m at 31 March 2016, as detailed in note 24.

The most significant provision is the rates appeal provision of £3.0m based on an independent external assessment of the council's liability in relation to business rate appeals at 31 March 2016.

At 31 March 2016 the council also held a provision of £2.0m 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 and instructed an update to the estimation as at 31 March 2016.

A list of contingent liabilities are set out in note 42 to the Statements. Although contingent liabilities are not required to be accounted for, there is a risk reserve of £4.0m held as a general contingency against future spend.

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

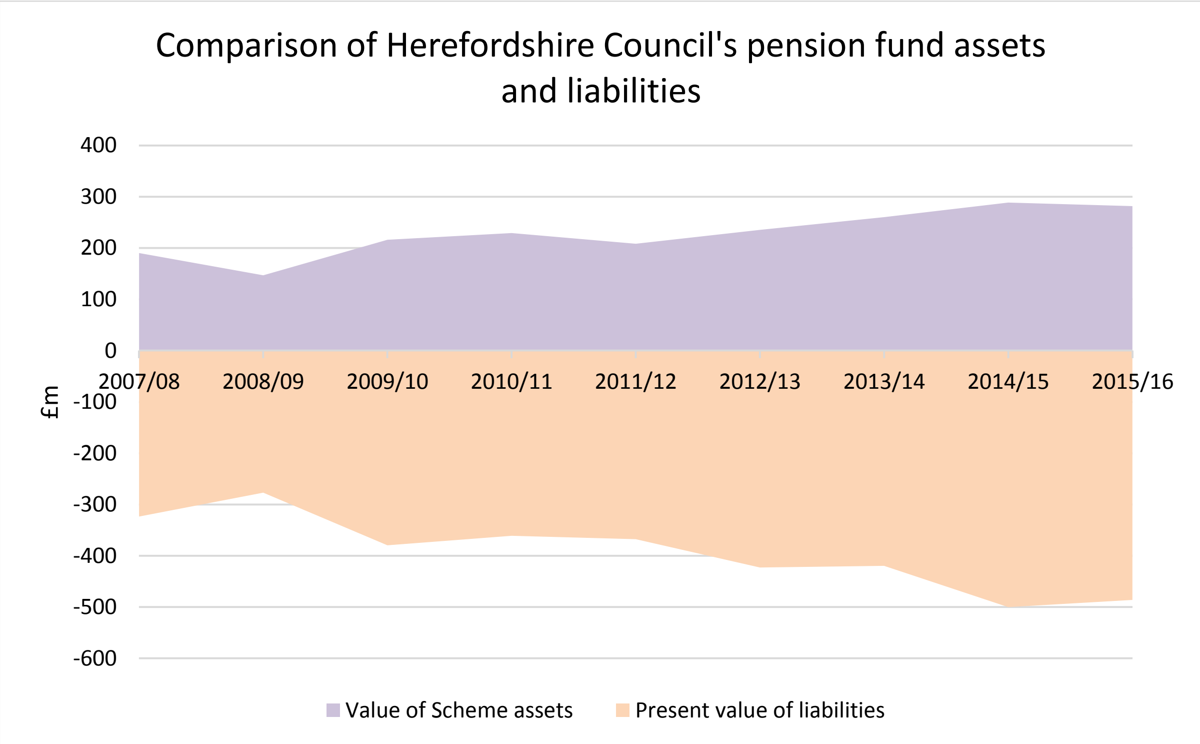
Pensions

In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), note 41 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.

Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31 March 2016 is £204.3m. 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 £1m relating to ex-Hereford and Worcester teachers' unfunded benefits (£1.2m at 31 March 2015).

Pension fund	As at 31 March 15 £m	As at 31 March 16 £m
Present value of obligations	500.0	486.0
Fair value of assets	(288.6)	(281.6)
Deficit	**211.4**	**204.4**

The historic movement of assets to obligations is shown below:



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 in 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 19.3% in 2016/17. The pension fund position is reviewed every three years and was last revalued as at 31 March 2013. During 2016/17 a full review will be undertaken for the position as at 31 March 2016.

Impact of the 2015/16 economic climate

The economic climate has had an impact on the 2015/16 accounts in a number of areas:

Children’s Wellbeing

The economic climate continues to affect the lives of children and young people in Herefordshire and the services that support them. Herefordshire has experienced an increase in the numbers of children needing to be looked after in 2015/16 creating cost pressures for the service, demonstrated by the directorate overspend.

In order to maintain provision for children’s social care, additional cuts were made across the rest of the children’s wellbeing directorate in 2015/16 balancing the need to meet the increasing cost of providing children’s social care. In addition, the budget for social care placements was increased to reflect increased demand. The council continued to focus on developing approaches to prevent the need for high cost interventions, making the most of the troubled families initiative and the Herefordshire intensive placement support service.

Herefordshire has seen a significant slowdown in the number of schools converting to Academy status, with no conversions taking place in 2015/16. Academies are outside of council control with funding towards central and children’s services being reduced following conversions however a number of statutory duties remain with the council creating funding pressures.

Adults and Wellbeing

The growing needs of the local population and financial pressures facing the local NHS Trust remain a key factor in the pressure on council finances. In particular, the increased demand on the social care system to enable the early discharge and prevention of admission to hospital has continued to create pressures on the council’s community equipment and domiciliary care support budgets.

The ‘in year’ cuts to public health funding have resulted in financial pressures and additional savings requirements for 2016/17.

The devolution of and reduction in the independent living fund monies from central government has led to reductions in some care packages.

Economy, Communities and Corporate

This directorate underspent in the year demonstrating the improved performance achieved. The amount of household and commercial waste collected by the council has increased, with particularly high increases at household recycling centres. This may partly reflect an improving economy.

Increased levels of interest in business and industrial premises has been noted over the last year. This may reflect higher levels of confidence in this sector. In particular the Rotherwas enterprise zone, the county’s main employment area, has seen a slight upward movement in new rents being achieved and almost all available space is now occupied.

Treasury Management activities

During the year deposit interest rates fell further with the average rate earned on the council’s investments falling from 0.66% in 2014/15 to 0.59% in 2015/16. The bank base rate has been held at 0.50% for more than seven years and has significantly reduced the income that the council is able to earn on its investments.

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 0.56%, 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.

Academy schools

Academies are publicly funded 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 council.

Many schools in Herefordshire have become Academies. At 31 March 2016 there were 29 Academies and two free schools. When schools become Academies the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a peppercorn rent.

Core Financial Statements and Explanatory Notes

2015/16 Financial Statements
The council's financial statements are set out on the following pages and comprise:

Movement in Reserves Statement (page 16)
This statement shows the movement in the year on the different reserves held by the council.

Comprehensive Income and Expenditure Statement (page 18)
This statement shows the comprehensive cost in the year of providing services, not just the cost funded from council tax.

Balance Sheet (page 19)
The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.

Cash Flow Statement (page 20)
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 21)
The notes to the core financial statements provide further information on the financial activities of the council.

The Collection Fund (page 82)
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.

The unaudited Statement of Accounts, which may be subject to change, take into account events up to 9 June 2016 have been authorised for issue on 9 June 2016 by the Section 151 Officer.

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

3. Statement of Responsibilities

The Council's Responsibilities

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 council, that officer is the Section 151 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.

The Section 151 Officer - Responsibilities

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

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

a. Selected suitable accounting policies and then applied them consistently;

b. Made judgements and estimates that were reasonable and prudent; and

c. Complied with the local authority Code of Practice.

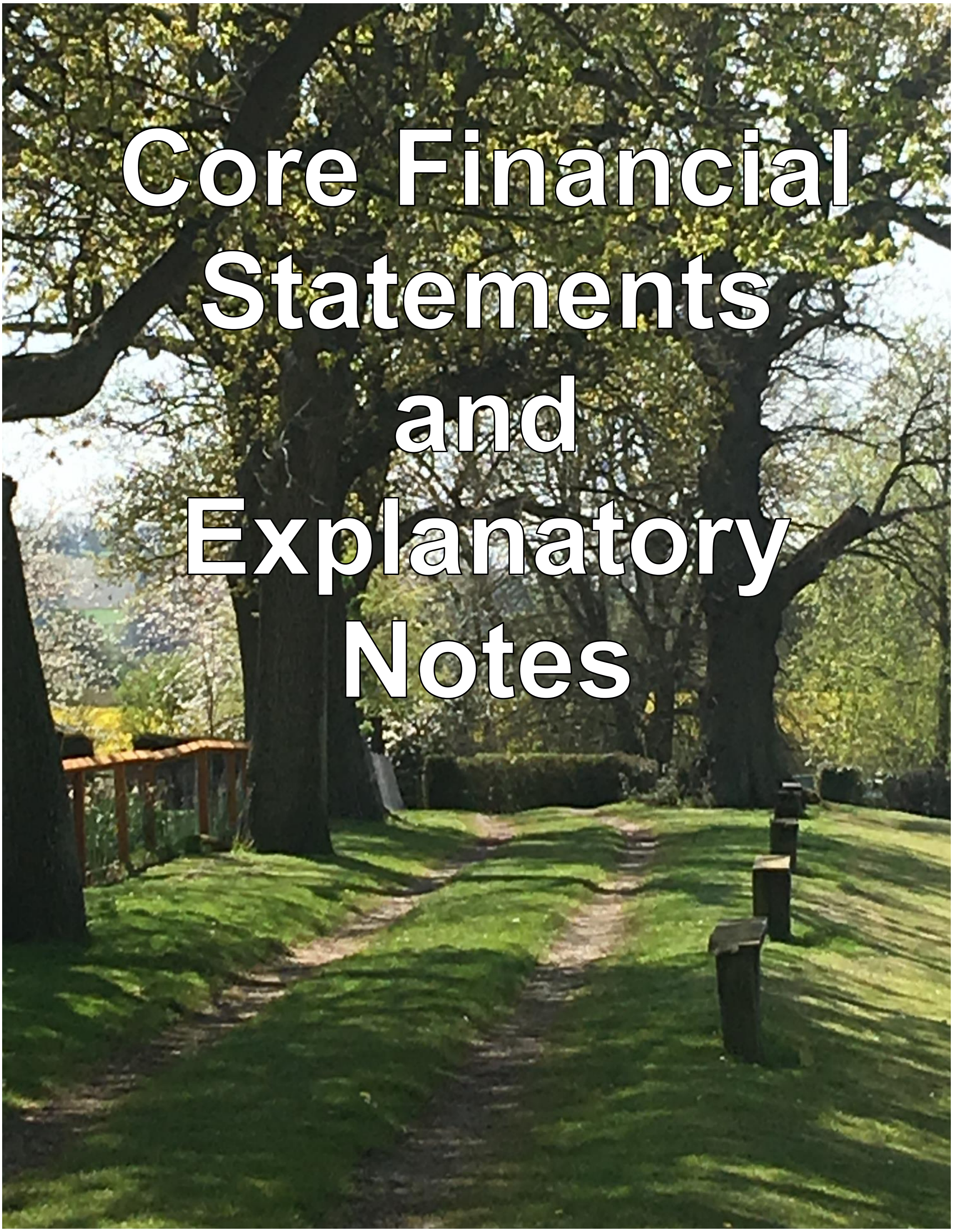
The Section 151 Officer has also:

a. Kept proper accounting records which were up to date; and

b. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the acting Section 151 Officer

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31 March 2016 and its income and expenditure for the year ended 31 March 2016.


Core Financial
Statements
and
Explanatory
Notes

4. Movement in Reserves Statement

2015/16	Notes	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 Brought Forward		**(7.1)**	**(26.7)**	**(4.4)**	**(2.5)**	**(40.7)**	**(78.9)**	**(119.6)**
Surplus or deficit on the provision of services		8.0				8.0		8.0
Other comprehensive income and expenditure							(22.1)	(22.1)
Total comprehensive income and expenditure		8.0				8.0	(22.1)	(14.1)
Adjustments between accounting basis and funding basis under regulations	9	(10.0)		3.9	1.3	(4.8)	4.8	
Net increase/decrease before transfers to earmarked reserves		(2.0)		3.9	1.3	3.2	(17.3)	(14.1)
Transfers to or from earmarked reserves	11	1.8	(1.8)					
Decrease/ (Increase) for the Year		(0.2)	(1.8)	3.9	1.3	3.2	(17.3)	(14.1)
Balance Carried Forward		**(7.3)**	**(28.5)**	**(0.5)**	**(1.2)**	**(37.5)**	**(96.2)**	**(133.7)**

2014/15 Comparative	Notes	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 Brought Forward		**(5.1)**	**(23.9)**	**(5.9)**	**(6.4)**	**(41.3)**	**(119.3)**	**(160.6)**
(Surplus) or deficit on the provision of services		(7.0)				(7.0)		(7.0)
Other comprehensive income and expenditure							48.0	48.0
Total comprehensive income and expenditure		(7.0)				(7.0)	48.0	41.0
Adjustments between accounting basis and funding basis under regulations	9	2.2		1.5	3.9	7.6	(7.6)	
Net increase/decrease before transfers to earmarked reserves		(4.8)	0.0	1.5	3.9	0.6	40.4	41.0
Transfers to or from earmarked reserves	11	2.8	(2.8)			0.0		
Decrease/ (Increase) for the Year		(2.0)	(2.8)	1.5	3.9	0.6	40.4	41.0
Balance Carried Forward		**(7.1)**	**(26.7)**	**(4.4)**	**(2.5)**	**(40.7)**	**(78.9)**	**(119.6)**

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

5. Comprehensive Income and Expenditure Statement

2014/15					2015/16		
Expenditure £m	Income £m	Net £m		Notes	Expenditure £m	Income £m	Net £m
71.5	(17.7)	53.8	Adult Social Care		77.8	(19.2)	58.6
135.9	(91.9)	44.0	Children's and education services		139.2	(92.4)	46.8
7.7	(1.1)	6.6	Cultural and Related Services		9.3	(0.7)	8.6
20.6	(5.4)	15.2	Environmental and Regulatory		25.9	(4.3)	21.6
14.2	(8.9)	5.3	Planning Services		17.2	(12.0)	5.2
20.8	(6.0)	14.8	Highways and Transport Services		25.2	(5.8)	19.4
55.7	(52.5)	3.2	Housing Services		55.9	(52.6)	3.3
3.8	(1.7)	2.1	Corporate and Democratic Core		1.7	0.0	1.7
1.9	(1.0)	0.9	Non-distributed Costs		2.4	(0.7)	1.7
3.0	(1.9)	1.1	Central Services to the Public		5.3	(3.6)	1.7
7.9	(8.0)	(0.1)	Public Health		8.8	(8.8)	0.0
343.0	(196.1)	146.9	**Cost of Services**		368.7	(200.0)	168.6
7.4		7.4	Other Operating Expenditure	12	3.5	(0.4)	3.1
15.2	(3.1)	12.1	Financing, Investment Income & Expenditure	13	16.3	(3.8)	12.5
			Surplus or deficit on Discontinued Operations				
	(173.4)	(173.4)	Taxation and Non-Specific Grant Income	14		(176.2)	(176.2)
		(7.0)	**Surplus or deficit on the provision of services**				8.0
		(0.9)	Surplus or deficit on revaluation of non-current assets	15			(9.6)
		48.8	Re-measurement of net defined Benefit Liability				(12.5)
			Surplus or deficit on revaluation of available-for-sale financial assets				
		40.9	**Total comprehensive income and expenditure**				**(14.1)**

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

6. Balance Sheet

31/03/2015 £m		Notes	31/03/2016 £m
492.6	Property, Plant and Equipment	15	493.5
32.0	Investment Property	15	40.6
1.2	Intangible Assets	15	0.8
2.8	Heritage Assets	15	2.8
8.9	Long Term Debtors	16	27.1
537.5	**Long-term Assets**		564.8
0.2	Short-term Investments	16	2.5
0.1	Inventories		0.2
21.5	Short Term Debtors	17	25.1
4.2	Cash & Cash Equivalents	18	7.7
3.5	Assets held for Sale	15	6.3
29.5	**Current Assets**		41.8
(28.8)	Short Term Borrowing	16	(46.2)
(29.0)	Short Term Creditors	23	(29.3)
(2.1)	Short Term Provisions	24	(0.8)
(4.0)	Cash and Cash equivalents	18	(5.5)
(2.3)	Capital Receipts in Advance		(1.4)
(66.2)	**Current Liabilities**		(83.2)
(3.2)	Long-term provisions	24	(4.9)
(137.5)	Long-term borrowing	16	(152.0)
(1.5)	Capital Grants Receipts in Advance		(2.2)
(239.0)	Other Long Term Liabilities	16	(230.6)
(381.2)	**Total Long-term Liabilities**		(389.7)
119.6	**Net Assets**		**133.7**
(40.7)	Usable Reserves	9	(37.5)
(78.9)	Unusable Reserves	10	(96.2)
(119.6)	**Total Reserves**		**(133.7)**

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

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

7. Cash flow Statement

2014/15 £m		Notes	2015/16 £m
(7.0)	Net surplus or deficit on the provision of services		8.0
(37.1)	Adjust net surplus or deficit on the provision of services for non-cash movements	19	(28.0)
2.5	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	20	1.7
(41.6)	**Net cash flows from operating activities**		(18.3)
42.0	Net cash flows from investing activities	21	47.0
4.7	Net cash flows from financing activities	22	(30.8)
5.1	**Net increase or decrease in cash and cash equivalents**		**(2.1)**
(5.2)	Cash and cash equivalents at the beginning of the reporting period		(0.1)
(0.1)	Cash and cash equivalents at the end of the reporting period		(2.2)
5.1	**Net increase or decrease in cash and cash equivalents**		**(2.1)**

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

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

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

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

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

8. Notes to the accounts

Accounting Policies

General Principles
The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice (SERCOP) 2015/16, supported by International Financial Reporting Standards.

Accruals of Income and Expenditure
Revenue and capital transactions are accounted for on an accruals basis where above the de-minimus thresholds. 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
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.

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

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

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

Employee benefits

Benefits payable during employment
Employment benefits are accounted for according to the principles of accruals of expenditure. Short-term compensated absences, such as annual leave, are recognised when employees render services that increase their entitlement to future compensated absences. These are

measured as the additional amount that the council expects to pay as a result of unused entitlement at the balance sheet date, including employer's national insurance and pension contributions. The accumulated benefits are included in the balance sheet as a provision for accumulated absences. The amounts charged to the General Fund are reversed out through the Movement in Reserves Statement to the accumulated absences account in the balance sheet.

Termination benefits

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

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

a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;

b) The NHS pension scheme (for Public Health transferred staff); and

c) The Local Government Pension Scheme administered by Worcestershire County Council.

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

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

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

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

a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;

b) Liabilities are discounted to their value at current prices using a discount rate of 3.6% (based on market yields and other factors);

c) Assets are included in the Balance Sheet at their fair value determined through market or bid prices or using professional valuations;

d) The change in the net pension's liability is analysed into 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.

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

Further information on accounting for the pension fund is set out in note 41 to the Statements.

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

There are two types;

a. Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and

b. Those that relate to conditions after the reporting period, which are not adjusted in the accounts, rather disclosed in the notes to the statements.

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

Prior period adjustments, changes in accounting policies and estimates and errors
Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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

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

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

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

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

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

Financial assets are classified into two types:

a. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or

b. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

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

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

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

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

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

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

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

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

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

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

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

b) Gains or losses are reversed out to the Capital Adjustment Account.

Fair Value Measurement Policy

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

A definition of fair value is the price that would be received to sell an asset, or paid to transfer a liability, between market participants in an orderly transaction at the measurement date under current market conditions. A fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The concept of highest and best use applies only when determining the fair value of non-financial assets, e.g. surplus assets or investment property. They do not apply to financial assets or to financial liabilities on the basis that financial assets or financial liabilities do not have alternative uses.

Financial liabilities, 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 can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments.

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

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

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

Criteria	**Tier level**
Comparable evidence that is identical to the asset that is being measured in terms of: • Physical Location • Condition • Orientation • Levels of Natural Light • View • Access and visibility • Tenure and Covenants • Construction Type and Cost • Size and Layout • Facilities • Lease Options • Obsolescence	1

• Comparable evidence available within an active market of similar assets. • Comparable evidence for similar assets or liabilities in markets that are not active. • Non-value comparable evidence (e.g. yields) for similar asset types available. • Comparable evidence corroborated by observable market evidence. • Implied and non-implied covenants within the lease negating the need for comparable evidence. • Transparency of Market Data • Minimal principal adjustment of comparable evidence, non-significant adjustment. • Comparable analysis	2
• No comparable evidence available. • Unobservable inputs. • Comparable evidence requires significant adjustment from the principal market.	3

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

Finance leases

a) Where the council is **lessee** - finance leases are recognised as assets and liabilities at the fair value of the property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. Assets recognised under a finance lease are depreciated over the shorter of the lease term and the asset's useful economic life. Assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

b) Where the council is **lessor** - assets held under a finance lease are recognised as a debtor equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and interest. The only assets held under finance leases are Academy schools. These assets are transferred to the school under a peppercorn rent so treated as an asset disposal.

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
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
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 unused assets.

PFI schemes

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

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

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

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

a) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement under Financing, investment income & expenditure.

c) Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.

d) Payment towards liability – applied to write down the Balance Sheet liability, current and long term, towards the PFI operator.

e) Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as property, plant and equipment when the contractor incurs the expenditure.

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.

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

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

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

a) it is probable that the future economic benefits or service potential will flow to the council, and

b) the cost of the asset can be measured reliably.

Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise property, plant and equipment costing less than the de-minimus thresholds.

Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component is reflected in the carrying amount on the assets valuation basis.

Schools

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

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

Measurement

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

a) purchase price;

b) any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management; and

c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

a) **Community assets and assets under construction** – historical cost.

b) **Land and buildings** – current value in accordance with Royal Institution of Chartered Surveyors guidelines. Where there is no market-based evidence of current value because of the specialist nature of the asset current value may need to be estimated using a depreciated replacement cost approach (DRC).

c) **Vehicles, plant and equipment –** depreciated historical cost (as a proxy for current value)

Revaluations

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

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

Revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund and are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

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

Depreciation

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

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

Each part of an asset with a cost significant in relation to the total cost is depreciated separately where the useful lives or depreciation methods of the components are different. The council reviews assets of £3m and over for componentisation and treats components 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.

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

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.

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.

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.

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.

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

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

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

a) Crediting the Capital Receipts Reserve with the disposal proceeds; and

b) Debiting the Capital Adjustment Account with the carrying amount of the asset on disposal.

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

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

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

Provisions
A provision is recognised when:

a) An authority has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.

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

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

Unusable reserves
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
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
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

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
Revenue included in the Comprehensive Income and Expenditure Statement is only the amount relating to the council on its own behalf and therefore excludes VAT that must be passed on 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
Revenue is measured at the fair value of the consideration received or receivable.

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

a) the significant risks and rewards of ownership have been transferred to the purchaser.

b) the council retains neither continuing managerial involvement nor effective control over the goods sold

c) the amount of revenue can be measured reliably

d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and

e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

a) the amount of revenue can be measured reliably;

b) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;

c) the stage of completion at the balance sheet date can be measured reliably; and

d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Interest; revenue is recognised when;

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

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

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

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

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

Interests in Companies and Other Entities
An assessment of the council's interests has been carried out in accordance with the Cipfa Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the councils control 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.

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.

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 2015/16.

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 20.8%, based on the estimated proportion of the surplus attributable to the council, the council's share of WME net liabilities of £2.2m amounted to £0.4m at 31 March 2016.

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. The balance sheet value of Hoople Ltd at 31 March 2015 was £3.5m (the value as at 31 March 2016 is not currently available) this is sufficient insignificant to consider preparing group accounts.

Herefordshire Council has an internal audit function provided by the South West Audit Partnership (SWAP). SWAP is a not-for-profit organisation providing internal audit services to 14 local authorities. SWAP is a company controlled within the meaning of the 1989 Local Government and Housing Act and with effect from April 1st 2013 became a publicly owned Company, Limited by Guarantee. Herefordshire Council is one of its 14 local authority partner bodies. Upon joining SWAP each partner can nominate a director to the board. Each partner, including Herefordshire Council has done this. During 2015/16 Herefordshire Council paid SWAP £0.2m for their internal audit services.

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

Non Domestic Rates (NDR)
Retained Business Rate and Top-up income included in the Comprehensive Income and Expenditure Statement for the year will be treated as accrued income.

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

NDR, Top-up and Council Tax income will be recognised in the Comprehensive Income and Expenditure Statement within the Taxation and Non-Specific Grant Income line. As a billing Authority, the difference between the NDR and Council Tax included in the Comprehensive Income and Expenditure Statement and the amount required by regulation credited to the General Fund is taken to the Collection Fund Adjustment Account and reported in the Movement in Reserves Statement. Each major preceptor's share of the accrued NDR and Council Tax income is available from the information that is required to be produced in order to prepare the Collection Fund Statement.
NDR and Council Tax income is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably.

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.

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

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.

The 2016/17 Code will adopt the measurement requirements of the CIPFA Code of Transport Infrastructure Assets i.e. measurement on a Depreciated Replacement Cost basis and moved away from valuing Transport Infrastructure Assets on the basis of historical cost. This will represent a significant change in accounting policy from 1 April 2016. However CIPFA have indicated that no prior period restatement will be required.

This change will require the establishment of a separate class of assets for transport infrastructure assets in accordance with the types of assets classified in the Code of Practice on Transport Infrastructure assets. The Code also requires separate sub-divisions of transport infrastructure asset category for disclosure in the statement of financial accounts. Assets will be categorised into the following broad categories:

- Carriageways
- Footways and cycle tracks
- Structures
- Street lighting
- Street furniture
- Traffic Management Systems
- Land

The Accounting Code currently measures infrastructure assets at depreciated historical cost, which is compliant with the requirements of IFRS. However, CIPFA believe that depreciated replacement cost value accounting is the more appropriate measurement base of local authority assets. This would have the impact of significantly increasing the value of non-current assets held on the balance sheet with an associated significant increase in value of depreciation charges on the Comprehensive Income and Expenditure Statement.

IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The ‘Telling the Story’ review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council’s Statement of Accounts. The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 Statement of Accounts.

From 2017/18, the 2017/18 accounts must be approved by the S151 Officer by 31 May 2018 (one month early than the current statutory deadline of 30 June), and the 2017/18 audited accounts must be published by 31 July 2018 (two months earlier than the current statutory deadline of 30 September).

The Council is already in a strong position to meet these significant challenges. There will also be additional pressure on external auditors to meet much more challenging timescales.

Critical judgements in applying accounting policies

In applying the accounting policies set out in note 8, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement with the associated non-current assets included in the balance sheet with a corresponding finance liability.
- The accounts have been prepared on a going concern basis.
- The council has relationships with a number of companies as detailed in note 8 but it has been determined that there is no requirement for group accounts.

- Included in current assets are assets held for sale valued at £6.3m 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.

Assumptions made about the future and major sources of estimation uncertainty

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

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 2016:

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.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. An increase in the discount rate used of 0.1% would decrease the liability stated by £8.8m. An increase of 0.1% in the inflation rate used would increase the stated liability by £9.0m. An increase of 0.1% in the rate of pay growth used would increase the stated liability by £1.6m. A one year increase in the assumed life expectancy would increase the stated liability by £9.5m. However, the assumptions interact in complex ways. During 2015/16 the council's actuaries advised that the net pension's liability had reduced by £12.4m as a result of the updating of assumptions.

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 Expenditure Statement. The impact of this is minimised by a review of the useful life of an asset being undertaken at each valuation.
Provisions	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.	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 earmarked reserve funding is used.
Property, plant, equipment and investment properties	A full valuation of assets held is completed in accordance with the professional standards of the Royal Institution of Chartered Surveyors every 5 years. In addition an annual impairment and valuation review is carried out as a desk top exercise for properties not valued in the year.	There is a risk of an adjustment in the year when the property is revalued. The risk of value misstatement of a fair value to its carrying value is reviewed annually and amended where considered significant.

Material Items of Income and Expense
There were no material items of income and expense included the Comprehensive Income and Expenditure Account for 2015/16.

Events after the Balance Sheet Date
The unaudited Statement of Accounts was authorised for issue on 9 June 2016 by the Section 151 Officer. Events taking place after this date are not reflected in the financial statements or notes.

On 23 June the country voted to leave the European Union. The actual leaving process is yet to commence and will include two years of negotiating the final exit package. No adjustments have been made to the statement of accounts in recognition of this vote. The council will play an active role in managing the risks of departure wherever possible by providing support to businesses, individuals and funding opportunities through playing an active role in any consultation process.

9. Adjustments between Accounting Basis and Funding Basis under Regulations

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

2015/16 movements	General Fund Revenue £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Depreciation	(14.8)			(14.8)
Impairment	(28.1)			(28.1)
Net revenue expenditure funded by capital under statute	(0.8)			(0.8)
Net book value of assets sold	(1.3)			(1.3)
Capital receipts from assets sold	1.8	(1.8)		0.0
Net Gains/Losses on Value of Investment Assets	0.1			0.1
Adjustments for Council Tax Receivable	1.2			1.2
Short Term Leave Adjustment	(0.2)			(0.2)
Capital Financed by Receipts		5.7		5.7
Provision for the Redemption of Debt	11.6			11.6
Revenue Contribution to Capital Outlay	0.6			0.6
Reversal of IAS19 Pensions Charges	(5.1)			(5.1)
Capital Financed by Grants and Contributions	25.0		1.3	26.3
Total adjustment	**(10.0)**	**3.9**	**1.3**	**(4.8)**

Comparative 2014/15 movements	General Fund Revenue £m	Capital Receipts Reserve £m	Capital Grants Unapplied Account £m	Total Usable Reserves £m
Depreciation	(15.6)			(15.6)
Impairment	(6.7)			(6.7)
Write down of Deferred Charges	(0.4)			(0.4)
Net P/L on Sale of Fixed Assets (NBV)	(6.1)			(6.1)
Net P/L on Sale of Fixed Assets (Receipts)	2.0	(2.0)		0.0
Adjustments for Council Tax Receivable	(0.6)			(0.6)
Short Term Leave Adjustment	(0.3)			(0.3)
Capital Financed by Receipts		3.5		3.5
Capital Expenditure Funded Under Direction	19.0			19.0
Capital Grants Receivable Adjustment	0.4		(0.4)	0.0
Provision for the Redemption of Debt	11.1			11.1
Revenue Contribution to Capital Outlay	2.8			2.8
Reversal of IAS19 Pensions Charges	(3.4)			(3.4)
Capital Financed by Grants & Contributions			4.3	4.3
Total adjustment	**2.2**	**1.5**	**3.9**	**7.6**

10. Movement in unusable reserves analysis

2015/16 movements	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred capital receipts reserve	Total Unusable Reserves
Opening Balance	**2.0**	**(241.5)**	**2.3**	**0.4**	**212.7**	**(54.5)**	**(0.3)**	**(78.9)**
Depreciation		14.8						14.8
Impairment		28.0						28.0
Net revenue expenditure funded by capital under statute		0.8						0.8
Net book value of assets sold		1.3						1.3
Net Gains/Losses on Value of Investment Assets		(0.1)						(0.1)
Adjustments for Council Tax Receivable			(1.2)					(1.2)
Short Term Leave Adjustment	0.2							0.2
Capital Financed by Receipts		(5.7)						(5.7)
Provision for the Redemption of Debt		(11.6)						(11.6)
Revenue Contribution to Capital Outlay		(0.6)						(0.6)
Reversal of IAS19 Pensions Charges					5.1			5.1
Net Movement in Revaluation Reserve						(9.6)		(9.6)
Actuarial Gain/Loss on Pensions					(12.4)			(12.4)
Capital Financed by Grants and Contributions		(26.3)						(26.3)
Depreciation Revaluation Adjustment		(1.0)				1.0		0.0
Total adjustment	**0.2**	**(0.4)**	**(1.2)**	**0.0**	**(7.3)**	**(8.6)**	**0.0**	**(17.3)**
Closing Balance	**2.2**	**(241.9)**	**1.1**	**0.4**	**205.4**	**(63.1)**	**(0.3)**	**(96.2)**

2014/15 Comparative	Short Term Absences Account	Capital Adjustment Account	Collection Fund Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Revaluation Reserve	Deferred Capital Receipts Reserve	Total Unusable Reserves
Opening Balance	**1.7**	**(227.9)**	**1.7**	**0.4**	**160.4**	**(55.3)**	**(0.3)**	**(119.3)**
Revaluation Gains						(0.9)		(0.9)
Depreciation		15.6						15.6
Impairment		6.7						6.7
Write down of Deferred Charges		0.4						0.4
Net P/L on Sale of Fixed Assets (NBV)		6.1				0.1		6.2
Adjustments for Council Tax Receivable			0.6					0.6
Short Term Leave Adjustment	0.3							0.3
Capital Financed by Receipts		(3.6)						(3.6)
Capital Expenditure Funded Under Direction		(19.0)						(19.0)
Provision for the Redemption of Debt		(11.1)						(11.1)
Revenue Contribution to Capital Outlay		(2.8)						(2.8)
Reversal of IAS19 Pensions Charges					3.4			3.4
Actuarial Gain/Loss on Pensions					48.9			48.9
Capital Financed by Grants and Contributions		(4.3)						(4.3)
Depreciation Revaluation Adjustment		(1.6)				1.6		0.0
Total adjustment	**0.3**	**(13.6)**	**0.6**	**0.0**	**52.3**	**0.8**	**0.0**	**40.4**
Closing Balance	**2.0**	**(241.5)**	**2.3**	**0.4**	**212.7**	**(54.5)**	**(0.3)**	**(78.9)**

11. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2015/16:

Reserve	31/03/15 £m	Transfer out 2015/16 £m	Transfer (in) 2015/16 £m	31/03/16 £m
School balances	(6.2)		(1.2)	(7.4)
Industrial Estates	(0.4)			(0.4)
Schools sickness	(0.2)		(0.1)	(0.3)
Waste Disposal	(3.2)		(0.2)	(3.4)
Contingent liabilities	(0.3)	0.3		0.0
Hereford Futures	(0.4)	0.3		(0.1)
Whitecross school PFI	(0.4)		(0.2)	(0.6)
Economic Development	(0.1)			(0.1)
Community Equipment	(0.1)	0.1		0.0
Insurance	0.0		(0.2)	(0.2)
Risk mitigation	(4.5)	0.5		(4.0)
Business Rate smoothing	(3.2)			(3.2)
Land charges	(0.5)	0.5		0.0
ICT	(0.6)		(0.3)	(0.9)
Library services	(0.4)			(0.4)
Herefordshire Local Plan	(0.2)			(0.2)
Special Educational Needs	(0.1)			(0.1)
Section 256	(0.1)			(0.1)
Severe Weather Fund	(0.5)		(0.3)	(0.8)
Infrastructure Development Fund	(0.2)	0.2		0.0
AWB Invest to Save	(0.3)	0.2		(0.1)
Herefordshire Relief Road	0.0		(0.5)	(0.5)
Property Development Vehicle	0.0		(0.2)	(0.2)
Merton Meadow Car Park	0.0		(0.3)	(0.3)
Colwall Mobiles	0.0		(0.4)	(0.4)
Other small reserves	(0.3)	0.1	(0.3)	(0.5)
Unused grants carried forward	(4.5)	0.9	(0.7)	(4.3)
Total	**(26.7)**	**3.1**	**(4.9)**	**(28.5)**

12. Other Operating Expenditure

2014/15 £m		2015/16 £m
3.1	Parish Council precepts	3.3
0.2	Levies	0.2
4.1	(Gains)/losses on the disposal of non-current assets	(0.4)
7.4	**Total**	**3.1**

13. Financing and Investment Income and Expenditure

2014/15 £m		2015/16 £m
7.2	Interest payable and similar charges	8.0
7.1	Pensions net interest and admin charge	6.8
(0.4)	Interest receivable	(0.8)
(1.4)	Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	(1.1)
(0.4)	Other investment income	(0.4)
12.1	**Total**	**12.5**

14. Taxation and Non Specific Grant Income

2014/15 £m		2015/16 £m
(85.5)	Council tax income	(88.4)
(27.3)	Non domestic rates	(29.9)
(41.2)	Non-ring fenced government grants	(32.9)
(19.4)	Capital grants and contribution	(25.0)
(173.4)	**Total**	**(176.2)**

15. Fixed assets

	Carrying Value at 01/04/15 Gross Value	Accumulated Depreciation/ Impairment	Net Value	Additions	Impairment	Disposals (Gross Value)	Disposals (Accumulated Depreciation/Impairment)	Revaluation Reserve increases/(decreases)	Revaluation increases/ (decreases) recognised in CIES	Impairment	Depreciation writeback	Asset category transfer Gross Value	Asset category transfer Accumulated depreciation	Depreciation Writeback on Revaluation	Depreciation	Carrying Value at 31/03/16 Gross Value	Accumulated Depreciation/ Impairment	Net Value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
Land & Buildings	283.6	(17.9)	265.7	8.6	(6.2)	(0.7)	0.1	9.9	(17.2)	0.5	(9.2)	32.4	(16.1)	9.2	(6.3)	301.2	(30.5)	270.7
Vehicles, Plant, Furniture & Equipment	22.2	(17.1)	5.1	1.1	(16.6)			0.6		14.3		(0.5)	0.5		(0.1)	6.8	(2.4)	4.4
Infrastructure Assets	231.3	(45.2)	186.1	29.3	(4.2)					2.1		5.1			(8.3)	261.5	(51.4)	210.1
Community Assets	1.9		1.9	0.1	(0.2)							0.8				2.6		2.6
Surplus Assets	4.5		4.5		(0.6)							(3.2)				0.7		0.7
Assets under Construction	29.3		29.3			(0.6)						(23.7)				5.0		5.0
Intangible Assets	12.2	(11.0)	1.2	0.1	(9.4)					8.9						2.9	(2.1)	0.8
Heritage Assets	2.8		2.8		0.1							(0.1)				2.8		2.8
Assets Held For Sale	3.5		3.5			(0.1)		1.0				1.9				6.3		6.3
Investment	32.0		32.0	7.2	(1.6)				0.1			2.9				40.6		40.6
Total Fixed assets	**623.3**	**(91.2)**	**532.1**	**46.4**	**(38.7)**	**(1.4)**		**11.5**	**(17.1)**	**25.8**	**(9.2)**	**15.6**	**(15.6)**	**9.2**	**(14.7)**	**630.4**	**(86.4)**	**544.0**
PFI assets incl. in PPE	14.8	(2.6)	12.2	0.4												15.2	(2.6)	12.6

Comparative Movements in 2014/15:

	Carrying Value at 01/04/14													Carrying Value at 31/03/15		
	Gross Value	Accumulated Depreciation/ Impairment	Net Value	Additions	Disposals (Gross Value)	Disposals (Accumulated Depreciation/Impairment)	Revaluation Reserve increases/(decreases)	Revaluation increases/ (decreases) recognised in CIES	Impairment	Depreciation writeback	To held for sale	Depreciation Writeback on Revaluation	Depreciation	Gross Value	Accumulated Depreciation/ Impairment	Net Value
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Land & Buildings	293.6	(19.3)	274.3	11.2	(6.3)	0.5	0.5	(6.8)		(7.8)	(0.8)	7.8	(6.9)	283.6	(17.9)	265.7
Vehicles, Plant, Furniture & Equipment	20.6	(15.8)	4.8	1.7	(0.1)								(1.3)	22.2	(17.1)	5.1
Infrastructure Assets	198.3	(39.5)	158.8	33.0									(5.7)	231.3	(45.2)	186.1
Community Assets	1.9		1.9											1.9		1.9
Surplus Assets	4.2		4.2		(0.1)		0.4							4.5		4.5
Assets under Construction	15.2		15.2	14.1										29.3		29.3
Intangible Assets	12.2	(9.3)	2.9										(1.7)	12.2	(11.0)	1.2
Heritage Assets	2.8		2.8											2.8		2.8
Assets Held For Sale	2.7		2.7								0.8			3.5		3.5
Investment	30.2		30.2	1.8										32.0		32.0
Total Fixed assets	581.7	(83.9)	497.8	61.8	(6.5)	0.5	0.9	(6.8)		(7.8)		7.8	(15.8)	623.3	(91.2)	532.1
PFI assets incl. in PPE	10.6	(2.9)	7.7	0.1			2.5	1.9		(0.3)		0.3		14.8	(2.6)	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

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	Impairments / revaluations	Total 2015/16
	£m	£m	£m
Adults and Wellbeing	0.1	1.2	1.3
Children's Wellbeing	3.4	8.1	11.5
Economy, Communities and Corporate	11.3	18.8	30.1
Total	**14.8**	**28.1**	**42.9**

Capital Commitments
At 31 March 2016 the council did not have major capital commitments (31 March 2015 £5.8m).

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 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 31 March, £366.9m, the effective date of revaluations are as follows:

Valued at fair value as at:	Land and buildings £m
31st March 2016	105.8
31st March 2015	122.8
31st March 2014	53.3
31st March 2013	61.4
31st March 2012	23.6
Total	**366.9**

Schools

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

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

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

Investment Properties

The following items of income and 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.

2014/15 £m		2015/16 £m
(2.3)	Rental income from investment property	(0.9)
0.7	Direct operating expenses arising from investment property	0.1
(1.6)	**Net gain**	**(0.8)**

Details of the council's investment properties and information about the fair value hierarchy as at 31 March 2015 and 2016 are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets Level 1 £m	Other Significant observable inputs Level 2 £m	Significant unobservable inputs Level 3 £m
Investment properties as at 31 March 2015	0	30.2	0
Investment properties as at 31 March 2016	0	32.0	0

16. Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. Amounts relating to statutory debts, such as council tax, non-domestic rates, 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.

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

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

2014/15 Per Balance Sheet £m	2014/15 Financial Instruments £m		2015/16 Per Balance Sheet £m	2015/16 Financial Instruments £m
		Long-term debtors		
7.1	7.1	Loans	25.2	25.2
1.8	0.0	PFI lifecycle costs	1.9	0.0
8.9	**7.1**	**Total**	**27.1**	**25.2**
		Investments		
0.2	0.2	Short-term investments	2.5	2.5
4.2	4.2	Cash and cash equivalents	7.7	7.7
4.4	**4.4**	**Total**	**10.2**	**10.2**
		Short-term debtors		
15.1	15.1	Sales invoices and contractual rights	20.2	20.2
7.1	0.0	Statutory debts (council tax, VAT etc)	6.5	0.0
2.1	0.0	Prepayments	1.8	0.0
(3.1)	0.0	Bad debt provisions	(3.4)	0.0
0.3	0.3	Loans	0.0	0.0
21.5	**15.4**	**Total**	**25.1**	**20.2**

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

2014/15 Per Balance Sheet £m	2014/15 Financial Instruments £m		2015/16 Per Balance Sheet £m	2015/16 Financial Instruments £m
		Cash and cash equivalents		
4.0	**4.0**	**Total**	**5.5**	**5.5**
		Short-term borrowing		
0.1	0.1	Bank loans	0.1	0.1
9.5	9.5	Public Works Loan Board	9.4	9.4
19.1	19.1	Borrowing from other local authorities	36.6	36.6
0.1	0.1	Other loans (Salix loan)	0.1	0.1
28.8	**28.8**	**Total**	**46.2**	**46.2**
		Short-term creditors		
20.5	20.4	Invoiced amounts and other contractual liabilities	18.4	18.4
1.4	0	Statutory liabilities (PAYE etc)	2.8	0
6.8	2.0	Accruals and receipts in advance	7.6	2.2
0.3	0	Funds and deposits held	0.5	0
29.0	**22.4**	**Total**	**29.3**	**20.6**

		Long-term borrowing		
124.9	124.9	Public Works Loan Board	129.5	129.5
12.5	12.5	Bank loans	12.5	12.5
0	0	Borrowing from other local authorities	10.0	10.0
0.1	0.1	Other loans (Salix loan)	0	0
137.5	**137.5**	**Total**	**152.0**	**152.0**
		Other long-term liabilities		
26.3	26.3	PFI liabilities and finance leases	25.3	25.3
212.7	0	Pensions liability	205.3	0.0
239.0	**26.3**	**Total**	**230.6**	**25.3**

Income, Expense, Gains and Losses

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

2014/15 Financial Liabilities at amortised cost	Financial assets: Loans and receivables	Total		2015/16 Financial Liabilities at amortised cost	Financial assets: Loans and receivables	Total
£m	£m	£m		£m	£m	£m
			Interest payable and similar charges			
			Interest expense relating to:			
5.1		5.1	Loans	5.9		5.9
2.1		2.1	PFI liabilities	2.1		2.1
7.2		**7.2**	**Total expense in surplus on the provision of services**	**8.0**		**8.0**
			Interest receivable:			
	(0.2)	(0.2)	On loans		(0.8)	(0.8)
	(0.2)	(0.2)	On investments			
	(0.4)	**(0.4)**	**Total income in surplus on the provision of services**		**(0.8)**	**(0.8)**
7.2	**(0.4)**	**6.8**	**Net loss/(gain) for the year**	**8.0**	**(0.8)**	**7.2**

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 2015 Carrying amount £m	31 March 2015 Fair value £m		31 March 2016 Carrying amount £m	31 March 2016 Fair value £m
166.3	213.9	Total borrowing	198.2	248.5

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 £25.2m and the fair value as at 31.03.16 totals £39.4m. The accounts have not been adjusted for this as the PFI schemes are set to continue until expiry.

31/03/15 Carrying amount £m	31/03/15 Fair value £m		31/03/16 Carrying amount £m	31/03/16 Fair value (using premature repayment rate) £m	31/03/16 Fair value (using new loan rate) £m
		Financial Assets			
0.0	0.0	Long-term investments	0.0	0.0	0.0
8.9	8.9	Long-term debtors	27.1	27.1	27.1
0.2	0.2	Short-term investments	2.5	2.5	2.5
4.2	4.2	Cash and cash equivalents	7.7	7.7	7.7
21.5	21.5	Short-term debtors	25.1	25.1	25.1
34.8	34.8	**Total Financial Assets**	62.4	62.4	62.4
		Financial Liabilities			
134.5	176.1	Public Works Loan Board loans	138.8	181.9	161.3
12.6	18.5	Bank Loans (LOBOs)	12.6	19.9	16.1
19.1	19.1	Loans from other local authorities	46.6	46.7	46.6
0.2	0.2	Other loans (Salix loan)	0.1	0.1	0.1
29.0	29.0	Short-term creditors	29.3	29.3	29.3
26.4	44.4	PFI Liabilities and finance leases	25.3	39.5	39.5
221.8	287.3	**Total Financial Liabilities**	252.7	317.3	292.8

31 March 2015 £m	Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	31 March 2016 £m
	Assets			
6.2	Long term debtor – Mercia Waste Management Loan	2	Discount contractual cash flows at the market rate for a similar instrument of the same remaining term with a counterparty of similar credit standing	24.4
0.9	Long Term debtor – Other	3	Valued at amortised cost due to absence of comparable evidence or principal market	0.8
1.8	PFI lifecycle costs	2	Discount contractual cash flows at of the remaining term	1.9
8.9	**Sub-total long term debtors**			**27.1**
25.9	Other – short term	N/A	Fair value disclosure is not required for short-term investments, short term debtors or cash	35.3
34.8	**Total Assets**			**62.4**
	Liabilities			
176.3	PWLB & other debt	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term	161.4
18.5	LOBO	2	Discount contractual cash flows at the market rate for LA loans of the same remaining term and add the value of the lenders' option from a market option pricing model	16.1
44.4	PFI Scheme Liabilities & Finance Lease Payables	2	Discount contractual cash flows of the remaining term	39.5
48.1	Other including Short Term Loans	N/A	Fair value disclosure is not required for short-term liabilities that are held on the balance sheet at amortised cost	75.8
287.3	**Total Liabilities**			**292.8**

17. Debtors

31/03/15 £m		31/03/16 £m
5.7	Central government bodies	4.2
0.4	Other local authorities	5.5
3.2	NHS bodies	2.5
15.3	Other entities and individuals	16.3
(3.1)	Provision for bad debts	(3.4)
21.5	**Total**	**25.1**

18. Cash and Cash Equivalents

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

31/03/15 £m		31/03/16 £m
1.6	Cash held by the council	2.7
2.6	Short-term deposits	5.0
4.2	**Total**	**7.7**
(4.0)	Bank current accounts	(5.5)
0.2	**Total Cash and Cash Equivalents**	**2.2**

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 unpresented bank payments for accounting purposes.

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

2014/15 £m		2015/16 £m
(0.1)	Net Movement in Inventories	0.1
(0.9)	Net Movement in Debtors	21.8
(2.6)	Net Movement in Creditors	(0.3)
(22.6)	Depreciation, amortisation & impairment of non-current assets	(42.9)
(6.0)	Net Gain/Loss on sale of non-current assets (net book value of assets)	(1.3)
(3.4)	Net Charges made for retirement benefits in accordance with IAS 19	(5.1)
0.0	Movement in the market value of Investment Properties	0.1
(1.5)	Net Movement in Provisions	(0.4)
(37.1)	**Total**	**(28.0)**

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

2014/15 £m		2015/16 £m
2.5	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1.7
2.5	**Total**	**1.7**

21. Investing activities

2014/15 £m		2015/16 £m
61.8	Purchase of property, plant and equipment, investment property and intangible assets	46.4
10.0	Purchase of short-term and long-term investments	
(2.5)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1.7)
(27.3)	Other receipts from investing activities	2.3
42.0	**Total**	**47.0**

22. Financing activities

2014/15 £m		2015/16 £m
(76.5)	Cash receipts of short- and long-term borrowing	(154.0)
1.0	Cash payments for the reduction of the outstanding liability relating to finance leases and on-balance sheet PFI contracts	1.1
80.2	Repayments of short-and long-term borrowing	122.1
4.7	**Total**	**(30.8)**

23. Creditors

31/03/15 £m		31/03/16 £m
(4.8)	Central government bodies	(4.8)
(3.0)	Other local authorities	(0.2)
(0.2)	NHS bodies	(1.4)
(21.0)	Other entities and individuals	(22.9)
(29.0)	**Total**	**(29.3)**

24. Provisions

The movement on provisions from 1 April 2014 to 31 March 2016 is set out below:

	Long-term £m	Short-term £m	Total £m
Balance at 1 April 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)**
Additional provisions made in 2015/16	(1.8)	(0.7)	(2.5)
Amounts used in 2015/16	0.1	1.1	1.2
Unused amounts reversed in 15/16		0.9	0.9
Balance at 31 March 2016	**(4.9)**	**(0.8)**	**(5.7)**

The provisions held at 31 March 2016 are;

31/03/15 £m	Provision Name	Description	Additional provisions £m	Amounts used £m	Unused amounts reversed £m	31/03/16 £m
(0.2)	Redundancy	Based on the number of planned redundancies and staff identified at risk of redundancy at 31st March 2015 plus contractual commitments to cover redundancies for transferred staff in partner organisations	(0.6)	0.2		(0.6)
(2.1)	Insurance	For potential future insurance claims based on external professional assessment		0.1		(2.0)
(0.1)	Disputed Invoices	Estimated costs relating disputed invoices for provision of childcare at Ledbury Road		0.1		0.0
0.0	Special Schools	For high needs top-up funding from special schools, PRUs and home hospital service	(0.1)			(0.1)
(0.3)	Academy Recoupment	For potential monies to be claimed back by DfE		0.3		0.0
(2.6)	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.	(1.8)	0.5	0.9	(3.0)
(5.3)		**Total**	**(2.5)**	**1.2**	**0.9**	**(5.7)**

25. Pensions Reserve

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

2014/15 £m		2015/16 £m
160.4	**Balance at 1 April**	**212.7**
48.9	Re-measurement of the net defined benefit liability	(12.5)
13.8	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	17.6
(10.4)	Employer's pensions contributions and direct payments to pensioners payable in the year	(12.4)
212.7	**Balance at 31 March**	**205.4**
211.5	Local Government pension scheme	204.4
1.2	Teachers	1.0
212.7	**Balance at 31 March**	**205.4**

26. Amounts Reported for Resource Allocation Decisions

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

Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2015/16 out-turn report is as follows:

Directorate Income and Expenditure 2015/16	Adults Wellbeing £m	Children's Wellbeing £m	Economy, Communities & Corporate £m	Corporate £m	Total £m
Fees, charges & other service income	(17.2)	(10.3)	(22.6)	0.0	(50.1)
Government grants	(12.4)	(80.6)	(9.9)	(49.4)	(152.3)
Total Income	**(29.6)**	**(90.9)**	**(32.5)**	**(49.4)**	**(202.4)**
Employee expenses	11.5	71.3	19.4	0.8	103.0
Other service expenses	72.9	51.0	92.0	49.0	264.9
Support services	4.1	8.9	(9.4)	0.0	3.6
Total Expenditure	**88.5**	**131.2**	**102.0**	**49.8**	**371.5**
Net Expenditure	**58.9**	**40.3**	**69.5**	**0.4**	**169.1**

The following table shows the comparative figures for 2014/15:

Directorate Income and Expenditure 2014/15	Adults Wellbeing (inc Public Health) £m	Children's Wellbeing £m	Economy, Communities & Corporate £m	Total £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**

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.

2014/15 £m		2015/16 £m
145.7	**Net expenditure in the Directorate Analysis**	169.1
1.2	Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account	(0.4)
146.9	**Cost of services in the Comprehensive Income and Expenditure Statement**	**168.7**

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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.

2015/16	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)	2.5	(47.7)		(47.7)
Financing and investment income				(3.8)	(3.8)
Income from council tax				(88.3)	(88.3)
Gains on Disposals of PP&E				(0.4)	(0.4)
Government grants and contributions	(152.2)		(152.2)	(88.0)	(240.2)
Total Income	**(202.4)**	**2.5**	**(199.9)**	**(180.5)**	**(380.4)**
Employee expenses	103.1	(0.2)	102.9		102.9
Other service expenses	265.0	(2.2)	262.8		262.8
Support Service recharges	3.6	(0.3)	3.2		3.2
Financing and investment expenditure				16.2	16.2
Precepts & Levies		(0.2)	(0.2)	3.5	3.3
Total expenditure	**371.7**	**(2.9)**	**368.7**	**19.7**	**388.4**
(Surplus) or deficit on the provision of services	**169.3**	**(0.4)**	**168.8**	**(160.8)**	**8.0**

The following table shows the comparative figures for 2014/15:

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)		(47.8)
Financing and investment income				(2.2)	(2.2)
Income from council tax				(85.5)	(85.5)
Government grants and contributions	148.3		(148.3)	(87.9)	(236.2)
Total Income	**(198.5)**	**2.4**	**(196.1)**	**(175.6)**	**(371.7)**
Employee expenses	98.7		98.7		98.7
Other service expenses	241.4	(0.5)	240.9		240.9
Support Service recharges	4.1	(0.5)	3.6		3.6
Financing and investment expenditure				14.3	14.3
Precepts & Levies		(0.2)	(0.2)	3.3	3.1
Payments to housing capital receipts pool					
Gain or Loss on disposal of fixed assets				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)**

27. Trading Operations

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

2014/15 £m		2015/16 £m
	Markets	
	The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	
(0.6)	Turnover	(0.6)
0.4	Expenditure	0.7
(0.2)	(Surplus)/deficit	0.1
	Industrial Estates	
	The council owns and manages a number of industrial estates in the county.	
(1.2)	Turnover	(1.3)
0.5	Expenditure	0.6
(0.7)	(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	0.1
(0.5)	(Surplus)/deficit	(0.4)
(1.4)	**Total**	**(1.0)**

The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line 'Financing and investment income and expenditure' (note 5).

28. Agency Services

During 2015/16 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 2015/16 spend totalled £10.2m (2014/15 £8.0m) under the Fastershire project, of which £4.1m (2014/15 £5.4m) represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

29. Pooled Budgets

The council has two pooled budgets for 2015/16, the continuation of the complex needs solution pooled budget from 2014/15 and the new pooled budget arrangement for the Better Care Fund.

Complex Needs Solution (CNS)

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.

2014/15 £m	£m		2015/16 £m	£m
		Funding provided to the pooled budget:		
(3.0)		Herefordshire Council	(3.0)	
(0.5)		Herefordshire CCG	(0.5)	
	(3.5)			(3.5)
		Expenditure met from the pooled budget		
3.0		Herefordshire Council	3.2	
0.5		Herefordshire CCG	0.5	
	3.5			3.7
	0.0	**Net deficit on the pooled budget during the year**		**0.2**
	0.0	**Council share of the net deficit**		**0.2**

Better Care Fund

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

2015/16 is the first year of operation for the pooled fund, therefore no comparative figures are reported.

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

The Department of Health set national minimum contributions to the pool for both revenue and capital and specified that certain funding streams must be included within the minimum fund. Partners were permitted, and encouraged, to pool more than the minimum requirement. The Better Care Fund in Herefordshire has three components as additional funds from both partners were included in the pool.

Minimum Revenue Pool

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

		2015/16 £m
Funding provided to the pooled budget		
Herefordshire council	0	
Herefordshire CCG	11.7	
		11.7
Expenditure met from the pooled budget		
Herefordshire council	5.0	
Herefordshire CCG	6.7	
		11.7
Net surplus arising		**0**
Herefordshire council share of surplus		**0**

Capital Pool

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

		2015/16 £m
Funding provided to the pooled budget		
Herefordshire council	1.4	
Herefordshire CCG	0	
		1.4
Expenditure met from the pooled budget		
Herefordshire council	1.4	
Herefordshire CCG	0	
		1.4
Net surplus arising		**0**
Herefordshire council share of surplus		**0**

Additional Revenue Pool

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

		2015/16 £m
Funding provided to the pooled budget		

Herefordshire council	18.3	
Herefordshire CCG	8.7	
		27.0
Expenditure met from the pooled budget		
Herefordshire council	18.4	
Herefordshire CCG	9.9	
		28.3
Net surplus (deficit) arising		**(1.3)**
Herefordshire council share of surplus (deficit)		**(0.9)**

30. Officers' Remuneration

Officer's 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.

The 2015/16 salary banding information is set out below. This includes the cost of living pay award agreed to March 2016. Employees receiving remuneration for the year (excluding employer's pension contributions) were paid the following amounts per pay band. These numbers include the employees shown in the senior employees disclosure note. Where no employees fell within a particular band the band is not shown in the table.

2014/15			Remuneration Band		2015/16		
Non-school	School	Total	From £000	To £000	Non-school	School	Total
17	25	42	50	55	13	24	37
6	17	23	55	60	9	16	25
1	7	8	60	65	4	12	16
6	7	13	65	70	2	4	6
2	1	3	70	75	3	3	6
5	1	6	75	80	2	1	3
0	2	2	80	85	3	1	4
2	2	4	85	90	0	1	1
1	1	2	90	95	1	1	2
1	0	1	105	110	1	0	1
1	0	1	115	120	1	0	1
1	0	1	140	145	1	0	1
43	**63**	**106**			**40**	**63**	**103**

The total number of employees as at 31 March 2016 were 1,483 non-school staff (1,372 at 31 March 2015) and 2,472 schools staff (2,519 at 31 March 2015).

Senior Employees

The remuneration paid to the council’s senior employees is as follows:

2014/15						Year		2015/16					
Salary, Fees and Allowances	Compensation for loss of office	Benefits in kind	Total remuneration excluding pension contributions	Pension contributions	Total remuneration including pension contributions	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	£	£	£	£	£	£
143,887			143,887	17,554	161,441	Chief Executive		144,006			144,006	21,169	165,175
119,079			119,079	14,688	133,767	Director for Economy, Communities and Corporate		119,178		379	119,557	17,519	137,076
107,885		114	107,999	13,176	121,175	Director for Children's Wellbeing		107,885		114	107,999	15,768	123,767
33,525		105	33,630	4,480	38,110	Director of Resources/ Section 151 Officer	1	81,106		114	81,220	11,968	93,188
						Director for Adults and Wellbeing	2	69,012		67	69,079	10,220	79,299
						Solicitor to the Council (Monitoring Officer)	3	27,947		718	32,383	2,375	31,040
29,746	39,650	28	69,424	3,534	72,958	Director of Public Health	4						
89,194		114	89,308	8,217	97,525	Assistant Director - Governance (Monitoring officer)	5	43,897	24,637	57	68,591	5,913	74,504

1. Until 1st July 2015 the Section 151 Officer post was equivalent to 0.2 FTE, with additional services for financial transformation procured separately under a contract. The post was filled on a FTE permanent basis from 1 July 2015.

2. The Director for Adults and Wellbeing started on 1 September 2015

3. The Solicitor to the Council started on 1 October 2015.

4. The Director of Public Health left on the 30 June 2014. The council currently has an interim shared services arrangement to deliver the statutory responsibilities of the director of public health with Shropshire Council.

5. The Assistant Director – Governance left on 30 September 2015

31. Termination Benefits

The following table summarises the redundancies which occurred in 2015/16, with comparative numbers for 2014/15;

	Compulsory Redundancies	Other agreed departures	Total
2015/16			
Number	20	48	68
Total Cost	**£172,071**	**£374,652**	**£546,723**
Average	£8,604	£7,805	£8,040
2014/15			
Number	59	45	104
Total Cost	**£698,702**	**£476,129**	**£1,174,831**
Average	£11,842	£10,581	£11,296

In addition, the total cost of actuarial strain relating to 2015/16 terminations was £0.4m (£0.3m in 2014/15). The total amount of actuarial strain paid to Worcestershire County Council in 2015/16 was £1.1m (£0.6m in 2014/15).

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 note 41)

2014/15					2015/16			
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)	Number of compulsory redundancies	Number of other agreed departures	Total number of exit packages	Total cost of exit packages in each band
53	35	88	699,213	£0-£20,000	19	47	66	505,039
4	9	13	330,232	£20,001-£40,000	1	1	2	41,684
2	1	3	145,386	£40,001-£60,000	0	0	0	0
59	**45**	**104**	**1,174,831**	**Total**	**20**	**48**	**68**	**546,723**

32. External Audit Costs

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

2014/15 £m		2015/16 £m
0.2	Fees payable with regard to external audit services carried out by the appointed auditor	0.1
0.0	Certification of grant claim	0.0
0.2	**Total**	**0.1**

33. Dedicated Schools Grant

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.

Details of the deployment of DSG receivable for 2015/16 are as follows:

Total 2014/15 £m	Total 2014/15 Restated £m		Central Expenditure 2015/16 £m	Individual Schools Budget 2015/16 £m	Total 2015/16 £m
111.1	111.0	Final DSG allocation before Academy Recoupment			115.5
(38.8)	(38.8)	Less Academy figure recouped			(42.0)
72.3	72.2	Total DSG after Academy recoupment for the year			73.5
0.6	0.6	Brought forward from previous year			1.5
(0.2)	(0.4)	Less carry forward to following year agreed in advance			(1.3)
72.7	72.4	Agreed budgeted distribution in the year	10.0	63.7	73.7
(9.5)	(9.5)	Less: Actual central expenditure	(9.6)	0.0	(9.6)
(62.2)	(61.8)	Less: Actual Individual School Budget deployed to schools	0.0	(63.8)	(63.8)
1.0	**1.1**	**Carried forward to following year**	**0.4**	**(0.1)**	**0.3**

A total DSG carry forward of £1.6m existed as at 31 March 2016 being the carry forward to following year agreed in advance of £1.3m plus the in year underspend of £0.3m as shown above.

34. Grant Income

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

2014/15 £m		2015/16 £m
	Credited to Taxation and Non Specific Grant Income	
35.8	Revenue Support Grant	26.7
5.3	Other non-ring fenced Grants	6.2
85.5	Council Tax income	88.4
27.4	Business rates income	29.9
19.4	Capital Grants	25
173.4	**Credited to Taxation and Non Specific Grant Income**	**176.2**
	Credited to Services	
79.6	Department for Education	79.8
5.8	Department for Communities and Local Government	5.3
50.7	Department for Work and Pensions	50.4
0.7	Department for Transport	0.4
2.6	Department for Culture, Media and Sport	6.2
0.3	Defra	0.5
8.4	Department of Health	9.3
0.2	Other	0.4
148.3	**Credited to Services**	**152.3**
321.7	**Total**	**328.5**

35. Related Parties

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

Central Government
Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in note 34.

Members
Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2015/16 are not material. One member was the employee of a care home to which the council made payments in the year of £1.2m.

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

Other Public Bodies
During the year the council made payments of £24.4m to Worcestershire County Council (£24.8m in 2014/15), including payments to the pension fund and for the joint waste disposal contract. Payments to the CCG in 2015/16 totalled £1.3m (£1.3m in 2014/15). A total of £3.0m was paid to Wye Valley NHS Trust (£2.1m in 2014/15) and £2.8 million to 2Gether (£3.6m in 2014/15).

Significant long-term contracts
The council awarded the public realm services contract to Balfour Beatty Living Places on 1 September 2013.

The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £34.7m to Balfour Beatty in 2015/16 (£42.0m in 2014/15).

Fosca UK Limited
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 £3.9m in 2015/16 (£4.3m in 2014/15).

Other organisations
The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2015/16 the council paid £0.5m to Halo Leisure Trust (£0.7m in 2014/15). In 2015/16 the council paid £0.2m to the Courtyard Trust (£0.2m in 2014/15). The council has a commissioning agreement with the Trust based on agreed outcomes.

During the year the council made payments totalling £0.7m to Herefordshire Housing Ltd (£0.6m in 2014/15).

West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils Payments of £0.1m were made in 2015/16 to WME (£1.8m in 2014/15).

Jointly controlled organisation
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.

The inter-organisation transaction between the council and Hoople Ltd amounted to £7.1m in 2014/15, a similar value of £6.8m was transacted in 2015/16. There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31 March 2016 payable to Hoople Ltd.

Hoople Ltd delivered a profit before tax of £0.2m in 2014/15, the 2015/16 are not currently available. The council share of 74.7% represents an immaterial share of profit and balance sheet value supporting the council’s decision to not prepare group accounts.

Outstanding balances with related parties

As at 31 March 2016 significant amounts due to and from related parties were:

2014/15 Due to £000	2014/15 Due from £000	Related Party	2015/16 Due to £000	2015/16 Due from £000
	1.9	Dept for BIS		
0.1	0.7	DCLG	1.1	0.1
		DCMS		1.4
	0.1	DEFRA		
0.1		DECC		
0.1	0.4	Dept for Transport		
0.2		Dept for education	1.0	0.6
1.2		DWP	0.1	
0.3		FOCSA	0.3	
	0.1	Hereford and Worcs Fire		0.1
0.1	1.5	Hereford CCG	1.1	1.2
0.1	0.1	Herefordshire Housing		0.6
0.2	0.1	Heritage Lottery Fund	0.2	
1.5	2.2	HM Revenue and Customs	1.4	1.5
	0.2	Home Office		0.4
0.5	0.9	Hoople Ltd	0.4	0.8
0.1		MOD		
		Ministry of Justice	0.1	
	0.2	National Lottery Commission		
	0.2	NHS England		0.4
	0.6	NHS Sutton CCG		
0.2		PWLB		
		Powys		0.2
		Rural Payments Agency		0.1
0.1	0.2	Shropshire CC	1.2	4.3
0.5		Skills Funding agency	0.5	
0.6		Teachers Pensions	0.6	
	0.1	West Mercia Police		0.2
0.2	0.4	West Mercia Energy	0.1	0.4
2.9		WCC	0.1	
	0.7	Wye Valley Trust	0.2	0.8
		Gloucester CC	0.1	0.6
	0.2	2gether		0.1
9	**10.8**	**Total**	**8.5**	**13.8**

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

In addition, there were capital grants of £1.2m (£2.5m in 2014/15) from government departments held in the Capital Grants Unapplied Reserve not yet applied to capital spend.

36. Capital Expenditure and Capital Financing

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

2014/15 £m		2015/16 £m
216.6	**Opening capital financing requirement**	**244.3**
	Capital investment	
59.9	Property, Plant and Equipment	38.8
1.8	Investment Properties	7.2
4.6	Revenue expenditure funded from capital under statute	9.6
0.1	Assets acquired under PFI contracts	0.3
6.3	Long term debtors (including loans and PFI prepayments)	17.7
	Sources of Finance	
(3.6)	Capital Receipts	(5.7)
(27.5)	Government grants and other contributions	(35.1)
	Sums set aside from revenue:	
(2.8)	Direct revenue contributions	(0.6)
(11.1)	MRP	(11.6)
244.3	**Closing capital financing requirement**	**264.9**
	Explanation of movements in year	
38.7	Increase in underlying need to borrowing	31.9
0.1	Assets acquired under PFI contracts	0.3
(11.1)	MRP	(11.6)
27.7	**Increase in Capital Financing Requirement**	**20.6**

37. Leases

Council as Lessee

Finance Leases

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

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

31 March 2015 £m		31 March 2016 £m
0.5	Other land and buildings	**0.3**

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

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2015/16 £0.1m contingent rents were payable by the council (£0.1m in 2014/15).

Council as Lessor

Finance Leases

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

Operating leases

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

- Retail
- Industrial Use
- Farming
- Other Commercial Use

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

Leases and Lease Type Arrangements

2014/15						2015/16				
Amounts Payable			Amounts Receivable			Amounts Payable			Amounts Receivable	
Finance Leases		Operating Leases	Finance Leases	Operating Leases		Finance Leases		Operating Leases	Finance Leases	Operating Leases
Minimum Lease Payments	Finance Lease Liabilities					Minimum lease payments	Finance lease liabilities			
£m	£m	£m	£m	£m		£m	£m	£m	£m	£m
		0.8			Payable/receivable in the year			0.9		
		0.5		1.6	Not later than one year			0.7		1.1
0.1		1.1		3.9	Later than one year and not later than five years	0.1		1.6		3.0
1.8	0.3	0.6		35.9	Later than five years.	1.7	0.3	0.8		33.3
1.9	**0.3**	**3.0**	**0**	**41.4**	**Total due in future years**	**1.8**	**0.3**	**4.0**	**0**	**37.4**

38. Private Finance Initiatives and Similar Contracts

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

Mercia Waste Management Ltd – waste management PFI contract
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.

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

A variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Construction 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.

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
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
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 £3.8m in 2015/16 (£3.7m in 2014/15).

Assets
The property, plant and equipment used to provide the PFI services are recognised on the council's balance sheet, with the exception of Whitecross School, which was written out of the balance sheet when it became an Academy in 2012/13. Movements in asset values over the year are detailed in Note 15 and summarised below.

	Land	Buildings	Equipment	Total
	£m	£m	£m	£m
Balance as at 1 April 2015	1.9	9.2	1.1	12.2
Additions		0.3	0.1	0.4
Balance as at 31 March 2016	**1.9**	**9.5**	**1.2**	**12.6**

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

2014/15 Total £m		2015/16 Shaw Healthcare £m	2015/16 Whitecross School £m	2015/16 Waste Disposal £m	2015/16 Total £m
27.0	Balance outstanding at start of year	8.1	14.3	3.7	26.1
(1.0)	Payments during the year	(0.2)	(0.5)	(0.4)	(1.1)
0.1	Capital expenditure in the year			0.3	0.3
26.1	**Balance outstanding at year-end**	**7.9**	**13.8**	**3.6**	**25.3**

Payments
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 1 year	12.5	0.3	1.2	2.1	16.1
Within 2 to 5 years	53.3	1.4	5.6	8.0	68.3
Within 6 to 10 years	42.6	1.9	7.2	8.4	60.1
Within 11 to 15 years	25.3	2.2	8.4	6.7	42.6
Within 16 to 20 years	15.0	0.6	3.2	2.6	21.4
Total	**148.7**	**6.4**	**25.6**	**27.8**	**208.5**

The PFI future year commitments total of £208.5m shown above includes inflation assumptions, without inflation the future year commitments would be £32.7m lower.

39. Capitalisation of Borrowing Costs

The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10k of interest associated with the project. In 2015/16 £45k borrowing costs were capitalised (2014/15 £0.6m).

40. Pension Schemes accounted for as Defined Contribution Schemes

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

However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The liability of £1.0m is included in the pension fund liability in the balance sheet in 2015/16.

In 2015/16 the council paid employer contributions of £4.4m in respect of teachers' pension costs, which represented 15.5% 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 2015/16 these amounted to £0.1m representing 0.35% of pensionable pay. At the year-end there were contributions of £0.6m remaining payable, which related to the March 2016 contributions paid to the scheme in April 2016.

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

In 2015/16 the council paid employer contributions of £0.1m in respect of NHS pension costs for public heath staff, which represented 14.3% of their pensionable pay.

41. Defined Benefit Pension Schemes

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

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

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

Local Government pension scheme

2014/15 £m		2015/16 £m
	Comprehensive Income and Expenditure Statement	
	Cost of services:	
7.7	current service cost	10.0
(1.0)	(gain)/loss from settlements	0.7
	Financing and Investment Income and Expenditure:	
7.0	Net interest expense	6.7
0.1	Admin expenses	0.1
13.8	**Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**17.5**
	Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	
48.8	actuarial (gains) and losses arising on changes in financial assumptions	(12.4)

48.8	**Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement**	(12.4)
	Movement in Reserves Statement	
(13.8)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(17.5)
	Amount charged to the General Fund Balance for pensions in the year	
10.4	Employer's contribution payable to the scheme	12.4

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2016 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £72.5m.

Pensions Assets and Liabilities Recognised in the Balance Sheet

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

Local Government pension scheme

2014/15 £m		2015/16 £m
500.0	Present value of the defined benefit obligation	486.0
(288.6)	Fair value of plan assets	(281.7)
211.4	**Net liability arising from defined benefit obligation**	**204.3**

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

The table below shows the movement on the pension liability;

2014/15 £m		2015/16 £m
419.6	**Opening balance**	500.0
7.7	Current Service Cost	10.0
18.5	Interest Cost	16.3
2.4	Contributions by scheme participants	2.5
	Re-measurement (gains) and losses;	
69.5	Actuarial (gains)/losses arising from changes in financial assumptions	(27.3)
0.4	Losses/(gains) on curtailment	0.7
(16.7)	Benefits paid	(16.2)
(1.4)	Liabilities extinguished on settlements	0.0
500.0	**Closing balance**	**486.0**

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

The table below shows the movement on the pension assets;

2014/15 £m		2015/16 £m
260.2	**Opening fair value of scheme assets**	**288.6**

11.6	Interest income	9.5
20.9	Remeasurement gain: The return on plan assets, excluding amount included in the net interest expense	(14.9)
(0.1)	Administration expenses	(0.1)
	Liabilities assumed on entity combinations	
10.3	Contribution from employer	12.3
2.4	Contributions from employees into the scheme	2.5
(16.7)	Benefits Paid	(16.2)
288.6	**Closing fair value of scheme assets**	**281.7**

The actual return on scheme assets in the year was (£5.3m), 1.9% of period end assets (2014/15 £32.5m, 11.3%).

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

31/03/15 £m		Quoted (Y/N)	31/03/16 £m
	Cash		
1.4	Cash instruments	Y	1.6
0.3	Cash accounts	Y	1.5
2.9	Net current assets	N	2.9
	Equity instruments		
64.1	UK quoted	Y	2.1
110.5	Overseas quoted	Y	96.2
29.4	Pooled investment vehicle - UK managed funds	N	78.9
58.9	Pooled investment vehicle - UK managed funds (overseas equities)	N	56.0
2.3	Pooled investment vehicle - overseas managed funds	N	2.1
	Property		
0.0	European property funds	N	8.8
0.0	UK property debt	N	3.3
0.0	Overseas property debt	N	0.6
	Alternatives		
0.0	UK infrastructure	N	10.4
	Bonds		
2.0	UK Corporate	Y	1.2
16.7	Overseas Corporate	Y	16.1
288.5	**Total assets**		**281.7**

Basis for estimating Assets and Liabilities

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

The liabilities have been estimated by 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 the period (p.a.)		End of the period (p.a.)
	Mortality assumptions	
	Longevity at 65 for current pensioners:	
23.4 years	Men	23.5
25.8 years	Women	25.9
	Longevity at 65 for future pensioners:	
25.6 years	Men	25.8
28.1 years	Women	28.2
	Financial Assumption	
2.00%	Rate of CPI inflation	2.00%
3.50%	Rate of increase in salaries	3.50%
2.00%	Rate of increase in pensions	2.00%
3.30%	Rate for discounting scheme liabilities	3.60%

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
0.1% decrease in real discount rate	8.8
1 year increase in member life expectancy	9.5
0.1% increase in the salary increase rate	1.6
0.1% increase in the pension increase rate	9.0

Impact on the Councils Cash Flows

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%.

Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2017 is £13.8m.

Scheme History

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Present value of liabilities	(361.00)	(367.6)	(422.8)	(419.6)	(500.0)	(486.0)
Value of Scheme assets	(229.20)	208.3	235.4	260.2	288.6	281.6
(Deficit) in scheme	**(131.80)**	**(159.3)**	**(187.4)**	**(159.4)**	**(211.4)**	**(204.4)**

42. Contingent Liabilities

There is a risk of incurring costs in relation to settling disputed items following the cessation of the Amey contract. Work is ongoing to resolve these disputes which will determine the appropriate outcome. This is expected to reach conclusion over the next twelve months.

43. Nature and Extent of Risks Arising from Financial Instruments

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.

The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments.

During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years, during the year investment maturity limits were reduced reducing the councils exposure to risk.

Credit Risk

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

During 2015/16 the council continued to restrict investments to only the largest and strongest of the banks, building society, other local authorities and instant access Money Market Funds.

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 2016 £m	Historical experience of default %	Historical experience adjusted for market conditions at 31st March 2016 %	Estimated maximum exposure to default and uncollectability 31 March 2015 £m	Estimated maximum exposure to default and uncollectability 31 March 2016 £m
Deposits with banks and financial institutions	7.5	0.0	0.0	0.0	0.0
Customers	6.6	0.4	0.5	0.0	0.0

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

31/03/15 £m		31/03/16 £m
6.0	Less than 3 months	4.2
0.7	3 to 6 months	0.5
0.5	6 months to 1 year	0.2
1.8	More than 1 year	1.7
9.0	**Total**	**6.6**

Liquidity Risk

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

31/03/15 £m		31/03/16 £m
28.8	Less than 1 year	46.2
	More than 1 year:	
7.5	Between 1 and 2 years	15.5
15.0	Between 2 and 5 years	16.2
16.4	Between 5 and 10 years	24.1
98.6	More than 10 years	96.2
166.3	**Total borrowing per Balance Sheet**	**198.2**

Market Risk

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

a. Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase

b. Borrowings at fixed rates – the fair value of borrowings would fall

c. Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise

d. Investments at fixed rates – the fair value of the assets would fall

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

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

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council's treasury advisors. The council sets an annual Treasury

Management Strategy which includes analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2015/16 would have been as follows:

	1% increase in interest rates £m
Increase in interest payable on borrowing	0.3
Increase in interest receivable on investment balances	(0.2)

44. Trust Funds

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

	Balance at 31/03/15 £m	**Repayment of Trust Fund balances £m**	**Balance at 31/03/16 £m**
Buchanan Trust	1.0	(1.0)	0.0
Other Funds	0.1	0.0	0.1
Total	**1.1**	**(1.0)**	**0.1**

The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers. During the year the Trust Fund balance was externalised and the council withdrew as a Trustee.

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

Supplementary Financial Statement and explanatory notes

45. Collection Fund

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

2014/15 Total £m		2015/16 Council Tax £m	Business Rates £m	Total £m
	Amounts required to be credited to the Collection Fund			
102.8	Council Tax	105.9		105.9
46.6	Business Rates Income		48.6	48.6
	Contribution towards previous year's Deficit			
0.8	Central Government		1.7	1.7
0.8	Hereford Council		1.7	1.7
	Hereford & Worcester Fire Authority			
	West Mercia Police			
151.0	**Total**	**105.9**	**52.0**	**157.9**
	Amounts required to be debited to the Collection Fund			
	Precepts, Demands and Shares			
11.8	West Mercia Police	12.2		12.2
5.4	Hereford & Worcester Fire Authority	5.0	0.5	5.5
104.5	Herefordshire Council	84.0	23.3	107.3
23.6	Central Government		23.8	23.8
2.8	Parishes	3.1		3.1
0.2	Transitional Protection Payments Payable		0.3	0.3
	Contribution towards previous year's Surplus			
	Central Government			
	Hereford Council	1.3		1.3
	Hereford & Worcester Fire Authority	0.1		0.1
	West Mercia Police	0.2		0.2
	Charges to collection fund			
0.3	Cost of collection Allowance		0.3	0.3
0.6	Write offs of uncollectable debt	0.1	0.1	0.2
0.0	Increase/(Decrease) of Bad Debt Provision		0.3	0.3
4.8	Increase/(Decrease) of Appeals Provision		1.1	1.1
(0.6)	Spreading of Backdated Appeals		(0.3)	(0.3)
153.4	Total	105.9	49.4	155.3
(2.4)	**Surplus/(Deficit) for the Year**	**0.0**	**2.6**	**2.6**
(3.5)	Balance brought forward	1.7	(7.6)	(5.9)
(5.9)	**Balance carried forward**	**1.7**	**(5.0)**	**(3.3)**

Notes to the Collection Fund

The total non-domestic rateable value at the year-end was £129.7m and the national non-domestic rate multiplier for 2015/16 was 49.3p.

Non-Domestic Rates Income	£	£
Annual Debit		(63.1)
Less:		
Empty Allowances	2.0	
Discretionary Relief	0.5	
Mandatory Relief	4.6	
Small Business Rate Relief	5.9	
Funded Reliefs	1.3	
Enterprise Zone	0.2	14.5
Total		**(48.6)**

Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1 April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2015/16 was £1,583.95 including fire, police and parish precepts, with a range of between £1,537.50 and £1,664.98. The council tax base used for setting the council tax in 2015/16 was 65,848.29.

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	4,956.69
B	£40,001 to £52,000	7/9	10,762.79
C	£52,001 to £68,000	8/9	11,716.05
D	£68,001 to £88,000	9/9	11,163.99
E	£88,001 to £120,000	11/9	12,395.67
F	£120,001 to £160,000	13/9	8,842.38
G	£160,001 to £320,000	15/9	5,407.70
H	Over £320,000	18/9	317.62
Crown			285.40
	Council Tax Base		**65,848.29**

Council Taxpayer Income	£m	£m
Council Tax debit at 1st April		(129.9)
Less:		
Discounts	10.3	
Exemptions	2.6	
Council Tax Reduction	11.0	
Disablement Relief	0.1	24.0
Total		**(105.9)**

The Collection Fund (surplus) or deficit as at 31 March 2016 is split as follows;

	Council Tax £m	Business Rates £m	Total £m
Hereford Council	1.4	(2.5)	(1.1)
West Mercia Police	0.2		0.2
Hereford & Worcester Fire Authority	0.1		0.1
Central Government		(2.5)	(2.5)
Total	**1.7**	**(5.0)**	**(3.3)**

46. DEFINITIONS

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

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

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

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

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

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

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

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

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

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

(a) it is not probable that an outflow of resources embodying economic benefits or

(b) services potential will be required to settle the obligation, or

(c) the amount of the obligation cannot be measures with sufficient reliability.

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

Collection Fund Adjustment Account
The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement

compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

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

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

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

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

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

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

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

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

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

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

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

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.

Revaluation Reserve

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

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

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

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

Soft loan
A loan at less than the market interest rate.

Economy, communities and corporate
Geoff Hughes

Grant Thornton UK LLP
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20 Colmore Place
Birmingham
B4 6AT

Please ask for: Josie Rushgrove

Direct Line / Extension: 01432 261867

E-mail: jrushgrove@herefordshire.gov.uk

22 September, 2016

Dear Sirs

Herefordshire Council

Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council for the year ended 31 March 2016 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 2015/16 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 2015/16 ("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 as demonstrated in the medium term financial strategy. 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 2015/16 year end accounts were contingent liabilities that could fall due following the conclusion of an on-going litigation case. A reliable estimate cannot be made of this potential liability 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 22 September 2016.

Signed on behalf of the Council

Name	Josie Rushgrove
Position	Acting S151 officer
Date	22/09/2016

Name	Councillor PD Newman
Position	Chairman: Audit and Governance Committee
Date	22/09/2016

Herefordshire Council

	t and governance committee
Meeting date:	**22 September 2016**
Title of report:	**Energy from waste loan update**
Report by:	**Head of corporate finance**

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To provide assurance to the audit and governance committee on the status of the energy from waste (EfW) loan arrangement.

Recommendation(s)

THAT:

(a) the risks to the council, as lender, are confirmed as being reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the United Kingdom and best banking practice; and

(b) arrangements for the administration of the loan are reviewed and, having regard to the advice of external advisors, confirmed as satisfactory.

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

Alternative options

1 None, the loan arrangement was contractually agreed in May 2014, no breaches or areas of concern have taken place during this reporting period.

Reasons for recommendations

2 To fulfil the functions delegated to the committee in relation to governance of the waste loan arrangement.

Key considerations

Background

3 Following the approval to provide financing of the construction of an energy from waste (EfW) plant council delegated to the audit and governance committee the responsibility to review the loan arrangements (including waiver terms) and risks to the council as lender and make recommendations as necessary.

4 No decisions or courses of action have been identified for recommendation to the committee.

Key loan features and update

5 Herefordshire and Worcestershire councils are funding the EfW plant through the use of prudential borrowing. Drawdowns of funding from Mercia will continue over a 33 month construction period, between 2014 and 2017, before loan repayments fall due. Repayments will commence in February 2017.

6 The total loan facility is for £163.5m, with Herefordshire providing 24.2% of the loan value, £40m. Total loan interest and fees chargeable to Mercia are fixed and are representative of commercial bank charges. These total £69m (£17m for Herefordshire) during the loan period. These charges are repayable before the PFI contract ends in 2023 and are recharged to the councils by Mercia through the unitary charge for waste disposal.

Financial advisor update

7 The latest progress update from the financial advisors show that Mercia have met all senior term loan facility agreement (STLFA) requirements during this reporting period. Cover ratios and cash flow test requirements that ensure Mercia have equity and cash balances sufficient to cover loan repayments have been complied with.

8 Part of the loan conditions is the actual construction period cash flow test (ACPCFT) which confirms Mercia have sufficient cash flows in relation to Mercia's equity contribution to the EfW. The ACPCFT is prepared by Mercia on a quarterly basis and reviewed by Deloittes acting in the capacity as financial advisors to the councils in relation to the STLFA to determine whether:

"actual operating cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds… the amounts of operating cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the base case financial model."

9 The ACPCFT performed by Deloittes, attached at appendix a, reports a result of an excess cash flow amount of £0.4m as at 31 March 2016. This means that overall operations have produced £0.4m more than forecast in the base case financial model. This reflects the impact of additional waste going to Mercia as the economy improves and means the mandatory test was satisfied.

10 Mercia are able to use existing business as equity for cash flow purposes. The cashflow Mercia sets aside during the construction phase qualifies as Mercia’s contribution of equity capital. Mercia have achieved their required contribution of equity capital to the project that takes risk ahead of the councils STLFA. A higher cash flow offsets the need for Mercia to draw down funds and the council has the ability to lock up Mercia's equity if Mercia fails to achieve an adequate level of excess cash. At present Mercia has the right level of equity to satisfy the tests required under the loan agreement. The ACPCFT test is satisfied.

Technical advisor update

11 As set out in its terms of reference, the committee will be advised by external financial, technical and legal advisers on behalf of the council's section 151 officer. Fichtner consulting engineers have been appointed as technical advisor to the lender during the construction phase of the EfW. The company has produced a summary report up to 30 April 2016 for consideration by the committee and this is attached at appendix b.

12 The latest programme provided for review shows a target take over date of 29 December 2016, which is nine weeks ahead of the contractual take over date of 28 February 2017. Current progress however suggests this is optimistic but it is considered likely that take over will be achieved in advance of the contractual take over date. This was a positive development but has no impact on the loan arrangement or the risk register.

Waivers and consents

13 The committee are asked to note that since the previous update the following waivers and consents have been requested and approved:

a) In December 2015 the councils provided a waiver/consent under clause 18.4(b)(ii)(G) of the senior term loan facility agreement in relation to the appointment of Afcon for the building services contract following the HZI termination of Interserve.

b) In March 2016 the councils provided a consent permitting the surrender of a small part of the lease within the EnviRecover leasehold back to the councils, to enable the councils, as landlord, to underlet to Western Power Distribution, who are constructing an electricity sub-station on a small plot of land. There is no increase in risk to the councils resulting from provision of this consent, as a full indemnity covenant is included in the legal documentation, on the part of the adjacent leaseholder, mercia waste, to the landlord, the councils.

Deed of amendment

14 A deed of amendment was issued during the period to correct three errors contained in the variation agreement signed on 21 May 2014, being:

a) In respect of the annual discount of £0.3m which did not reflect the intention that the reduction would only be deducted from the planned take-over date and not from the date of financial close. The discount has been taken to date and the deed states the remedy payment to Mercia (May 2014 – May 2016) and the correct payments going forward;

b) The omission of a copy of contract variation 29, which had led to Mercia not being able to invoice aggregate levy costs to the council. Both the councils and mercia waste agree that this variation should have been included in annex 4 of the variation agreement (non-EfW contract variations). However this was omitted from the formal documentation at financial close. Therefore the deed of amendment rectifies this omission and includes it in annex 4 with effect from 21 May 2014 enabling Mercia to make the appropriate claims for any payment due under this variation; and

c) A couple of minor referencing errors in respect of the excess revenue sharing arrangements.

15 The lenders' legal adviser, Ashurst, have reviewed the deed of amendment and are content with the document.

16 Amendments 'a' and 'b' are in favour of mercia waste and therefore from a lenders' perspective only improve the position in terms of mercia waste meeting the quarterly cash flow test. The amendments also bring the contract into line with the financial model approved at financial close.

Community impact

17 There is no additional community impact as a result of this progress update report. The loan arrangement will contribute to the following council corporate objectives:

a) Managing our finances effectively to secure value for money and deliver a balanced budget

b) Making best use of the resources available to us in order to meet the council's priorities (includes money, buildings, IT, information).

Equality duty

18 This update and its recommendations do not have an impact on equality or human rights.

Financial implications

19 The loan arrangement is progressing to plan with the financial implications being reflected in the medium term financial strategy and treasury management strategy approved by Council in February 2016.

20 All costs incurred by advisors are recharged to mercia, including any in relation to the deed of amendment.

Legal implications

21 The terms and arrangements for this loan agreement are set out in the senior term loan facilities agreement. There are no specific legal comments arising from this

report.

Risk management

22 The councils have undertaken an assessment of risk in its role as lender working with legal advisors (Ashurts), finance advisors (Deloitte) and technical advisors (Fitchner) to understand the basis on which commercial banks reserve elements of their margin against risks. The review considered:

a) Counterparty risk

b) Security package

c) Key income generation assumptions in the financial model

d) Specific project risks

e) Interest and foreign exchange rate risk

23 The councils negotiated a security package that has left minimal risk that costs would be borne by the councils should issues occur during the construction phase. The loan arrangement security package mirrors that expected in a commercial bank arrangement. Advisors completed a risk fall away analysis and in recognition of this during the construction phase Herefordshire will retain 50% of its loan surplus in its waste disposal reserve should any construction period risk materialise. This reserve balance is included in the council's medium term financial strategy approved by Council in February 2016.

24 Risks are retained where they resided in the original 1998 waste disposal contract and any new risks have been transferred to Mercia and its supply chain. There are actions that can be taken if a default situation were to arise, for example taking shares or assets in Mercia in lieu of loan repayment. No indications of default are currently present.

25 Existing compensation on termination contract clauses ensure that the lender is repaid the majority (90%) of any outstanding debt balance if any termination event should occur during the PFI contract period.

26 Attached at appendix c is the risk register detailing the controls in place safeguarding the council's position in the lending arrangement. The risk register is shared with Worcester county council and is therefore in a jointly agreed format. The committee is asked to note and consider the risks which are considered to be reasonable and appropriate having regard to the risks typically assumed by long term senior funders to waste projects in the UK and best banking practice.

Consultees

27 None.

Appendices

Appendix a Financial advisor update (ACPCFT)

Appendix b Technical advisor update

Appendix c Risk register

Background papers

- None identified.

Deloitte.

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Senior Term Loan Facility Agreement

Actual Construction Period Cash Flow Test

For the period:
01 January 2016 to 31 March 2016

worcestershire county council

Herefordshire Council

Important notice

Deloitte LLP (“Deloitte”) is acting for Worcestershire County Council (“WCC”) and the County of Herefordshire Council (“CoHC”) (together “the Councils” or the “Clients”) on the terms set out in the engagement letter dated 13 November 2014 (the “Engagement Letter”) in connection with the financial advisory services in relation to the Senior Term Loan Facility Agreement (“STLFA” or “Agreement”) with Mercia Waste Management Limited (“MWM” or “Mercia”) (in total, the “Project”) and has no responsibility to anyone other than the Clients for providing advice in relation to the Project.

This document, which has been prepared by Deloitte, comprises the written materials/slides for the purpose of providing a presentation to the Clients envisaged in the Engagement Letter. No other party is entitled to rely on this document for any purpose whatsoever and Deloitte accepts no responsibility or liability to any party other than the Client in respect of this document and/or any of its contents.

The information contained in this document has been compiled by Deloitte and includes material obtained from information provided by the Councils and by Mercia but has not been verified. This document also contains confidential material proprietary to Deloitte. In particular, it should be noted that the financial information contained in this document is preliminary and not audited.

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Actual Construction Period Cash Flow Test

Background

Mercia has a Waste Management Services Contract ("WMSC") with the Councils. Mercia secured planning consent for a new facility and re-negotiated the WMSC for the design, construction and operation of a Waste to Energy ("WtE") plant over the remainder of the WMSC, due to expire in 2023. Financial close was reached in May 2014.

In order to ensure the funding solution demonstrated VfM, the Councils used their prudential borrowing powers to debt fund Mercia's WtE Plant.

Based on a capital structure of 85% debt and 15% equity, the Councils issued a senior loan facility.

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Within the Senior Term Loan Facility Agreement ("STLFA"), the Councils included an Actual Construction Period Cash Flow Test ("ACPCFT"). This test is carried out on a quarterly basis following financial close (the first quarter ending 30 September 2014) and is used to determine whether:

"Actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds… the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model."

Should a shortfall occur, Mercia will be required to remedy this shortfall by means of an equity injection equal to the amount of the shortfall in accordance with the contractual documentation.

Source: Mercia; Financial Model; Senior Term Loan Facility Agreement.

Scope of review

Deloitte has reviewed the calculation provided by Mercia for the ACPCFT. In doing so Deloitte has:

- Agreed the terms of the calculation to the STLFA;
- Agreed the "model" Operating Cash generated during the period to the Base Case Financial Model;
- Agreed the actual Operating Cash generated during the period to management information;
- Re-performed the calculation of the ACPCFT;
- Compared the senior term loan facility draw downs against those forecast in the Base Case Financial Model.
- We have not received any technical reports for the period to 31 March 2016.

Summary of results

The result of the ACPCFT performed by Mercia for the period under review is an Excess Cash Flow amount as at 31 March 2016 of £377k, which has increased by £110k from the cashflow flow test in the previous period.

This shows that from 1 May 2014 to 31 March 2016, the operations have produced £377k more than was forecast for Q1 2016 in the Base Case Financial Model, which is an increase in Excess Cash Flow, following four consecutive periods of under-performance against the modelled forecast.

Based on the above, the ACPCFT for the quarterly period under review would be satisfied. In completing our work set out above, we have not identified any inconsistencies between Mercia's calculation and the underlying information.

Calculation

Actual Construction Period Cash Flow Test

Metric (£000)	May – Sep 14	Oct – Dec 14	Jan - Mar 15	Apr - Jun 15	Jul - Sep 15	Oct - Dec 15	Jan - Mar 16
Base case financial model							
b/f cash attributable to Ops	*4,254*	*4,793*	*7,051*	*9,123*	*11,246*	*13,203*	*15,388*
Gross revenue	18,603	10,448	10,847	11,813	12,374	10,627	11,140
Operating costs	(14,893)	(8,111)	(8,320)	(8,961)	(9,253)	(8,590)	(8,821)
Changes in working capital	(1,212)	320	(18)	(252)	(37)	451	138
Cell preparation assets	(612)	0	0	0	(632)	0	0
Corporation tax	(1,346)	(400)	(437)	(477)	(494)	(303)	(363)
Total change	**539**	**2,258**	**2,072**	**2,122**	**1,957**	**2,185**	**2,094**
c/f cash attributable to Ops	**4,793**	**7,051**	**9,123**	**11,246**	**13,203**	**15,388**	**17,482**
Actuals							
b/f cash attributable to Ops	*4,637*	*6,480*	*11,674*	*10,423*	*12,333*	*14,218*	*15,655*
Gross revenue	19,688	13,341	10,578	11,929	12,091	10,523	11,091
Operating costs	(15,557)	(8,588)	(8,509)	(9,372)	(9,682)	(8,916)	(9,245)
Changes in working capital	(1,392)	1,363	(3,018)	(171)	(131)	(341)	358
Cell preparation assets	(333)	(286)	0	0	(189)	0	0
Corporation tax	(563)	(636)	(302)	(476)	(204)	171	0
Total change	**1,843**	**5,194**	**(1,252)**	**1,910**	**1,885**	**1,437**	**2,204**
Variance	**1,304**	**2,936**	**(3,324)**	**(212)**	**(72)**	**(748)**	**110**
Excess cash flow a/c b/f	383	1,687	4,624	1,299	1,087	1,015	267
Excess cash flow a/c c/f	**1,687**	**4,624**	**1,299**	**1,087**	**1,015**	**267**	**377**

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Source: Mercia; Financial Model; Senior Term Loan Facility Agreement.

Note: The £3,672K early Unitary Charge Payment (December 2015), noted in the Q4 2015 report, has been adjusted from working capital in Q4 2015 and recognised in Q1 2016.

Commentary

Summary

- The calculation is the result of a methodology agreed between parties (the Councils and Mercia) as per the STLFA signed on 21 May 2014.
- The outcome of the ACPCFT performed by Mercia for the quarter under review is an Excess Cash Flow amount of £377k.
- The period from 1 May 2014 to 31 March 2016, the operations have produced £377k more Excess Cash Flow than was forecast for this period in the Base Case Financial Model.
- We note that in the period there has been the over performance against the Base Case Financial Model of £110k, following four consecutive periods of under-performance against the modelled forecast.
- Based on the above, the ACPCFT for the period under review is satisfied. We have not identified any inconsistencies between Mercia's calculation and the underlying information.
- Following four consecutive quarterly periods of under-performance against the modelled forecast, it has been noted that there has been an increase in Excess Cash Flow of £110k.
- The increase in the Excess Cash Flow amount has been principally driven by a £221k movement in working capital and a £363k movement in corporate tax compared to modelled forecast.
- From discussion with Mercia 26th May 2016, the underperformance of revenue and higher operating costs reflects tighter recyclable materials pricing and reduced revenues and increased costs to third parties in early January as a result of volumes exceeding capacity for the new glass-breakers.

Source: Mercia; Financial Model; Senior Term Loan Facility Agreement.

Revenue down and operating costs up against modelled forecast

- We note that for the quarter under consideration, revenue actuals were 0.4% below the modelled forecast, but operating costs were 5% above the modelled forecast.
- Quarter 1 2016 saw a fall in recycling revenue due to a contractual deduction applied, leading to a refund to the Council in the period. A Deed of Amendment is being drafted to resolve the differences noted and Mercia expect to recover these revenues for relevant periods detailed in the contract.
- Following a discussion with Mercia 26th May 2016, operating costs increased in comparison to the modelled forecast due to glass volumes in early January exceeding the capacity of the installed glass-breakers on site. This resulted in increased fees to third parties to process the excess capacity.

Changes in working capital and corporation tax

- The increase in the Excess Cash Flow amount has been principally driven by favourable movements in working capital and the position achieved in respect corporate tax, reflective of favourable position on deductions and allowances compared to the modelled forecast.
- As detailed previously, in Q4 2015 there was an early payment of the January Unitary Charge and as such the working capital in the period is reflective of this. Aside from the impact of the early payment, there has been a net increase in working capital of £221k, compared to the modelled forecast.

Commentary (continued)

ACPCFT trend

- It has been noted that whilst the Excess Cash Flow amount is still positive at £377k (an increase of £110k from the previous period), prior to this there was four consecutive periods of under-performance against the modelled forecast (i.e. an in period negative variance of actuals against the model).
- Mercia stated that recyclable materials pricing remains below modelled prices but has seen some stabilisation and some small increases in some recyclables pricing, though Deloitte have not validated this.
- As a result of these factors and completion of operational improvements, Mercia are projecting a stable or increased Excess Cash Flow Account for the next quarter.
- As a result, Mercia believe that there is no cause for concern with regard to the ACPCFT trend over 2016.
- In any case, should the ACPCFT be failed in subsequent quarters, the process to resolve this has been extracted and included in Appendix 2.

Senior Term Facility Loan draw downs

Actuals vs Forecast in the Financial Model

The table below shows the actual Senior Term Facility Loan draw downs against those forecast in the financial model.

Model	May - Sep 14	Oct - Dec 14	Jan - Mar 15	Apr - Jun 15	Jul - Sep 15	Oct - Dec 15	Jan - Mar 16	Cumulative
Model								
Facility A	5,241	2,341	1,725	5,633	3,205	4,249	2,355	**24,749**
Facility B	18,898	8,426	6,190	20,288	11,490	15,241	8,382	**88,917**
Total	**24,139**	**10,767**	**7,916**	**25,921**	**14,695**	**19,490**	**10,737**	**113,665**
Actual								
Facility A	4,576		1,713	2,375	3,289	4,746	5,180	**21,880**
Facility B	16,532		6,187	8,581	11,883	17,145	18,715	**79,042**
Total	**21,108**	**0**	**7,900**	**10,957**	**15,172**	**21,891**	**23,895**	**100,923**
Difference	**(3,031)**	**(10,767)**	**(16)**	**(14,965)**	**477**	**2,401**	**13,158**	**(12,743)**

Facility A is the amortising loan. Capital repayment begins in the quarter ended 30 June 2017 following the end of the construction period. Facility B is the bullet loan which is forecast to be repaid in the quarter ended 31 December 2023.

From discussion with Mercia management, the lack of draw down in October 2014 to December 2014 period reflects both a delay in the WtE build (meaning less cash was required for the WtE build) and the lower than expected capital expenditure in non-WtE build (meaning that more cash can be used on the WtE build).

From discussions with Mercia management, the drawdowns against the facilities are lower due to the fact that there has been delays in the timing of some of the EPC milestone payments. In addition the asset replacement programme is a little behind schedule due to the lead times for delivery / installation. These are delays in the timing of capital expenditure payments and these were seen increasing previously in Q3 and Q4 2015. In Q1 2016 a number of EPC milestone payments have been paid reflecting an increase in draw downs compared to the modelled forecasts.

Source: Mercia; Financial Model

Appendix 1

Mercia's calculation (£000)

Cash Flow Test Calculation

	1 Jan 16 to 31 Mar 16 ACTUAL	1 Jan 16 to 31 Mar 16 MODEL
Profit Before Depreciation and Tax	**1,846**	**2,320**
Working Capital Movement (Operating)	**-3,314**	**138**
Corporation Tax (Cash)	-	-363
Operating Cash Flow	**-1,468**	**2,094**

Excess Cash Flow	1 Jan to 31 Mar 2016		
	Actual	Model	Var
Operating Cash Opening Balance	19,327	15,388	3,940
Operating Cash Flow (as above)	-1,468	2,094	(3,562)
Operating Cash Closing Balance	**17,860**	**17,482**	**377**

Mercia's cash flow notice

Excess Cash – Opening Balance (Dec 2015)	*267*
Gross Revenue	*-49*
Operating Costs	*-425*
Changes in Working Capital	*+221*
Corporation Tax	*+363*
Total	*+110*
Excess Cash – Closing Balance (Mar 2016)	*377*

Source: Mercia; Mercia also provided the workings behind this calculation so that the calculation could be reconciled to the company's trial balance and so it could be presented in a manner mapping to the description in the Senior Term Loan Facilities Agreement (see page 4).

Appendix 2

Extracts from Senior Term Loan Facility Agreement

"Actual Construction Period Cashflow Test" means the quarterly test to be carried out on each Actual Construction Period Cashflow Testing Date, in relation to the preceding quarter period to determine whether:

(a) actual Operating Cash generated during that period plus the brought forward cash balance attributable to operations is equal to, or exceeds:

(b) the amount of Operating Cash projected to be generated during that period plus the brought forward cash balance attributable to operations as shown in the Base Case Financial Model;

"Actual Construction Period Cashflow Testing Date" means each Quarter Date following Financial Close, up to and including Completion;

"Actual Construction Period Cashflow Shortfall" has the meaning given to it in clause 15.9 (Actual Construction Period Cashflow Test);

"Actual Construction Period Cashflow Remedy Amount" means the minimum amount necessary following a failure by the Borrower of the Actual Construction Period Cashflow Test, to pass such test;

"Actual Construction Period Excess Cashflow Amount" means the amount of Operating Cash generated in any quarter during the Construction Period which is greater than the amount required to satisfy the Actual Construction Period Cashflow Test;

"Base Case Financial Model" means the computer model, agreed between the Lenders and the Borrower at Financial Close, as amended from time to time by agreement between the Lenders and the Borrower and delivered pursuant to paragraph 11.1 (Part I – Initial Conditions Precedent) of schedule 3;

"Current Assets" means:

(a) cash held by the Borrower;

(b) any balance on the Debt Service Reserve Account;

(c) any balance on the Maintenance Reserve Account;

(d) any prepayments received;

(e) amounts owed to the Borrower and/or the amounts of any accounts receivable (in each case from trade debtors or HMRC in respect of VAT);

(f) amounts in respect of deferred taxes;

(g) inventory; and

(h) any cell preparation assets;

"Current Liabilities" means:

(a) amounts owed by the Borrower and/or the amounts of any accounts payable (in each case to trade creditors or HMRC in respect of National Insurance and VAT);

(b) the amount of any accruals or provisions made;

(c) the amount of any deferred tax liability;

(d) any cell restoration liabilities;

(e) any aftercare liabilities; and

(f) liabilities in respect of Corporation Tax;

Source: Senior Term Loan Facility Agreement

Appendix 2 (continued)

Extracts from Senior Term Loan Facility Agreement

"Gross Revenue" means, at any Ratio Testing Date and without double counting, the sum of:

(a) operating revenue including the Unitary Payment, any interim service payments (if applicable) and any actual or guaranteed third party income, but excluding, for the avoidance of doubt, the Bullet Payment; plus

(b) interest earned on all cash accounts (other than the Distribution Account); plus

(c) Damages;

(d) Insurance Proceeds to the extent received as compensation for loss of revenue;

(e) income earned on Authorised Investments (other than any Authorised Investments in respect of the Distribution Account (if any);

(f) rebates of Tax actually received or projected to be received in the latest Approved Budget; and

(g) all other income or proceeds of a revenue nature from whatever source;

assumed in the Approved Financial Model to be receivable by the Borrower in the period commencing with such Ratio Testing Date and terminating on the Final Repayment Date or, in respect of any Ratio Testing Period ended on that Ratio Testing Date, all such revenues actually received during such Ratio Testing Period;

"Operating Cash" means:

(a) Gross Revenue; less

(b) Operating Costs; plus or minus

(c) changes in Working Capital; less

(d) Corporation Tax.

in each case, in respect of that Financial Year, as reflected in the operating cashflow calculation in the Approved Financial Model;

"Working Capital" means Current Assets minus Current Liabilities.

"Operating Costs" means, without double counting any of those costs, and including any VAT thereon, costs identified as, or as the case may be, falling within the category of:

(a) costs and expenses of administering, maintaining and operating the Borrower, SWSL and BWL and the Project including, without limitation, all operating costs accrued prior to, or arising after Financial Close relating to the Borrower's, SWSL's and BWL's existing operations under, or related to, the Waste Management Services Contract all costs relating to Environmental Matters and the costs of complying with the requirements of Environmental Laws and the terms and conditions of Environmental Authorisations (together in all cases with any applicable VAT thereon which is irrecoverable VAT);

(b) the cost of insurance premia (other than in relation to insurances covering the construction and commissioning of the Plant) and all property and occupation charges and rates to which the Project may be subject (together in each case with any applicable VAT thereon which is irrecoverable VAT);

(c) sums payable by the Borrower under the terms of the Project Documents to which it is a party, other than in relation to construction and commissioning of the Plant (together with any applicable VAT thereon which is irrecoverable VAT);

(d) Taxes payable (excluding VAT other than "output tax" within the meaning of Section 24(2) of the Value Added Tax Act 1994) other than in relation to the construction and commissioning of the Plant; and

(e) development costs,

and in all cases, the equivalent lines thereafter in each Approved Budget and each Approved Financial Model;

(b) The Borrower may only withdraw sums from the Excess Cash Flow Account:

(i) to meet Project Costs at any time on or after the Take-Over Date, but prior to Completion; or

(ii) to transfer any amount standing to the credit of Excess Cash Flow Account on Completion to the Distribution Account, provided that no Event of Default is continuing.

Source: Senior Term Loan Facility Agreement

Appendix 2 (continued)

Extracts from Senior Term Loan Facility Agreement

Actual Construction Period Cashflow Test

(a) On each Actual Construction Period Cashflow Testing Date, the Borrower will provide evidence satisfactory to the Lenders (acting reasonably) that the Actual Construction Period Cashflow Test has been satisfied.

(b) Where there is a failure by the Borrower to satisfy the Actual Construction Period Cashflow Test on any Actual Construction Period Cashflow Testing Date (an "**Actual Construction Period Cashflow Shortfall**"):

(i) the Borrower shall serve a Standby Equity Funding Notice on each Shareholder pursuant to clause 4.2 (Standby Equity Funding Notice) of the Equity Agreement and through such notice request that each Shareholder contribute Equity in an amount equal to its Standby Contribution in accordance with clause 4.1 (Provision of Standby Equity) of the Equity Agreement; and

(ii) in the event that *[Shareholder A]* fails to contribute Equity in accordance with clause 15.10(b)(i) above, the Borrower or the Security Agent shall be entitled to make a claim under the Equity Guarantee ([Shareholder A]) for an amount equal to *[Shareholder A's]* Standby Contribution of the Actual Construction Period Cashflow Remedy Amount within the relevant period that such Equity is required to be paid pursuant to clause 8.1(b) (*[Shareholder A's parent] Guarantee*) of the Equity Agreement.

Source: Senior Term Loan Facility Agreement

Deloitte.

MEMORANDUM

To:	Mark Forrester	**Organisation:**	Worcestershire County Council
cc:	Simon Lewis	**Organisation:**	Worcestershire County Council
From:	Kerry Booth	**Our Ref:**	S1291-2300-0007KSB
Date:	13th July 2016	**No. of Pages:**	2
Subject:	Mercia LTA Construction Progress Summary – July 2016		

1 INTRODUCTION

Mercia Waste Management Limited ("Mercia") is constructing the 200,000 tonnes/year, 18 MWe Mercia EnviRecover EfW Plant in Hartlebury, Worcestershire. Fichtner Consulting Engineers Ltd (Fichtner) has been appointed as lender's technical advisor (LTA) for the construction phase of the plant. This summary memo covers relevant activities and progress based on review of latest available reports from and Mercia (covering 1st – 31st May 2016).

2 PROJECT PROGRESS

The latest programme provided to the LTA for review shows a target Take Over date of 29th December 2016, which is nine weeks ahead of the contractual Take Over date of 28th February 2017. Current progress suggests this is optimistic. However, it is considered likely that Take Over will be achieved in advance of the contractual Take Over date.

Civil work activities, including erection of tipping hall steelwork and cladding, have continued in recent months. Delays in cladding have required extended working hours, and have led to plasterboard damage in areas where cladding was not completed. Damage has been noted in the observation list. The boiler/FGT hall is expected to be watertight by mid-July, but this has not been confirmed. Slow progress has affected installation of drainage and road construction, which will potentially cause delay to the first waste deliveries and Take Over.

Installation of the fire suppression and detection system is progressing well and building services installation has also commenced.

Erection of the water steam cycle pipework has been completed and pressure tested throughout the facility. Insulating of pipework is largely complete.

Electrical installation has been delayed, and is not expected to be completed before mid-July.

The 66kV cable was energised on 3rd May 2016 and the 66/11kV transformer was energised on 11th May 2016. This satisfied the contractual requirement for Mercia to provide an energised grid connection.

3 KEY PROJECT RISKS AND OBSERVATIONS

Ongoing delays to the civil engineering works have delayed road construction, which has the potential to delay some commissioning activities.

The progress of electrical installation was delayed compared to the programme, and completion was not achieved by mid-May as previously anticipated. Additional manpower was employed to accelerate installation and prioritise systems required for commissioning. Quality of the cable installation is also a concern, with the number of quality observations increasing. Poor safety practices have also been observed This area is being closely monitored by the owner's engineer.

4 FINANCIAL AND COMMERCIAL

The cumulative amount which has been certified to date is £103,359,568.68. The LTA has issued ten payment certificates to allow drawdown on the senior loan.

To date forty-two Variation Orders have been issued. To date the net reduction to the contract price is £55,405, which covers all Variation Orders. There has been no extension of time for any Variation Orders issued to date.

5 Health and Safety

Health and safety standards have improved steadily on site in recent months, with a focus on good housekeeping, which has had a positive impact on site cleanliness. However, there have been poor safety practices surrounding the electrical installation. There is still room for improvement, and the owner's engineer will continue to monitor standards.

Key performance indicators for April 2016 show that one minor injury was reported and two minor injuries were reported in May.

43 Site Safety Observation Reports (SSORs) were raised in May (of 1,504 to date), with the most common categories of report concerning scaffolding and mobile towers, safe access and egress, traffic management, personal protective equipment and housekeeping. Three yellow cards and one red card were issued in April, and twenty-four yellow cards and four red cards were issued in May. The increase in May was largely due to a new electrical installation subcontractor on site. This subcontractor's activities will continue to be closely monitored.

6 Planned Activities Next Period

The following activities are planned from May 2016:

- Detailed engineering of remaining packages (including several civil work packages and design review meetings);
- Continued work on civil packages including construction of access roads, drainage, tipping hall, waste bunker, boiler hall, admin building, weighbridges, firewater tank, and firewater pump house; and
- Continued work on process packages including boiler hall steelwork installation, continued installation of the FGT system, and closing out of turbine hall snags.

Yours sincerely
FICHTNER Consulting Engineers Limited

Kerry Booth
Consultant

Phin Eddy
Commercial Director

Energy from Waste Risk Register — **Appendix c**

Risk Reference	Description of risk	Gross Impact	Gross Likelihood	Gross Risk Score	Risk control approach	Mitigating Actions	Residual Impact	Residual Likelihood	Residual Risk Score	Assigned to (Risk Owners)
a	Default of loan repayments by borrower to lenders due to SPV (Mercia) or HZI falling into administration.	Critical	Medium	15	Risk transferred	Due to the security package negotiated by the Councils a fall away analysis indicated that Mercia, its Shareholders and HZI would need to enter administration at the same time to put at repayment at risk during the construction phase. The maximum exposure to the Councils has been calculated and included within the sufficiency assessment of the Council's reserves. All press articles are scanned regularly for indications of financial strength issues and followed up to ensure counterparty risk is not increased.	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default and Deloitte to monitor Mercia's actual quarterly cash flow tests and cover ratios that have to be maintained by Mercia.
b	Construction completion date of EFW is delayed and delays repayment of loan to lenders.	Substantial	Medium	11	Risk transferred	Under the contract terms agreed with Mercia, Mercia take all material risk on EFW construction delay and repayment of loan will commence around February 2017, as set out in the SLFLA and agreed final financial model. Repayments are not tied to the actual construction completion date, rather the planned date. The Council as lender has the right to call the loan into default if construction is not completed by a long stop date. The Lender's Technical Advisor has confirmed that the expected Takeover Date is now the Planned Take Over Date, 28th February 2017.	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default.
c	PWLB borrowing rates increase more than estimated in the Councils' prudential borrowing model. Higher rates would reduce the surplus generated on the loan arrangements with Mercia.	Substantial	Low	10	Risk treated	The cost of purchasing a financial product to remove this risk (a swaption) from an investment bank was quoted at £20m. The Councils decided to manage the risk through forecasting the forward price for its debt draw downs over the construction period and hold in reserve monies to mitigate this risk where required. Currently the rates accessible by the Councils are lower than this estimate as the continued low gilt rate environment pervades.	Substantial	Very Low	6	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
d	Loan drawdowns are slower than set out in the STFLA. Delayed drawdowns would result in reduced interest payments to the Councils and potentially reduced surplus if PWLB loan rates increase between the expected draw date and actual.	Negligible	Medium	4	Risk treated	The Councils plan to borrow from PWLB at dates in line with drawdown requests from Mercia. Therefore although the Councils would receive reduced interest receipts, less interest would also be paid to PWLB. The Councils are monitoring market gilt rates actively and have the option to borrow from PWLB up to a year in advance of expected drawdown requests. Regular progress reports are being reviewed to ensure the construction programme and the loan drawdowns are requested in line with the plan	Negligible	Very Low	2	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.

e	Drawdown requests from Mercia are not actioned by the Councils or not actioned within the required contracted time period.	Substantial	Low	10	Risk treated	The Council's treasury teams have been fully briefed on the actions required to fulfil drawdown requests, checks required and the contracted timeline by the Section 151 Officer and their teams. Drawdowns to date have been actioned inline with requirements. Since the last Committee, two further drawdowns have been provided and there is a separate analysis available for the Committee outlining planned vs actual drawdowns made to date.	Substantial	Very Low	6	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
f	Mercia loan principal and / or interest repayments are below the required values as per the rates agreed in the STFLA .	Substantial	Very Low	6	Risk treated	The Council's treasury team maintain a spreadsheet detailing drawdowns to date and expected future principal and interest payments. This is reconciled to Mercia's repayment spreadsheet and will be matched to principal and interest repayments received from Mercia during the post construction period.	Substantial	Almost Impossible	5	The risk owners are the Section 151 Officers supported by Treasury and Financing Teams.
g	Default of loan repayments by borrower to lenders due to HZI termination of Interserve Construction Limited (ICL) delaying project completion to after long stop date.	Critical	Medium	15	Risk treated	Sponsors have provided assurance that they believe HZI have undertaken the right processes to replace the final ICL work packages and that there is no financial risk to the Sponsors from the work underway. Sponsors confirmed that their Due Diligence on HZI had not raised any concerns around the company's viability or going concern. The Council as lender has the right to call the loan into default if construction is not completed by a long stop date, at which point the negotiated security package, set out in section 'a' above, would take effect.	Substantial	Very Low	6	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default.
h	HZI termination of ICL may weaken negotiated security package due to no single new supplier exceeding £10 million contract value, and therefore triggering EPC Contract Schedule 7 requirements for Collateral Warranty and professional indemnity insurance requirements. The risk is that the Council as lender does not receive the same security package as it had when ICL was in place.	Substantial	High	12	Risk treated	In terms of Collateral Warranty, the HZI Collateral Warranty is in place and remains in place. Due Diligence has been undertaken by Sponsors and the Council as Lender(with the Financial Advisor) to confirm the financial strength of HZI in light of events. There are no issues arising from these reviews. Sponsors agreed to review on a case by case basis the requirement for additional security protections and advised the Council as to its rational for its decision. The Council as Lender has sign off rights and requests have been made to the Councils prospectively for Schedule 7 services and retrospectively (based on Sponsor Assurance) for non-Schedule 7 services. Planned meetings have been held for sign off and Council advisors have been retained to provide advice. The Councils have clearly articulated to Sponsors that there should not be any weakening on the Security Package in place with regard to the Civil Engineering Work. There is no financial impact on Sponsors from events to date and therefore no financial impact on the Council as Lenders.	Substantial	Low	10	The risk owners are the Section 151 Officers of each Council supported by Ashurst as advisors in case of contract default.

Key

High	Unacceptable Risk: Immediate control/improvement required

19 – 24	Immediate control/improvement required
Medium 8 – 18	Acceptable Risk: Close monitoring and cost effective control improvements sought.
Low 1 – 7	Acceptable Risk: Need periodic review, low cost control improvements sought if possible.

Scoring Matrix

Likelihood

Very High	9	19	21	24
High	8	12	20	23
Medium	4	11	15	22
Low	3	10	14	18
Very Low	2	6	13	17
Almost Impossible	1	5	7	16
	Negligible	Substantial	Critical	Extreme

Impact

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Bi-annual forecast**
Report by:	**Head of corporate finance**

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

To provide the audit and governance committee with the projected outturn for 2016/17 for the committee to consider the effectiveness of budgetary control.

Recommendation(s)

THAT the committee:

(a) note the council is projecting an overspend for this financial year and the remedial action being taken;

(b) confirms that appropriate and timely budgetary and control measures are in place; and

(c) identify any further control measures deemed necessary.

Alternative options

1 There are no alternative options.

Reasons for recommendations

2 The latest published forecast outturn for the year as reported to Cabinet on 21 July 2016 is an overspend of £1.5m. Remedial action is being taken to reduce this forecast position with the next report to Cabinet scheduled for 1 December.

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 full year outturn based on spend until the end of May 2016 is an over spend of £1.5m, this represents 1% of the budget. The 2016/17 savings are £10.9m; £9.4m (86%) of which are on track to be delivered during the current year. Action plans are being undertaken in all directorates to address the in-year pressures and to help mitigate the impacts of the external economic environment. It is not unusual at this period in the year for there to be a forecasted over spend and actions are being taken to manage this.

Projected Revenue Outturn 2016/17 (as at the end of May)

Directorate Net Budget	**Net budget £000**	**May outturn £000**	**May variance £000 Over / (Under)spend**
Adults and wellbeing	51,239	52,233	994
Children's wellbeing	22,292	22,751	459
Economy, communities and corporate	47,557	47,625	68
Directorate total	**121,088**	**122,609**	**1,521**
Other budgets and reserves	26,891	26,891	0
Outturn	**147,979**	**149,500**	**1,521**

Adults and wellbeing (AWB)

4 The latest forecast predicts a £994k overspend of the budget at year end.

5 The forecast overspend within the adult social care client groups is £1.047m at year end. This is due to higher than budgeted expenditure on direct payments that are over and above the compensating reduction in domiciliary care spend that would normally be expected.

6 The client forecast assumes that any further demand pressures will be managed within the operational teams, by AWB panel and by senior management. The directorate leadership team are currently in the process of preparing a recovery plan document to identify required actions and additional savings initiatives in order to ensure a balanced outturn for 2016/17.

7 The first recovery plan meeting has now taken place and the initial focus will be on the following two areas:

a. The 'single handed care project' which aims to reduce the number of 'double handed' care packages with better use of equipment and technology. This is anticipated to reduce the over spend in 2016/17 by £150k.

b. Maximising the occupancy of all block purchased beds to reduce the current over spend by a further £300k.

Children's wellbeing (CWB)

8 The forecast outturn for 2016/17 is an over spend of £459k, this is due the timing of savings implementation. The 2015/16 outturn was an over spend of £2.1m,

reductions in the number of agency staffing (60 to 26) and the reductions in the number of looked after children and child protection plans will ensure the budget is manageable in 2016/17, recognising there is pressure on delivering the £1.6m 2016/17 savings.

9 The savings of £300k associated to moving young adults into independent accommodation has been delayed, focus is being placed through working with adults commissioning to deliver a part year savings, this will reduce the over spend.

10 The review of regular payments has been completed; the financial assessments will start in August, a part year savings could deliver up to £100k savings in year depending on the assessments.

11 Difficulties in recruiting social workers remain and the recruitment strategy continues to be refreshed and developed ensuring targeted actions. Establishment costs must keep within budget and this includes any use of agency staff.

12 The number of Independent Fostering Agencies (IFA) placements in the forecast is 55. It is anticipated that a focused review, including the approval process for placement panel and how we support short term placements will reduce spend in this area.

Economy, communities and corporate (ECC)

13 A net overspend of £68k is forecast for the ECC directorate.

14 Monitoring of income from off-street parking charges is currently indicating that overall income for the year may be below forecast. This is contributing to the directorate’s current forecast overspend. Careful monitoring of income levels on a monthly basis will keep this area under review and may require corrective action.

15 Early delivery of 2017/18 management restructure and public transport savings are forecast to provide a favourable variance against budget, therefore offsetting some of the car parking pressure.

Other budget and reserves

13 Other budget and reserves includes a contingency of £0.7m which if not required would be used to offset any remaining directorate year end overspend.

Community impact

14 None.

Equality duty

15 There is no perceived impact in regards to this report on our Equality duty.

Financial implications

16 These are contained in the report.

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

Legal implications

17 The council has a statutory duty (Local Government Finance Act 1988) to report if the expenditure and/or proposed expenditure of the council in a financial year is likely to exceed resources (including borrowing) available to meet that expenditure. When preparing the report the S151 officer is under a duty to consult with the monitoring officer.

Risk management

18 Monthly reporting gives the council 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

19 None.

Appendices

None

Background papers

Cabinet papers 21 July 2016

http://councillors.herefordshire.gov.uk/ieListDocuments.aspx?CId=251&MId=5752&Ver=4

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

Herefordshire Council

Meeting:	**Audit & governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Changes to arrangements for appointment of external auditors**
Report by:	**Head of corporate finance**

Classification

Open

Key decision

This is not a key decision.

Wards affected

Countywide

Purpose

This report summarises the changes to the arrangements for appointing external auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

The council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

Recommendation

THAT: the committee is requested to consider recommending to council the preferred approach of:

a) Supporting the Local Government Association (LGA) in setting up a national sector led body by indicating intention to "opt-in".

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

Alternative options

1 The council has the following alternative options that are not recommended for the reasons detailed in this report:

a) Establishing a stand-alone auditor panel to advise on the appointment of a local auditor.

b) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.

c) Using an existing independent panel of the authority (this will only be applicable where a suitably constituted panel already exists).

Reasons for recommendations

2 The LGA are working on developing a sector led body appointing person (SLB). In a recent survey, 58% of respondents expressed an interest in this option. Greatest economies of scale will come from the maximum number of councils acting collectively and opting-in to a SLB. In order to the strengthen the LGA's negotiating position and enable it to more accurately evaluate the offering the committee is asked to register an interest in the option of opting in to a SLB. A formal decision to opt-in will be required at a later stage.

Key considerations

Background

3 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.

4 The council's current external auditor is Grant Thornton, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority form the Secretary of State CLG. Over recent years the council has benefited from reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission. The council's current external audit fees are £124k per annum.

5 When the current transitional arrangements come to an end on 31 March 2018 the council will be able to move to a local appointment of its external auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.

6 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

7 The council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.

Options for local appointment of External Auditors

8 There are three broad options open to the council under the Local Audit and Accountability Act 2014 (the Act), these are detailed below and option 3 is the recommended option:

Option 1 - To make a stand-alone appointment

9 In order to make a stand-alone appointment the council will need to set up an Auditor Panel who can advise on the appointment. The members of the panel must be wholly or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the council's external audit. A new independent auditor panel established by the council will be responsible for selecting the auditor and advising the council.

<u>Advantages</u>

10 Setting up an auditor panel allows the council to take maximum advantage of the new local appointment regime and have local input to the decision. Its creation is established in statute and can be replicated. The appointment is by the council.

<u>Disadvantages</u>

11 Recruitment and servicing of the Auditor Panel and, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15k plus on going expenses and allowances.

12 The council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.

13 The assessment of bids and decision on awarding contracts will be taken by independent appointees and advice given to elected members.

Option 2 - Set up a Joint Auditor Panel / local joint procurement arrangements

14 The Act enables the council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution

of such a panel having regard to the obligations of each council under the Act and the council would need to liaise with other local authorities to assess the appetite for such an arrangement.

Advantages

15 The costs of setting up the panel and running the bidding exercise will be shared across a number of authorities.

16 There is greater opportunity for achieving economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages

17 The decision making process will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or only one elected member representing each council, depending on the constitution agreed with the other bodies involved.

18 The choice of auditor could be complicated where individual councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. There is a risk that if the joint auditor panel choose a firm that is conflicted for this council then the council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.

Option 3 - Opt-in to a sector led body

19 In response to the consultation on the new arrangement the LGA successfully lobbied for councils to be able to 'opt-in' to a sector led appointing person arrangement appointed by the Secretary of State. This would have the ability to negotiate contracts with accountancy firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages

20 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities.

21 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation.

22 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

23 The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities. The LGA are considering setting up such a body utilising the knowledge and experience acquired through the setting up of the transitional arrangements.

24 An auditor panel is not required.

Disadvantages

25 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.

26 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need councils to indicate their intention to opt-in before final contract prices are known.

Conclusion

27 The council will need to take action to implement new arrangements for the appointment of external auditors by 31 December 2017 for the financial year commencing April 2018. In order that more detailed proposals can be developed the committee is asked to give early consideration to the preferred approach.

28 The council has been asked by the LGA for an indication of the preferred approach in order that it can invest resources in providing appropriate support to councils. The LGA is strongly supportive of the SLB approach as it believes this offers best value to councils by reducing set-up costs and having to potential to negotiate lowest fees.

Community impact

29 Effective audit helps ensure the council is transparent about the way in which it conducts business and that it does so efficiently and effectively in line with the values of the council and the corporate plan priority to secure better services, quality of life and value for money.

Equality duty

30 As this is a decision on back office functions we do not believe that it will have an impact on our Equality duty.

Financial implications

31 Current external fees levels are likely to increase when the current contracts end in 2018.

32 The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 above will need to be estimated and included in the council's budget. This will include the cost of recruiting independent appointees (members), servicing the Panel, running a bidding and tender evaluation process, letting a contract and paying members fees and allowances.

33 Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel. There will not be a fee to join the sector led arrangements.

Legal implications

34 Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts not later than 31 December in the preceding financial year.

35 If the council is to appoint the local auditor itself then section 8 governs the procedure for appointment including the requirement for an auditor panel who must be consulted and able to advise council e on the selection and appointment of a local auditor.

36 The alternative way in which a local auditor can be appointed is utilising a person (an "appointing person" as specified by the secretary of state) to appoint a local auditor to audit the accounts of an authority who has chosen to opt in. Before appointing a local auditor to an opted in authority, an appointing person must consult the authority about the proposed appointment.

37 Due to express provision in schedule three of the Act, the appointment of the local auditor is a matter for council and cannot be delegated.

Risk management

38 There is no immediate risk to the council, however, early consideration by the council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

39 Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the council.

Consultees

40 Consultation with neighbouring authorities indicate that they intend to follow the PSB option recommended in this report.

Appendices

None.

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

Herefordshire Council

Meeting:	**Audit and governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Progress report on 2015/16 internal audit plan**
Report by:	**Head of corporate finance / internal audit**

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

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.

Recommendation

That:

a) **performance against the approved plan be reviewed and any areas for improvement identified; and**
b) **the robustness of the management response to recommendations be reviewed and any recommendations for strengthening the response to further mitigate risk be identified.**

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 07872500675

Alternative options

1 There are no alternative recommendations; it is a requirement of the council's adopted audit and governance code that the committee considers these matters in fulfilling its assurance role.

Reasons for recommendations

2 To enable the committee to monitor performance of the internal audit team against the approved plan.

3 To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored by acceptance by management of audit recommendations and progress updates in implementing the agreed action plans. In addition audit recommendations not accepted by management are reviewed and progress to an appropriate recommendation to cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Key considerations

4 The internal audit progress report is attached at appendix A. In the period covered by the report (quarter 4 2015-16), a total of eighteen priority 4 recommendations were made. All of these were accepted by management and a summary of the management response is provided in the appendix. Relevant service managers will be in attendance at the audit and governance meeting to respond to any specific queries that the committee may have.

5 The glossary of terms provided at appendix B.

Community Impact

6 The council's corporate values and plan include commitments to being open transparent and accountable about its performance. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

7 The report does not impact on this area.

Financial implications

8 None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

9 None.

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 07872500675

Risk management

10 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.

11 Risks identified by internal audit are mitigated by actions proposed by management in response.

Consultees

12 None.

Appendices

Appendix A – SWAP plan progress report 2015-16

Appendix B – Summary of control assurance definitions, categorisation of recommendations and risk levels

Background papers

- None identified.

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 07872500675

Appendix A

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Herefordshire Council

Report of Internal Audit Activity
Plan Progress 2015-16

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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Our audit activity is split between:

- **Operational Audit**
- **Key Control Audit**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Special Reviews**

See Appendix A for individual audits

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.

Update 2015-16

Completed Audit Assignment in the Period

Audit Plan Progress

There were a number of audits not completed to Final report stage in my last update. Progress has been made on completing these audits and all but four are at Final report. Three audits not completed are at report stage but waiting for the management responses from the Client and one audit is still in progress with fieldwork completed.

The audits completed are:

- Better Care Fund – Partial
- Payment Card Industry: Data Security Standard compliance – Partial
- Deprivation of Liberty Safeguards (DOLs) – Partial
- Fastershire BDUK – Reasonable
- Council and NHS ICT – Reasonable

The audits at report stage are:

- Social Care Financial Practices
- Commissioning and Procurement
- Purchasing Strategy and Market Management - Care service

The audit still in progress is Income review - maximising income - income and charging guidance

For the 2015-16 plan there are still four audits to be completed to Final report. All of the audits will be completed prior to my next update.

Update 2015-16

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Report on Significant Findings

Where a review has a status of 'Completed' and has been assessed as 'Partial' or 'No Assurance' or with a 'High' corporate risk, I will provide further detail to inform Members of the key findings (Priority 4 and 5) identified. For the audits completed since my last report three audits - Better Care Fund, PCI Data Security Standard Compliance and Deprivation of Liberty Safeguards have been assessed as Partial assurance (some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives).

The full detail of each significant finding and the agreed management action and implementation is detailed on pages 9 -23.

Better Care Fund - Partial

There is a national requirement to submit a Better Care Fund plan, the Herefordshire BCF Plan has been submitted in order to meet this requirement and to ensure that the Herefordshire Clinical Commissioning Group (HCCG) and Herefordshire Council comply with the relevant BCF guidance.

The principle of the BCF Plan is to use a pooled budget approach in order for health and social care services to work more closely together and align directly with the vision and principles highlighted in the aspirations of the Health and Wellbeing Board in Herefordshire. This includes a commitment to an integrated systems approach, partnership working and a focus on prevention and early intervention in all areas.

Within Herefordshire County, the Council and CCG have pooled funds under a Section 75 agreement across a number of different pools. In 2015-16 the indicative budget was £47.5m. This was adjusted down to £40.1m when the final budget for pool 2 was subsequently agreed. The revised figure has been confirmed as the one used for internal monitoring and reporting.

Completed Audit Assignments in the Period

Audit Plan Progress

There were three priority 4 findings and two priority 3 findings. The objective of the review was to give assurance that the Better Care Fund is showing evidence of progress in integrating health and social care within Herefordshire, and ability to operate within agreed funding levels.

The auditor found that there were differences in the way the organisations are planning, reporting, and engaging in the BCF Partnership Group to that originally planned, and this has led to less oversight across activities.

The JCB were not being presented with all the information needed to assess progress towards the BCF's aims, and consequently this meant that partnership opportunities between the HCCG and the Council could be missed. Where monthly written highlight reports showing project progress were not reported to the JCB this introduces a risk that if project progress cannot be assessed together with KPI's, appropriate management action may not be taken.

The implementation plan specified in the Better Care Fund's submission to NHS England, had not been agreed by the JCB. Without an approved implementation Plan for the BCF Programme, the monitoring of individual schemes and projects may be weakened.

We found errors in the calculation of monthly performance returns, and that error was consequently replicated in the quarterly returns.

Well controlled areas were assessed as - Pool 2 where the Council has identified 3 projects (3.1 One price structure, 3.2 Payment process review & 3.3 Unified contract) to deliver this scheme with an estimated, planned £1.2m savings and the Better Care Partnership Group manage delivery of this scheme and have met on a regular basis to report progress on projects and update the action log.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Report on Significant Findings

PCI Data Security Standard Compliance

The Payment Card Industry Data Security Standard (PCI-DSS) is a Worldwide standard that was set up to ensure that businesses process card payments securely and reduce payment card fraud. The PCI-DSS contains 132 controls surrounding the storage, transmission and processing of cardholder data that businesses handle. Organisations (known as Merchants) processing card payments provide an annual 'Attestation of Compliance' to the PCI-DSS suite of documented controls.

There are 4 categories of merchants within the PCI DSS standard, level 1 being the highest. The merchant level is based on the volume of card payment transactions. Recent information has shown that the Council handles 84,000 transactions with a total value of £12m; this means that the Council's compliance is assessed at Merchant level 3.

The Council uses established 3rd party vendors to process the card payments, via the Council's web site and public payment kiosks which means that card data traffic is processed within the vendor systems. Where 3rd party points-of-sale (POS) have been deployed, dedicated phone lines are installed to avoid card data traversing the Council's network.

Although the Council uses 3rd party vendors to process the card data securely over their own systems, certain responsibilities remain with the Council to ensure that:

a) those 3rd Party vendors are themselves compliant with the PCI-DSS standard;
b) annual self-assessment & attestations of compliance are made;

and,

c) no card payment data is held on Council servers, or its end devices.

The main risk that the card associations are mitigating through the PCI-DSS standard is the extraction of card holder data from unprotected systems.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

The objective of the audit was to give assurance that for all service areas where the Council takes Credit/Debit Card payments there is compliance to the Payment Card Industries Data Security Standards.

There were one priority 4 findings with four recommendations and four priority 3 findings.

The Council has started to assess their information security systems to the PCI-DSS standard, through its partner Hoople Ltd who manage the ICT services on behalf of the Council. Out of 132 PCI-DSS controls, the Council assessed itself as compliant against 91 of these, a further 25 controls were not applicable to the organisation, and it was noted that there were 16 instances where the Council were not either compliant, or fully compliant.

The action plan had not yet been completed, whilst further information was being gathered, and because of this the self-assessment & attestation statement had not yet been submitted. The suggested way forward for the Council is to attest to compliance, and attach a Compensating Control Worksheet (CCW) detailing which existing ISO27001:2013 controls, together with the frequency of surveillance, that compensate for those PCI DSS controls that were not fully met.

The Council will need to address specific PCI-DSS controls that have been found absent during self-assessment, and where remedy could take place over a longer timescale the Council should detail the proposed action and timescales in the accompanying action plan, to the self-assessment.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Deprivation of Liberty Safeguards (DOLs)- Partial

Deprivation of Liberty Safeguards (DoLS) were introduced in 2009 to ensure people in care homes, hospitals and those under supported living arrangements are looked after without inappropriately affecting their freedoms. The safeguards require an assessment to be carried out by a suitably qualified medical practitioner and a social worker; this must then be approved at a senior level before establishments are legally able to deprive someone of their liberty. Authorisation must be considered to be in the best interest of the individual.

Following a ruling at the Supreme Court in respect of a deprivation of liberty case involving Cheshire West Council, there has been a recognised increase in the applications for Deprivation of Liberty Safeguards assessments. DoLS applications have statutory timescales in which to be completed, these being 21 days for a standard application and 7 days for an urgent application, which can be granted an extension of up to 14 days. In the 12 months prior to July 2014 there had only been 80 DoLS referrals, however, in the 12 months following the Cheshire West ruling, there was a tenfold increase in the number of DoLS cases; the team now receives an average of around 35 referrals a week, significantly higher than the increase nationally. In response to this, steps have been taken to recruit local Best Interests Assessors, however due to a national shortage of BIAs this has proved problematic.

The DoLS Team is a new service, which has been developed over the last 18 months; the team only consisted of two members of staff (one agency) in 2014. Over the last 18 months, the DoLS team has created new posts to try to address the need to meet increasing demand.

There were four priority 4 findings with 11 recommendations and three priority 3 findings.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Report on Significant Findings Continued

There is a risk that the Council's financial resources may be impacted upon from DoLS claims, and the Council's defence is weakened due to delays in DoLS assessments and reassessments. There are concerns around the current administrative systems and limited staffing resources for recording progress on referrals, and managing the backlog of DoLS assessments. The systems for monitoring and reporting timeliness of current assessments, and monitoring the expiry of authorisations and the planning of re-authorisations require improvement. This coupled with a limited number of available independent BIAs is preventing the team from reducing the backlog.

The key financial control of raising a purchase order when commissioning the services of independent assessors is missing from the current process, which means that budget commitments cannot be accurately forecast and monitored. There are currently weaknesses in procedures relating to the recruiting, monitoring and payment of independent Best Interest Assessors (BIA). Rates are not standardised, and quality variations and lack of quality assessments from some assessors mean that the Council may be paying more for some of its independent assessors than necessary. Records were not adequate to easily reconcile supplier invoices to assessments carried out by independent BIAs, and potentially over-payment could occur.

The following were assessed as well controlled areas;

- There are DoLS policies in place.
- There is a good structure in place for reporting, with regular meetings held with staff and independents involved in the DoLS process.
- There are active links with other Authorities via the Regional DoLS group.

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Better Care Fund					
Pool 1B and 2 No evidence was provided that there was an implementation plan in place for Pool 1B (Redesign of Community Care – HCCG hosted), and Pool 2 (Care Home Market Scheme – Council hosted). The implementation plan is a key milestone in the BCF Submission to NHS England. For Pool 1B, we were informed that this was a work stream within Clinical Commissioning Group (CCG) Transformation. For Pool 2, we were shown a terms of reference, however this had yet to be approved by the Joint Commissioning Board	There is a risk that without a strategic Implementation Plan for the BCF Programme, governance arrangements to ensure individual schemes and projects are delivered to time cost and quality may be weakened.	The Accountable Officer (CCG) and Director of Adults Wellbeing has agreed to ensure that an implementation plan for delivery of Pools 1B and 2 are reviewed and approved, and that monthly progress reports are provided to the Better Care Fund Partnership Group (BCFPG) and the Joint Commissioning Board (JCB).	1. Approval of Implementation Plan Pool 2 We agree that the implementation plans and ToR for pool 2 should have received formal approval in accordance with the governance structure outlined in our 2015/16 plan. Due to changes in joint commissioning manager during the first half of the year, This scheme is now moving into the implementation phase and the plan will be presented to JCB for formal sign off in August. 2. Implementation Plan Pool 1b HCCG will update JCB in August.	August 2016	Commissioning Better Care Fund Manager

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
(JCB). Implementation of the projects within the BCF plan is interdependent with performance improvement. After September 2015 the JCB did not receive written monthly highlight reports showing project progress, however a recent progress report on Pool 2 - MHCM scheme was presented to the JCB in December 2015.	There is a risk that if project progress cannot be assessed together with KPI's, appropriate management action may not be taken.		3. BCFPG Terms of Reference (ToR) We accept that the terms of reference need formal sign off. We are currently revisiting the ToR for the group to ensure that it has the correct membership, regular meetings and provides robust monitoring and oversight of the BCF programme. Regular monthly meetings are being set up for the group. Updated membership has already been agreed by the partners (May 2016) and the ToR will be reviewed at the July meeting These will be presented to the next JCB for formal sign off. The detailed financial reporting template has		

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
			been developed for initial reporting in July. 4. Regular reports to JCB The effective working of the BCFPG is the means by which the JCB will receive regular reports on the BCF performance, risks and issues. A number of different report formats were tried by different joint commissioning managers. It has been agreed by the JCB that the performance report will contain a high level financial report in 2016/17. To improve performance reporting on BCF schemes, the scheme specification template has been redesigned to link financial		

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
			and performance measurement including key metrics, outcomes and links to BCF objectives.		
Pool 2 A Terms of Reference document has been drafted for this scheme, but it has not been presented to or approved by the JCB or BCFPG. The ToR contains targeted Project Deliverables. However, the key milestone date for implementation of the scheme has slipped from original plan of April 2016 to July 2016. In addition, the expected savings estimate is acknowledged as slipped: the forecast in September 2015 outturn is	There is a risk that without an approved Implementation Plan, together with infrequent JCB meetings the monitoring of individual schemes and projects may be weakened.	The Commissioning Better Care Fund Manager has agreed to ensure that progress is regularly monitored, the risks to project delivery are assessed and management actions are taken where appropriate.	The BCFPG terms of reference are being updated to ensure that it performs a robust review and challenge process. Implementation of the new monitoring report will commence in July 2016. During June 2016 the new reporting formats will be developed for reporting to JCB in July. The new format will include a section target the key issues to ensure JCB performs its challenge and enabling functions as a joint board.	July 2016	Commissioning Better Care Fund Manager

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

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Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
£1.4m overspend against the Pool 2 budget. The underlying rationale for how these savings were calculated in the first place could not be established.					
Performance – Pool 2 Permanent Admissions to Residential Care The Council were coordinating the KPI results, and uploading results to the Joint Commissioning Board (JCB). KPI's had been consistently reported to the JCB for Pool 1B and Pool 2, however performance data on the reduction of permanent admissions to residential homes (Pool 2) has been calculated using	There is a risk that if performance figures are calculated incorrectly or reported late, it can mean that immediate and appropriate management action is not taken, and the project benefits are delivered later than planned.	The Joint Commissioning Better Care Fund Manager has agreed to ensure that the out-turn calculations are based on the correct data.	Accepted. It is acknowledged that the incorrect population denominator was used. This was a result of some legacy techniques being used to calculate the measure, but this was corrected immediately in the directorate calculations and as part of the JCB Report. Regular checks will be taken to ensure that accurate population estimates are being used as part of all per population calculations.	July 2016	Adults Wellbeing Performance Lead

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
incorrect population data and previous year baselines. The CCG were late in providing the Council with the Pool 1B Quarter 3 KPI's. This meant that the figures were not reported that quarter, however were reported later which did not have an impact on the cumulative total.					
Payment Card Industry Security Standard Compliance					
There were areas of non-compliance that had not yet been addressed, and the self-assessment together with the attestation of compliance had not yet been submitted. One of the areas found to	There is a risk that if the Council are not able to evidence self-assessment and compliance, the Card Payment Industry could challenge the Council's merchant statement. There is also a risk that if	The Senior Information Governance Officer in conjunction with the Customer Services Manager has agreed to amend the Council's Information Security Policy and procedures to include a section specific to PCI-DSS controls and	The Senior Information Governance Officer has agreed to amend the Council's Information Security Policy, and using the outcome of recommendation 1.1a will identify and carry out training to the relevant	31 October 2016	Senior Information Governance Officer

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
be non-compliant were the Council's Policy, Procedures and staff training. Although the Council uses 3rd party vendors to process card payment data, one of these applications is hosted on The Council's network. The Council has not yet confirmed whether any card data is stored in its environment. Quarterly scans by an Approved Scanning Vendor (ASV) are not taking place, however internal and external penetration testing is carried out on the Council's network, by a CESG approved vendor (Sapphire).	areas of non-compliance are not addressed, and the self-assessment together with the attestation of compliance are not submitted, the Council may incur fines which may impact on the Council's financial resources. There is a risk that any traffic containing card data, sent and received on the Council's network via the hosted 3rd Party software, through the payment gateway may not have all the security measures to be compliant with the PCI-DSS standard.	compliance, and roll out training to all officers taking payments.	officers, including Hoople staff. The Assistant Director Communities has agreed to assist the Senior Information Governance Officer and the Customer Services Manager with the training strategy. The Customer Services Manager has collated material to be used for training staff in the PCI-DSS.		
		The Senior Information Governance Officer in conjunction with the Senior Technical Architect (Hoople Ltd) has agreed to gather the remaining information, to assess the level of the Council's compliance against	The Senior Information Governance Officer in conjunction with the Senior Technical Architect (Hoople Ltd) has agreed to gather the remaining information, to assess the level of the Council's	31 October 2016	Senior Information Governance Officer

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High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
The network topology diagram had not yet been updated to illustrate the specific servers hosting the 3rd Party Vendor merchant applications, and all other data payment device touch points.		the PCI-DSS controls and also carry out a risk assessment using the Hoople Ltd certificated Information Security Management System (ISO27001:2013). Further, it has been agreed to list compensating controls, where the Council is not fully compliant.	compliance against the PCI-DSS controls and also carry out a risk assessment using the Hoople Ltd certificated Information Security Management System (ISO27001:2013). Further, a list of compensating controls, where the Council is not fully compliant, will be compiled. The Information Governance team is assessing the need to involve an external specialist to assist with the completion of the attestation return.		
		The Senior Information Governance Officer in liaison with the Technical Architect	The Senior Information Governance Officer has agreed to liaise with the	31 October	Senior Information Governance

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
		(Hoople Ltd) has agreed that once a scan has been completed and all information / risks are known, then a self-assessment is completed by the Senior Information Governance Officer to cover all the areas where the Council's takes card payments and the traffic of card payment data over the Council's network.	Technical Architect (Hoople Ltd) and review the scan results, recommend any further actions required and use that information to complete the PCI self-assessment.		Officer
		The Council's Senior Information Risk Owner (Assistant Director Communities) has agreed to review the completed PCI-DSS self-assessment, and sign and submit the attestation of compliance.	The Senior Information Governance Officer has agreed to liaise with the Senior Information Risk Owner to provide the self-assessment for review and approval. The Assistant Director Communities has agreed to review and sign the PCI-DSS self-assessment.	30 November 2016	Senior Information Governance Officer

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
Deprivation of Liberty Safeguards (DOLs)					
DoLS Strategy and internal resource capacity. There was not sufficient strategy documented for oversight of the recording, monitoring, performance and reporting of assessment stage timescales and the reduction of the existing backlog. There were 1447 referrals submitted in 2015-16, and 561 cases awaiting allocation at 27/4/16. It would appear that there is insufficient capacity to cope with the administrative workload. Without documented direction, performance objectives and reporting, there is a likelihood that the service area will not	There is a risk that without issued guidance on strategy and reporting criteria, senior officers will not have the guidance to monitor performance against the assessment backlog, and whether assessments are being carried out within the statutory timescales.	The Assistant Director – Operations has agreed to introduce performance indicators for recording, monitoring and reporting of the backlog, and to ensure that in the future, timescales for each stage of the assessments are met. The strategy guidance and performance indicators are to be included in the process documents currently being developed. Action	We currently have performance indicators which we acknowledge need to be expanded, which will be developed for the DLT scorecard alongside the DoLS process work. DLT will monitor activity on a monthly basis. We do recognise that there is a shortage of resource to meet demand; we also acknowledge that whilst we will manage the backlog of cases, we will not be in a position to delete the backlog.	October 2016	Adults Performance Lead
		The Assistant Director – Operations has agreed to review the resource level with regard to the administrative	Agreed – this work will be picked up as part of the Business Support Review which will begin in	January 2017	Assistant Director – Operations and Support

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
reduce the backlog or meet assessment timescales.		function within the DoLS team to assess whether it is adequate.	September 2016 and is due to end in January 2017.		
Financial controls The key financial control of raising a purchase order when commissioning the services of an independent assessor is missing from the current process. The purchase order is raised only when the assessor's invoice is received. The current process means that the level of financial commitment placed on external assessment work cannot be readily accounted for. Records were not adequate to easily reconcile supplier invoices to assessments	There is a risk that invoices could be paid more than once without detection, or overpayment against what was originally agreed could occur. There is also a risk that without a commitment being placed on the finance system, budgets cannot be accurately set, or monitored.	The Assistant Director, Operations has agreed to commission a piece of work to ascertain the level of outstanding invoices for each assessor / medical professional, and account for them on Agresso. This task will also incorporate an interrogation on Agresso along with supplementary checks where insufficient data is recorded on the system, to ensure that no duplicate payments have been made to the BIAs or the medical professionals.	Agreed - a review of outstanding invoices will be undertaken with the AWB finance leads.	October 2016	DOLs lead
		The DoLS Lead has agreed to ensure that that purchase orders are raised on Agresso	It is recognised that a review of the current arrangements is	October 2016	DoLS Lead and Directorate Accountant

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
carried out, and invoices were often sent late to the Council by the assessors. Transactions of different types were recorded under the same accounting code. Attempts to identify the level of outstanding debt to the Service is currently a time-consuming process.		when assessments are allocated to B.I.A.s and medical professionals. These should be cross-referenced to the DoLS spreadsheet. Where additional expenses are anticipated, such as travel expenses or travel time, this should be agreed with the B.I.A. and accounted for on the purchase order when it is raised on the system.	necessary, and a process for raising purchase orders/monitoring expenditure needs to be in place going forward. The most suitable option to achieve this function will be developed by the DoLS lead and the AWB finance lead.		
The quality of work undertaken by independent assessors differed, as did the rates paid to assessors. It was noted that some assessments had to be re-performed.	The Council may be paying more for its independent assessors than necessary, and potentially could also be paying for re-work of assessments.	The Assistant Director, Operations has agreed to review the hourly rate for completion of Form 3s. A higher rate should only be paid to assessors that have been selected to complete Form 5s; these fees should be agreed in advance when the Purchase Order is set-up. Any travel costs should also be agreed in advance and documented as a	Guidance on payment for form 5s will be included in guidance from 1.1.3b. 1	September 2016	DoLS Lead

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
		separate cost.			
The quality of Forms 3 and 4 has to be reviewed on a case by case basis by the Senior Officer who completes the Form 5, however, there is currently no in-house overview of cases and little capacity at present to do this. As there have been issues with the quality of some of the Form 3s, and forms have to be proof read by Seniors before they can complete the Form 5, this area has been identified as a task that could be completed by an administrator if staffing capacity were to be increased in this area.	There is also a risk that if proof reading of assessment forms has to remain the responsibility of senior officers who complete the form 5s, this will continue to limit resources at senior level is a senior officer and add to the backlog.	The Assistant Director – Operations has agreed to give consideration to allocating the task of completing Form 5s to one of the more experienced independent B.I.A.s.	A process to identify people who might be suitable to complete form 5s on behalf of the Authority will be drafted and agreed at DLT.	September 2016	DOLs Lead
		The Assistant Director – Operations has agreed to consider the option of proof reading of Form 5s being carried out as part of the administration function, if changes in the team's establishment make this possible.	This function will be considered as part of the business support review.	January 2017	Assistant Director – Operations and Support

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High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
This would free up a small proportion of Senior Officer time from each case.					
Assessments not undertaken. Assessments are not being carried out within the statutory timescales. The systems for monitoring each stage of current assessments, monitoring the expiry of authorisations and planning reauthorisations require improvement. There is a backlog of assessments, and minutes of meetings showed little evidence that this key risk has been adequately reported, or that adequate management action has been taken to	There is a risk that if the backlog is not removed, every assessment will be outside the statutory timescales, and this will consequently mean an ongoing situation where the Council is always at risk of legal action. There is also a risk that if assessments and reassessments upon authorisation expiry are not carried out within the statutory timescales that this could weaken the Authority's case in a court of law.	The Assistant Director - Operations, in conjunction with the Council's Deputy Solicitor agreed to review the financial risks to the Council posed by the backlog, in conjunction with our earlier recommendation to formulate a strategy for addressing those risks. The risk register should be updated accordingly.	Agreed. We will work out what our priorities are and what the backlog is and potential costs of holding that backlog.	November 2016	Assistant Director – Operations and Support
		The DoLS Lead, in conjunction with the Assistant Director – Operations, has agreed to assess what tools are required to manage the service on a day to day basis, and to report on performance to senior management.	There are already plans to set up DoLS on Mosaic as part of the second phase of the Mosaic project, this should make performance reporting easier and more robust.	March 2017	DOLs lead

High Priority Findings and Recommendations (Priority 4 or 5 only)

Note: Priority scores are how important they are to the service, not at a corporate level.

Weakness Found	Risk Identified	Agreed Outcome	Management's Agreed Action	Agreed Date of Action	Responsible Officer
correct and prevent recurrence.					
There is a duty for the Authority to declare cases to the Council’s insurers that may result in a claim. Because of the backlog of DoLS assessments, the lack of systems to track and monitor when assessments and re-assessments should be carried out, and their progress, this means that the likelihood of a claim is more likely if assessments are delayed	In the event of a claim being upheld and an award being made against the Council, our insurers may be unlikely to settle some or all of the value of the claim.	The Assistant Director - Operations, in conjunction with Legal Services and the Council’s Insurance Officer, has agreed to discuss the current level of insurance cover with regard to delays in processing referrals, and ensure that where there is a risk of insufficient cover, this matter is rectified. Further clarity has also been sought on the risk of claims for wrongful arrest or imprisonment under the banner of public liability or the Human Rights Act.	Agreed - the process is already under way and a decision from legal services and the insurers is pending. Jane and Kate are to meet with the broker and review the cover. We are taking this back to the region to find out what other areas are doing. We will also ask the DASS to raise this on a National Level through ADASS.	September 2016	DoLS Lead / Deputy Solicitor to the Council

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 and governance committee**
Meeting date:	**22 September 2016**
Title of report:	**Progress report on 2016/17 internal audit plan**
Report by:	**Head of corporate finance / internal audit**

Classification

Open

Key decision

This is not an executive decision.

Wards affected

Countywide

Purpose

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.

Recommendation

That:

a) **performance against the approved plan be reviewed and any areas for improvement identified; and**

b) **the robustness of the management response to recommendations be reviewed and any recommendations for strengthening the response to further mitigate risk be identified.**

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 07872500675

Alternative options

1 There are no alternative recommendations; it is a requirement of the council's adopted audit and governance code that the committee considers these matters in fulfilling its assurance role.

Reasons for recommendations

2 To enable the committee to monitor performance of the internal audit team against the approved plan.

3 To assure the committee that action is being taken on risk related issues identified by internal audit. This is monitored by acceptance by management of audit recommendations and progress updates in implementing the agreed action plans. In addition audit recommendations not accepted by management are reviewed and progress to an appropriate recommendation to cabinet if it is considered that the course of action proposed by management presents a risk in terms of the effectiveness of or compliance with the council's control environment.

Key considerations

4 The internal audit progress report is attached at appendix A. In the period covered by the report, no priority 4 recommendations were made.

5 The annual plan summary is provided at appendix C, and a glossary of terms provided at appendix B.

Community Impact

6 The council's corporate values and plan include commitments to being open transparent and accountable about its performance. By ensuring robust management responses to identified risks, the council will be better able to meet its corporate plan priority to secure better services, quality of life and value for money.

Equality duty

7 The report does not impact on this area.

Financial implications

8 None arising from the recommendations; any additional recommendations made by the committee will be considered by the relevant manager or cabinet member and the financial implications of accepting those recommendations will be considered then.

Legal implications

9 None.

Risk management

10 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.

11 Risks identified by internal audit are mitigated by actions proposed by management in response.

Consultees

12 None.

Appendices

Appendix A – SWAP plan progress report 2016-17

Appendix B – Summary of control assurance definitions, categorisation of recommendations and risk levels

Appendix C – Audit Plan Status 2016-17

Background papers

- None identified.

Further information on the subject of this report is available from
Jacqui Gooding – assistant director (SWAP) on Tel: 07872500675

Appendix A

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2016-17 - September 2016

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

The contacts at SWAP in connection with this report are:

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Jacqui Gooding
Assistant Director
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Jacqui.gooding@southwestaudit.co.uk

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Our audit activity is split between:

- **Operational Audit**
- **Key Control Audit**
- **Governance, Fraud & Corruption Audit**
- **IT Audit**
- **Special Reviews**

See Appendix A for individual audits

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 23 March 2016.

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 (2016/17) Plan was presented to this Committee on 23 March 2016.

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

Update 2015-16

Completed Audit Assignment in the Period

Audit Plan Progress

The summary of the Annual Plan for 2016/17 (Appendix C) 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 'B'.

As can be seen from Appendix 'C', the following audits for 2016/17 have been progressed to date:

Operational:

- Draft Report, 1 review
- Discussion Report, 2 reviews
- In Progress, 7 reviews
- Not Started, 20 reviews

Governance, Fraud and Corruption:

- In Progress, 1 review

Follow Up Reviews:

- Not Started - 6 reviews

Special reviews:

- Completed, 1 review
- In Progress, 1 review

Update 2015-16

Completed Audit Assignment in the Period

Audit Plan Progress

School Themes –: SFVS – Schools Financial Value Standard

- Draft Report, 6 schools

Key Control:

- Not Started, 9 reviews

Grants:

- Complete, 1 Claim
- Discussion Document, 1 Claim
- In Progress, 1 Claim
- Not started, 1 Claim

Completed Audit Assignments in the period

Audit Plan Progress

Audits completed to final report since my last update are:

Grants

- Redundant Building Grant Certification

Special review

- Link Road Scheme – Non-opinion

Although there are only two audits completed there are thirteen audits in progress with four of the audits at reporting stage.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee

Report on Significant Findings

Appendix C is a summary of the Annual Plan – a list of all audits as agreed in the Annual Audit Plan 2016/17. 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' corporate risk, I will provide further detail to inform Members of the key findings (Priority 4 and 5) identified. No completed audits have been assessed as 'Partial' or 'No Assurance'.

These are actions that we have identified as being high priority and that we believe should be brought to the attention of the Audit Committee.

Added Value

Primarily Internal Audit is an assurance function and will remain as such. However as we complete our audit reviews and through our governance audit programmes across SWAP we seek to bring information and best practice to managers to help support their systems of risk management and control. The SWAP definition of "added value" is "it refers to extra feature(s) of an item of interest (product, service, person etc.) that go beyond the standard expectations and provide something "more" while adding little or nothing to its cost".

A request was made by a SWAP Partner Council for Internal Audit to collate information on the way in which the Revenues and Benefits service is being administered to benchmark how the service is being delivered with regard to costs, resources and performance monitoring. The Summary report has been shared with this Council.

Special Reviews

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

One special review has been requested by the Director of Economy, Communities and Corporate 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) with removal or deferral of audits to be formally agreed by the Audit Committee.

Two additional audits have been requested - Property Services Payments and Hereford City Centre Transport Package (HCCTP) – Link Road Scheme. The days to accommodate these two audits have been taken from the contingency days in the plan.

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

Conclusion

The main focus for the early part of 2016-17 was to complete the outstanding work for 2015-16. Reasonable progress has however been made on the 2016-17 plan with thirteen audits in progress and two audits completed.

Of the two completed audits one was a Grant Certification and the other audit was the review of the Hereford City Centre Transport Package (HCCTP) – Link Road Scheme. The full report of this review was presented to this Committee on 9 May 2016.

At the end of each audit review, a Customer Satisfaction Questionnaire is sent out to the service manager or nominated officer. The aim of the questionnaire is to gauge satisfaction against timeliness; quality; and professionalism. As part of the Balanced Scorecard presented to the SWAP Management Board, a target of 80% is set where 75% would represent a score of good. It is however too early to provide a current feedback score for the 2016-17 plan.

Audit Framework Definitions

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Herefordshire Council 2016-17 Audit Plan Progress

Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recommendations					
						Total	1	2	3	4	5
*Finance	Grant Certification	Heat Network Delivery Units	April 2016	Audit may be removed							
*Finance	Special Review	Link Road Scheme (LEP & HC)	April 2016	Completed	Non-Opinion	1			1		
*Finance	Grant Certification	Redundant Building Grant Scheme - Round 4	April 2016	Completed	Grant Certification	_	_	_	_	_	_
*Adult care services	Operational	Brokerage	April 2016	In progress							
*Adult care services	Operational	Client Finances	April 2016	Discussion Document							
*Finance	Operational	Car Parking Income/Enforcement	April 2016	Draft Report							
*Finance	Operational	Cash Handling & Collection - Corporate	April 2016	Discussion Document							
*Human resources	Operational	Recruitment - Contracts	April 2016	In Progress							
*Information and communication technology	Operational	FWI EDRMS/Mosaic Upgrade - Implementation & Assurance -	April 2016	In Progress							
*Education and skills	School	SFVS (School Financial Value Standard) Governance	April 2016	Draft Report							
*Finance	Special Investigation	Special Investigation	April 2016	In Progress							
*Information management	Follow Up	Modern Records	July 2016	Not Started							
*Finance	Grant Certification	Local Transport Block Funding	July 2016	Initial meeting							
*Adult care services	Operational	Residential & Nursing Care	July 2016	Not Started							
*Adult care services	Operational	Deferred Payments	July 2016	Not Started							
*Adult care services	Operational	Pre Paid Cards (Direct Payments)	July 2016	Not Started							
*Adult care services	Operational	Public Health Contracts	July 2016	Not Started							
*Children and families services	Operational	Children Missing Education (Safeguarding)	July 2016	Not Started							
*Consumer affairs	Operational	Food Safety	July 2016	Not Started							
*Finance	Operational	Property Services - Accounts Payable	July 2016	In Progress							
*Human resources	Operational	Use of Agency	July 2016	Not Started							
*Information and communication technology	Operational	Protection from Malicious Code	July 2016	In Progress							
*Management	Operational	Performance Management Framework - Performance Indicators Corporate	July 2016	In Progress							
*Planning and building control	Operational	S106 Agreements	July 2016	Not Started							
*Transport and infrastructure	Operational	Concessionary Fares	July 2016	In Progress							
*Consumer affairs	Follow Up	Licensing	October 2016	Not Started							
*Finance	Follow Up	Treasury Management	October 2016	Not Started							

Herefordshire Council 2016-17 Audit Plan Progress

Directorate/Service	Audit Type	Audit Name	Quarter	Status	Opinion	No. of recommendations					
						Total	1	2	3	4	5
*Information and communication technology	Follow Up	Changes to Role & Exit - ICT Access Controls	October 2016	Not Started							
*Transport and infrastructure	Follow Up	Home to School Transport	October 2016	Not Started							
*Finance	Governance, Fraud & Corruption	NFI	October 2016	In progress							
*Finance	Grant Certification	Troubled Families	October 2016	Discussion Document							
*Finance	Key Control	Accounts Payable	October 2016	Not Started							
*Finance	Key Control	Accounts Receivable	October 2016	Not Started							
*Finance	Key Control	Capital Accounting	October 2016	Not Started							
*Finance	Key Control	Main Accounting	October 2016	Not Started							
*Finance	Key Control	Council Tax	October 2016	Not Started							
*Finance	Key Control	Housing & Council Tax Benefits	October 2016	Not Started							
*Finance	Key Control	NNDR	October 2016	Not Started							
*Finance	Key Control	Payroll	October 2016	Not Started							
*Finance	Key Control	Pensions - Auto enrolment	October 2016	Not Started							
*Information and communication technology	Operational	Public Services Network Submission Assurance	October 2016	Not Started							
*Adult care services	Follow Up	Financial Assessments	January 2017	Not Started							
*Adult care services	Operational	Better Care Fund	January 2017	Not Started							
*Adult care services	Operational	Contracts & Contract Management	January 2017	Not Started							
*Adult care services	Operational	Hospital Discharges	January 2017	Not Started							
*Adult care services	Operational	Telecare - Living Aids & Equipment	January 2017	Not Started							
*Adult care services	Operational	Transitions	January 2017	Not Started							
*Adult care services	Operational	Complex Care (LD)	January 2017	Not Started							
*Children and families services	Operational	Looked After Children	January 2017	Not Started							
*Children and families services	Operational	Early Years Funding	January 2017	Not Started							
*Children and families services	Operational	Direct Payment/Personal Budgets (Children's) - HC	January 2017	Not Started							
*Information and communication technology	Operational	Business Continuity/Disaster Recovery Processes - Data Centre	January 2017	Not Started							
*Procurement	Operational	Nottingham Rehab Contract Review	January 2017	Not Started							